BRANCH BANKING IN THE UNITED STATES WITH COMPARATIVE STUDIES OF SCOTLAND, ENGLAND, AND CANADA

BY

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Chapter I

INTRODUCTION.

The subject of branch banking in the United States is not new and cannot be considered the exclusive problem of the present generation. Branch banking systems flourished early in the history of the United States, both the First Bank of the United States (1791-1811) and the Second Bank of the United States (1816-1836) being organized as branch bank institutions. In various stages of development, branch banking has remained in operation almost continuously up to the present time. At various times since the passage of the National Bank Act the subject of branch banking has been before the people of the country.[1]

Numerous and various economic, political, and social influences have been operative during the existence of banking in the United States. The forces at work stimulating branch banking as well as the forces opposed to it, have changed from time to time. This is true of the institution of banking in general, as well as of all others. The needs for such institutions depend upon and vary with the state of economic development.

The quotation given below, serves as evidence that the branch banking problem is not new. More than twenty years ago, H. M. P. Eckardt, a former Canadian branch bank manager, wrote as follows:[2]

> "On two occasions in the past twenty years the problem popularly known as the banking question has been forcefully pressed upon the attention of the American people. After the

1. Commercial and Financial Chronicle, Vol. 17, December 6, 1873, p. 767.

2. A Rational Banking System, page 1.

> panic of 1893, and again after the panic of 1907, public-spirited men in the different parts of the United States gave themselves earnestly to the task of devising methods by which bank creditors might be made more secure and banking panics prevented. The people in very considerable numbers were hit by the financial disorders of those two years. Some were depositors who suffered through the stoppage of the banks in which their funds were placed; some were inconvenienced and injured through the general suspension of cash payments; some were borrowers and experienced heavy losses through the action of panic-stricken bankers in exacting payment of all advances as they came due; some were crippled and others ruined by the great depreciation in securities that occurred on both occasions. Besides those who suffered material loss there were many in whose eyes the frequent breakdown of the banking system constituted a national humiliation. Under these circumstances it was but natural that the discussion of reforms should center chiefly around the problems of how to make the depositors more secure and less liable to panic, and how to introduce into the banking system some new elements calculated to enable the banks to stand up and pay cash,as do the banks in other great countries."

That the subject of banking reform is again prominently before the American people, is obvious to anyone reading the daily newspapers. The matter has become sufficiently serious to stimulate the National Congress to conduct a series of hearings before each of the Committees of Banking and Currency of the House and Senate.[1]

Prior to the passage of the Federal Reserve Act the prime desiderata of branch systems were that they would provide elasticity in our currency, they would centralize the banking reserves and resources, they would prevent wholesale banking suspensions and panics. Instances of this kind can be found as far back as 1873.[2] It was the belief of many economists and most business men that these needs had been cared for by the banking reforms culminating with the passage of the Federal Reserve Act in 1913.

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1. Hearings on Group, Chain, and Branch Banking, 1930
   Hearings on A Survey of the National and Federal Reserve Banking System, 1931.

2. Commercial and Financial Chronicle, loc. cit.

That the currency has been made more elastic than formerly cannot be questioned. That reserves have been centralized and coordinated to a greater degree than before is also indisputable. Whether or not these needs could have been satisfied as well or better by branch banking systems, or whether such systems can still improve the currency and reserves, prevent or mitigate bank failures and monetary crises, side by side with the Federal Reserve System, is open to question.

Whereas in 1922 both the Comptroller of the Currency and the Federal Reserve Board advocated branch banks as a remedy for the loss of national banking capital in the large financial centers, by 1929 this argument had given way to the need of branch banking to aid and bolster the rural banking system.[1]

With the passage of time, banking in the United States has become more and more a regulated industry. Regulation of banks has developed to the state where banks must be considered as belonging to the class of quasi-governmental businesses and no longer free and entirely independent private enterprises.[2]

The experience of regulation in the United States has confirmed the old saying that the law lags behind economic and social changes. Changes and modifications of laws are slow and cumbersome. Law and regulation cannot ordinarily anticipate changes, but must be based upon past experiences. Once enacted a law tends to be an inflexible regulator of business. Examples of business regulation are to be seen

1. See Report of the Federal Reserve Board, 1922, p. 5-6; and 1929, p. 24-25.
Report of the Comptroller of the Currency, 1922, p. 2-3; and 1929, p. 5.

2. Collins, C. W., Rural Banking Reform, p. 168.

in the field of railway transportation, utilities, trust laws, etc. The banks and bank laws have been no exception.

Banking and financial institutions are ancillary to business activity. Banks may and do stimulate commerce and trade, but unless the growth of industry is commensurate with banking developments, the latter may easily reach an over-expanded stage. The contrary is also true; unless banking facilities maintain a rate of growth commensurate with industry, there will be a retardation of business. The contention of many present day writers is that banking organizations have failed to develop to an extent adequate for present business needs, and have been unable to adjust themselves to changed economic and social conditions.

Although an exhaustive analysis of economic changes in the United States is not attempted a few significant tabulations are presented in the pages which follow. These serve to indicate in a general way the rapidity of change in business institutions. They are presented here at this time because they show how the opportunities and needs for banking were circumscribed by social and economic forces largely beyond the control of the banks themselves. After these changes have been outlined, their relationship to banking will be summarized.

When the National Banking Act was originally passed the United States was largely an agricultural nation rather than a manufacturing and trading nation. At present this status is reversed, and agriculture, instead of being primary, is secondary to manufacture and trade. Whereas in 1880, 49 per cent of the population was engaged in agricultural pursuits, by 1930 this had declined to about 25 per

cent.[1] Manufacturing, mining, trade, transportation, and clerical occupations provided employment for 38 per cent of the people in 1880 and this had increased to over 60 per cent by 1930.

The greater efficiency in agricultural production released great numbers of workers to the industries of the cities. Not only efficiency on the farms, but decline of population in the small towns, due to the opportunities in the cities, further accelerated the growth of and concentration of manufacturers in large cities. In consequence the percentage of people dwelling on farms, in unincorporated villages, and towns of less than 2,500 declined from 65 per cent of the total population in 1890 and 44 per cent in 1930.[2] Conversely, the percentage of people in cities of 25,000 or more population increased from 22 to 40 per cent of the total in the same interval. Small towns with populations of less than 10,000 held their relative position, or declined slightly. They did not participate in the growth of large cities.

With this shift of population, the workers engaged in manufacturing industries, grew from 2,054,000 in 1869 to 8,836,000 in 1929.[3] At the same time the horsepower of energy employed per worker increased from 1.1 to 4.9, indicating greater mechanization of industry.

In the fifteen years from 1914 to 1929 wage earners per establishment increased 10 per cent, horsepower 65 per cent, and value of product grew 149 per cent.[4] Some qualifications, however, are needed

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1. Commerce Yearbook, 1930, p. 26.
2. Statistical Abstract of the United States, 1930, p. 47.
3. Ibid, p. 813.
4. Also see Recent Economic Changes, p. 167
   Cf. Cartinhour, G. T., Branch, Group, and Chain Banking, p.4.

to these figures. The year 1929 was one of better than average industrial activity. The figures for value of product are misleading since they contain no correction for the element of price fluctuations.

The preceding data show the drifting of population from agriculture to industry, and the rapid increase in manufacturing workers, the still more rapid use of mechanical energy, and the growth of output per worker. But they fail to picture fully the concentration going on in industry as well as the competitive forces undermining and realigning the economic organization of small communities--those communities in which the great majority of banks are found to be operating.

The Statistical Abstract of the United States, (1930,p. 792) contains facts which convincingly show the greater concentration of manufacture in a few establishments. Whereas in 1914 establishments whose products were valued at $1,000,000 or more constituted 2.1 per cent of the total establishments, employed 35.2 per cent of the workers, and produced 48.6 per cent of the product, by 1925 establishments of this size constituted 5.6 per cent of all establishments, employed 56.8 per cent of the wage earners, and produced 67.6 per cent of the products. Furthermore these figures fail to take into consideration the fact that one company may own several establishments in various parts of the country.[1]

There is another group of forces which has been at work to undermine independence of initiative, in so far as private independent enterprises are concerned in the small towns of the United States by drawing trade from small to large centers. These are the hard roads, the automobile, the telephone, the radio, the mail order house, the

1. For a further discussion of recent realignments in American industry, see Concentration in American Industry by H. W. Laidler.

chain store, the holding company, etc.

From a total of 387,760 miles in 1921 the surfaced roads in the United States increased to 662,435 miles in 1929. Even more significan has been the rapid mechanization of personal transportation due to the automobile.[1] Passenger car registration increased from 1,626,000 in 1914 to 22,348,000 in 1930. During the same period truck registrations grew from 86,000 to 3,466,000.[2]

As the usage of these facilities for communication become more common, they make it possible for the farmer and small town resident to do an increasing percentage of their business in the larger cities and to rely to a lesser extent on the neighboring town or cross-roads merchant. The farmer and town dweller come to the city for merchandise, and also for services, including the banking facilities of the larger cities.

Not only do the farmer and small town merchant do more and more of their business in the cities, but the chain stores and mail order houses have taken an increasing proportion of the business in large and small towns. Based on dollar values, mail order sales were 72 per cent larger in 1930 than the 1923-1925 average.[3] In the same interval grocery chain sales increased 135 per cent, 5 and 10¢ chain sales increased 59 per cent and sales of chain drugs increased 104 per cent.[4]

Beginning about 1900 a change in business organization, which was to be of far reaching consequence, became noticeable.[5] This was

1. Statistical Abstract of the U. S., 1931, page 393.
2. Facts and Figures of the Automobile Industry, 1932, National Automobile Chamber of Commerce, p. 14.
3. Annual Supplement Survey of Current Business, 1931, United States Department of Commerce., p. 50-51.
4. Federal Reserve Bulletin, Vol. 17.
5. Laidler, op. cit., p. 8-9.

the increasing use of the corporate holding company. It enabled corporations to concentrate control without outright ownership of units. About 1912 it became a factor in the public utility field where it has since become the single dominating form of organization for purposes of ownership, control, management, etc. This growth of the holding company has proceeded to the extent that the vast majority of cities and towns no longer have locally owned and operated utilities.[1] The holding company is also a dominating type of corporate organization in many other industries for purposes of effecting control and concentration. As indicative of these, may be mentioned the steel, automobile, chemical industries, and last, but not least, the banking industry.

All these concentrating forces in industry have tended to make the smaller towns less and less independent. And this has affected the banks in these towns along with other businesses.

The chain store, mail order house, and the corporate subsidiary do all their financing and important banking through the head office or holding company. Apart from the need for a local depository, and for facilities to transfer funds to the larger cities, these forms of enterprise have no great need for local banks. The small town merchant likewise has frequently deserted his small town bank in favor of the city bank which can finance him more easily, and possibly at lower interest cost, provided he has collateral or good credit standing. Otherwise, he will probably continue to seek loans at the home bank,

1. Based upon a study of companies with electrical power production of 100,000 kilowatt hours or more per year, it is estimated that 94 per cent of the power production is controlled by 17 interests, and 50 per cent by the three largest of these. See Laidler, op. cit., p. 153, 1931.

paying a premium in higher interest. The same is true of the farmers; those who can finance elsewhere; those who cannot satisfy the city bank continue to borrow at home, or perhaps turn to some other credit agencies available to agriculture.

Chain banking, group banking, and branch banking are the names given to some of the more important types of corporate organization which have been used to concentrate banks into unified control.[1] Although these types of organization are not new, it is only in the last decade that they have received intensified and renewed attention.

If it is reasonable to look upon banking as one of the many kinds of business enterprises, then it would be natural to expect banking to employ the types of organization found in other businesses. Ordinary business units have an almost unlimited choice as to the type of organization they will adopt. In enterprises engaged in production, distribution, etc., we find independent units operating side

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1. "The term 'chain banking' has been in use for many years in this country to describe a condition in which a number of banks were owned or controlled by the same individual, or by a group of individuals."

   "The term 'group banking' is of very recent origin. . . . . each group is centered around a city or metropolitan bank through means of a holding company, which owns the majority of the stock of each bank, thereby creating a system of banks more or less integrated in management with the central bank of the group. Hearings on Group, Chain, and Branch Banking, op. cit., Vol. 1, Part 1, page 27. Testimony of J. W. Pole, Comptroller of the Currency.

   Branch banking is "an association of banking houses operating in one or more cities or towns but all under the discretionary control of the board of directors of a parent bank and upon the capital of such parent bank." Ibid, p. 227, testimony of H. M. Dawes.

by side and in competition with the branches and subsidiaries of large corporations. In banking this freedom as to the choice of organization has been circumscribed much more closely than for non-banking corporations; at least this is true of banks in many of the states and of the national banks.

Although this analogy of banking with other businesses is tenable in theory, in practice it has not worked out in the United States. Chains, groups, and branches are types of organization to be found in all businesses, but only partially developed in banking. Due to regulation, however, banks have not had the same freedom as most other corporations.

In the following pages, one of these three types of organizations, i.e., branch banking is studied, the others alluded to occasionally and incidentally. Branch banking is one of the developments in banking which has accompanied the growth and changes in general economic conditions so briefly sketched in preceding pages. Important questions relate to the present extent of branch banking in this country, its suitability to new and changed conditions, its serviceability for the large industrial center and the small agricultural community.

The first three chapters are concerned with the development of branch banking in Scotland, England, and Canada. The fourth chapter traces briefly some important branch banking developments in the United States, and presents the recent and present situation. Although branch banking systems are to be found in other foreign countries, those enumerated above have been selected as being most likely to throw some insight upon the problems confronting the United States. It is from the European countries, primarily England, that the United States has taken many of her institutions, including banking institu-

tions. The proximity of Canada, the efficiency of her banking system, the similarity in territorial expanse, justify the inclusion of a discussion of branch banking as there developed and conducted.

By presenting an analysis of the branch banking development in these three foreign countries it is hoped to accomplish several objectives. The necessary facts will be at hand to trace the evolutionary growth of branch banking. It will be possible to gain an idea of the extent to which the banking system of the United States has adopted features from these various systems, and to contrast the differences and note the features not common to them. By tracing the evolution of banking systems in these foreign countries, it will be possible to shed the light of historical experience upon the present condition of our own banking and its future.

The banking systems of the four countries enumerated above fall into three broad types. Thus in one group are Canada and Scotland. In each of these countries we find a few large branch banking systems, operating with competing branches side by side, widespread over the cities and provinces. The privilege of bank note issue is entertained by each of the banks. In neither Scotland nor Canada is there a dominating bank acting as a central bank, or reserve bank. The branch bank systems themselves constitute the self-contained reserve systems. The Scottish banks employ the Bank of England as their depository while the banks in Canada employ the Bank of the New York Money Market and certain rediscounting facilities offered by the Canadian government.

A second type of system is found in England. Here there is one large banking institution having certain important functions not common to other banks in the country. One large strong bank with a limited system of branches has the practical monopoly of note issue, acts

as fiscal agent of the government, and represents the nation in the conduct of international monetary affairs. In addition it conducts a regular commercial banking business. In England, the central bank has come to be overshadowed by other banks.

Differing radically from any of the above types of banking is that of the United States, the main characteristics of which are the great number of independent banks, the heterogeneous banking laws of the states and nation, and the highly unorganized banking system.[1]

Superimposed upon a part of this multitude of banks is the Federal Reserve System which acts as one of the important coordinating forces in our banking system,[1] and which seeks to perform some of the functions of central banks as in England. In the United States, the banks and resources are not centralized as in the other nations, but are decentralized--at least such was the intent of the Federal Reserve Act. Upon the multitude of banks has been placed a rigid system of governmental supervision, regulation, and examination, the counterpart of which does not exist in the other countries.

Chapter VI analyzes the banking situation in the United States in the light of experiences in the foreign countries studied.

A seventh chapter then provides discussion relating to important functions, showing the changing nature of branch banking. This is followed by a chapter discussing advantages and disadvantages of branch banking, with occasional contrasts with unit banking, and a concluding chapter.

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1. The Banking Situation in the U. S., page 138.

Chapter II

BRANCH BANKING DEVELOPMENT IN SCOTLAND

Although the development of banking in Scotland was not the earliest among the four countries to be studied, it is taken up first for the two following reasons; (1) it was the first of these countries to develop an extensive branch banking system; and (2) Scottish banking has made a profound contribution to the theories and practices of banking in other countries, including the other countries to be subsequently studied.

In 1695 the Scottish Parliament passed an act entitled an "Act for erecting a Publick Bank"[1] passed July 17, 1695. The bank charter incorporated a joint stock company of £100,000[2] with the appelation of "the Governour and Company of the Bank of Scotland." For a period of twenty-one years the bank was given a monopoly in Scotland, and freedom from public taxes. The bank was given the privilege of note issue, and permitted to engage in the trade of "Lending and Borrowing Money upon Interest, and Negotiating Bills of Exchange." However, no loans could be made to the Crown except with the approval of parliament.

The bank which was thus established was large for its times. It had certain important characteristics. It was to have perpetual life through the transferable shares of the joint stock company, and in addition had a monopoly for the first twenty-one years. It is pertinent

1. Most of the material for this section on Scottish banking up to about 1900 is based upon History of Banking in Scotland by Andrew William Kerr, published by Adam & Charles Black, London, 1902, second edition.
2. It was 1,200,000 pounds Scottish money or 100,000 pounds British money. Only the latter values will be used here, throughout.

to point out at this time that this bank which became known as the Bank of Scotland, as well as the next two banks which were established by special charter, were of limited liability--a characteristic usually not associated with joint stock companies.

The bank commenced operations by calling for payment of 10 per cent of its capital or £10,000 which was sufficient for its needs. Notes of denominations from £5 to £100 were issued at once, and in 1704 notes of £1 were issued. The issue of notes of such denominations makes it rather clear that the number of people who were able to use the banks facilities must have been small, since these were large values.

At first the business of the bank consisted of lending its capital at interest and issuing notes. But before it was a year old it made a radical change. This was the establishment of four branches, at Glasgow, Aberdeen, Dundee, and Montrose, in addition to their head office at Edinburgh. It is quite possible that the motive for the establishment of these branches was the engagement of the African and Indian company (the Darien Company) in the banking business. This latter venture was undertaken by the Darien Company in an effort to recoup some of the losses incurred in its colonization scheme.

A year after the branches were established they were abandoned. Their main purpose had been to sell exchange upon Edinburgh, and in turn to buy exchange on that city. Experience, however, proved that there was a demand to remit funds from the provinces to Edinburgh, but not as much demand for remittances from Edinburgh to the branches.[1]

1. Fleming, James Simpson, Scotish Banking--A Historical Sketch, Third edition, revised, p. 11.

Consequently the bank found it necessary to ship money and gold by horse and wagon. This was a long, difficult, and hazardous enterprise, upon which the bank did not desire to engage. The cost of conducting the branches exceeded their income and as a result they were withdrawn. After thus abandoning its branches the bank was able to repay the £20,000 it had called in 1696 from its shareholders.

From 1698 to 1727 the average dividends of the bank were 17 per cent and ranged as high as 30 per cent in some years. These monopoly profits, as is natural, stimulated schemes for competitors. In 1727 the Royal Bank of Scotland, likewise a joint stock company, was chartered against the opposition of the existing bank. The effect of competition is noticeable in the reduction of the Bank of Scotland's dividends to 13 1/3 per cent in 1728, $3\frac{3}{4}$ per cent in 1729, and an average of 5 per cent from 1730 to 1743.[1]

Seeking to outdo its competitor, the Bank of Scotland offered better facilities to its customers by undertaking to do three things. In 1729 it adopted the cash-credit system (which had been originated the previous year by its competitor), and in the same year began to allow interest on deposits at five per cent. A couple of years later it again established branches in the provinces, this time at Glasgow, Aberdeen, and Dundee. However, the branches could not earn their keep and were closed two years later. It appears that part of the cause of the failures of these first two attempts to establish branches was the belief of directors that exchange dealings were not proper for the bank.[2] In any event, the exchange trade was of a one

1. Kerr, op. cit., p. 42.
2. Munro, Neil, History of the Royal Bank of Scotland, p. 89.

way nature and still closely held by the merchants. It still was unprofitable, and the branches did not pay for themselves.[1]

Although banks with limited liability could be established at this time only by charter grant, there were no restrictions upon private banks or joint stock banks of unlimited liability. Private banks begin to play a significant role in Edinburgh about 1750, springing up in large numbers. At first these private banks were side lines for merchants such as grain dealers, innkeepers, etc. Furthermore as these private banks developed, they did not necessarily in all cases compete with the joint stock banks by issuing their own notes. In many cases the private bankers borrowed on their credit from the large banks and reloaned at a higher rate. The private bankers provided facilities for many people who did not and could not directly have access to the large banks. In other words, the large banks had provided for the needs of wealthy and established families and enterprises; the private banks were the common people's bankers.

In the ten years between 1750 and 1760 ten private banks appeared in Edinburgh, so that all together there were about 20 private banks in that city by the latter date. These consisted mainly of partnerships, but there were four individual enterprises among them. Some of these were merchants dealing in money and exchange as opportunity offered. Most of them had gone out of business by 1772. In the year 1826 there were 21 private bankers in Edinburgh, but within 30 years practically all had disappeared. Eight banks disap-

1. Fleming, op. cit., p. 19.

peared because of failures, 10 merged, and two voluntarily withdrew from operations. Only one private banker survived in 1855.[1]

During this period the linen manufacture and trade was rapidly developing. A charter was granted the British Linen Company in 1746. The capital was £100,000 authorized. The purpose was to encourage the linen trade development. Gradually the company drifted into banking, which assumed increasing importance in its business. In 1849 its new charter recognized it as a banking corporation.

It is quite likely that the system of branch banking which later developed is attributable to the British Linen Company's policies.[2] In connection with its linen trade the company established a network of agents. In addition to their original duties of giving credit for flax and paying workmen, these agents soon began to discount bills and circulate notes. Almost from the start the company provided its agents with its promissory notes payable on demand.

The first appearance of private banking in the provinces manifested themselves about 1749, when the Banking Company at Aberdeen was established, and which was the first private bank to issue notes of its own. The two old banks at Edinburgh paid no attention to it until its notes made inroads into their business, when they forced it to close in 1753 by the malpractice of constantly accumulating and presenting large sums of notes for payment.[3]

In the same year the merchants at Glasgow sought to induce the two old Edinburgh banks to establish branches at that city. The mer-

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1. Kerr, op. cit., p. 63.
2. Munro, op. cit., p. 110.
3. Kerr, op. cit., p. 73.

chants felt the need for banking facilities, and believed the two old banks could best provide it. But the banks failed to take the opportunity to establish branches. Instead, the Bank of Scotland proceeded to cater to the trade of the Glasgow merchants by fostering the establishment of a private bank under the name of the Ship Bank. Not to be outdone the Royal Bank set up its protege, the Glasgow Arms Bank.

As soon as these two new provincial banks found their business sufficient, they cast off their relationships to the Edinburgh banks and became their competitors. Various forms of persecution from the two old banks failed to destroy the Glasgow banks which now had the support of the town merchants.[1]

In 1752 the Bank of Scotland and the Royal Bank began to exchange the notes which each held against the other, increasing the convertibility of note issue. This practice became an important feature strengthening the banking system, particularly in later years when branches covered the provinces.[2]

The year 1765 stands out in Scottish banking history. In that year the first banking act was passed. It affords an excellent opportunity to review the first stages of banking development, and this can be done exceedingly well by quoting the following paragraphs from Kerr's History of Banking in Scotland.[3]

> "The year 1765 is notable, in Scottish banking, on account of the first Act specially regulating the business having

1. Ibid, page 76.
2. Ibid, page 81.
3. Op. cit., page 84.

been then passed. Previous to that date, there were no restrictions on the proceedings of the various establishments, other than those embodied in their individual constitutions, or imposed by the common law of the land; and it was only in the case of the three oldest banks that the constitutions were prescribed by competent authority; the others being entirely free to lay down, or abstain from laying down, such rules as to the partners seemed fit. In point of fact, however, the old establishments set the example, and moulded the general principles, which were adopted throughout the country, for the conduct of banking business. That they should have survived while the majority of their imitators have passed away, is to be attributed to the fact that the younger establishments, in the eagerness of their rivalry, forgot the principles they nominally adhered to, while they had not sufficient strength and credit to carry them through trials which were met by their powerful competitors with comparative ease."[1]

In 1769 the Bank of Ayr, a joint stock copartnership with 136 partners and £150,000 of authorized capital, of which about two-thirds was paid up, commenced operations. The purpose for originating this bank was the feeling among many merchants of the unwillingness of the old banks to aid them, and the so-called monopoly of the existing banks.[2] The Bank opened at Ayr in the fall of 1769 and early in 1770 opened branches at Edinburgh and Dumfries. Each of these offices, however, was independent in exercise of business under separate boards of directors. In addition agencies with private bankers were established in more than a half dozen cities.[3]

The bank expanded rapidly, purchasing private bank business in Ayr and Dumfries. Free reign was instigated as to loaning and note issue policies. The capital was increased and expansion continued. In May, 1772, about £400,000 was outstanding in bills on London. The Edinburgh banks refused further to hold their paper.[4]

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1. The act referred to in the above paragraph was to restrict and regulate the issue of notes, particularly forbidding the issue of notes payable at the banks' option in six months.
2. The passage of the Act of 1865 forbidding issue of promissory notes except payable on demand was doubtless a factor in stimulating this belief, since it forced the banks to curtail their loans. See James Simpson Fleming, op. cit., p. 29.
3. Kerr, Op. cit., p. 98.
4. Ibid, p. 99.

On June 12, 1772, news came from London of banking failures there and an ensuing panic. Within four days two private Edinburgh banks which had assisted the Bank of Ayr in selling its paper, closed. Runs commenced on the Ayr Bank, but these demands for payment of notes in specie were temporarily quieted. The failure, however, of five additional private banking firms on June 24, 1772 spelled the doom of the Bank of Ayr. Before the runs quieted down, every bank in Edinburgh except the three public charter banks and three of four private banks were insolvent. Provincial banks were not greatly affected.[1] Payment was stopped on bank notes. About £400,000 out of a total of £900,000 loans and discounts of the Bank of Ayr were to partners.

Since the shareholders were unlimitedly liable, heavy losses were suffered by them. Altogether about £750,000 of landed property went on the market to satisfy claims of the bank. The partners' losses almost equalled this figure.

Much of the difficulty ".... was due to the unadvisable conjunction of mercantile with banking business, which had always been a prominent feature of private banking. It may be thought that an over-issue of notes was a leading feature in the failure of the bank. But this was not so. A vigorous and sustained effort at over-issue was made all along; but the effort failed by the physical impossibility of making the public hold more notes than they required. The system of exchanges, moreover, expedited the return of the notes for payment. All the Edinburgh houses which fell, with the exception of the branch of the Ayr Bank, were general traders and speculators, as well as bankers. Although Douglas, Heron & Co. (the firm name of the Bank of Ayr) were not directly engaged in mercantile pursuits, they were entirely under the influence of the mercantile spirit. Their existence began, and their business was conducted in close alliance with merchant banking. The collapse of 1772 effected a thorough revolution in this matter; and, although private banking again assumed a very active existence, its subsequent career witnessed a complete severance of the hitherto some-

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1. Ibid, p. 100.

what indistinctly defined departments of banking and commerce.

"The essential errors of the Ayr Bank were--trading beyond their means; divided control by permitting branches to act independently; forcing the circulation of their notes; giving credit too easily; ignorance of the principles of business; and carelessness or iniquity of officers."[1]

It was in this period that branch banking was first established on a firm foothold. The bank of Scotland after two unsuccessful prior attempts, opened branches at Dumfries and Kelso in 1774. Within a couple of years branches were established at five additional provincial towns. In conjunction with this expansion the authorized capital was increased from £100,000 to £200,000.[2] Not until 1783, however, did the Royal Bank establish any branches, one being opened at Glasgow in that year.[3]

This period--the period of early branch banking development--was also one of great prosperity. It does not appear feasible to attribute the prosperity in any considerable extent to the extension of the branch banking; it seems more logical that the banks expanded branches to take advantage of the business opportunities and to satisfy the demands of the times. Great increases in banking capital were made, as crudely shown below for three of the banks, the third being a provincial bank.

Authorized Capital Stock

	Bank of Scotland	Royal Bank	Dundee Banking Co.
Original	£ 100,000	£ 111,347	-
1774	200,000	111,347	-
1783	200,000	150,000	-
1783	200,000	300,000	-
1784	300,000	300,000	£ 10,750
1786	300,000	300,000	21,400
1788	300,000	600,000	21,400
1792	600,000	600,000	21,400
1793	600,000	1,000,000	21,400
1794	1,000,000	1,000,000	31,700

1. Ibid, p. 108.
2. Ibid, p. 116.
3. Munroe, op. cit., p. 150.

In the case of the two old banks, it is not to be doubted that a considerable portion of the additional capital was necessitated by the branch developments. However, private banks expanded both in size and number. Besides the expansion of existing private banks, nine new ones opened between 1783 and 1792, being widely scattered over the country.

Although branch banks were in the infancy of their development, certain banking arrangements had existed for a long period of time which acted as substitutes therefore. This was the system of agencies. The larger banks made arrangements with the small banks for the latter to act as their agents. In this connection the agent usually carried its account with its "affiliate." The agent acted as a distributor of the notes of the large bank for which service it usually received a stipulated sum or commission. In addition, it negotiated loans for the large bank receiving a commission varying from 1/8 to 1/4 per cent with interest in some cases on the balances of their account.[1] These agencies thus performed some of the functions of branches.

A banking occurrence of note in this period was the inauguration of the Commercial Banking Company of Scotland in 1810. It was an unlimited joint stock enterprise with an authorized capital of £3,000,000 three-quarters of which were immediately issued and on which £450,000 was paid up.

There was a genuine need for certain banking facilities which the previously existing banks did not provide. There was need, furthermore, for certain banking reforms, which this bank aided in effecting. The existing banks were not as yet available to the masses

1. Kerr, op. cit., p. 117.

of people. The large banks maintained "agency" relations with small private banks by which the latter issued the notes of the former. The small banks then dealt with the small borrower. At this time the practice of electing the partners of private banks to the directorship of the large banks was prevalent. In many instances these interlocking managements controlled the loan policies--as was often thought--to the detriment of the borrower. It was in the interest of the private banker to prevent direct loans being made by the chartered banks to borrowers, but to force borrowers to deal with private bankers, who invariably charged higher interest.[1] There were even instances of private bankers borrowing from chartered banks in order to speculate in government securities, although in justice it must be said that the practice was prevalent among most bankers. Further more, the large banks were not free of politics.

As a whole the Commercial Bank had a salutary influence upon banking in Scotland at this time. Interlocking directorates were forbidden in its constitution. By example it forced the other banks to give up these abuses.

This bank soon undertook an aggressive policy of branch bank expansion. "In less than ten years it had fourteen country branches as compared with the seventeen of the British Linen Company's, thirteen of the Bank of Scotland, and the Royal's single branch in Glasgow. By 1826 the Commercial had opened thirty-one new offices, and was everywhere diverting the business from the private banking firms, whose doom was sealed."[2] The rapid expansion which was taking place

1. Munro, op. cit., p. 166; Kerr, op. cit., p. 154.
2. Munro, op. cit., p. 167.

in banking, particularly branch banking may be judged from the fact that the Commercial Bank alone had opened 31 new branches between 1810 and 1826, whereas in 1810 there were only about 60 offices in all Scotland according to Kerr.[1]

The number of branches increased, but not without added problems of management and control. In 1817, following the discovery of irregularities at the Glasgow branch of the Royal Bank the policy was adopted of having two directors in rotation make surprise visits every two months. The check consisted of striking balances from the books and counting the cash and notes of each teller.[2]

By now banking in Scotland had assumed a national character. The private banking system of purely local banks was decaying at the same time that a few of the larger banks were expanding into national branch bank systems. This expansion was of a twofold nature. The large banks were establishing new branches, many of them in towns formerly not provided with services, and they also took over the offices as branches of the private bankers who ceased banking operations.

The National Bank of Scotland, launched in 1825, was planned on a large scale with a nominal capital of £5,000,000. One tenth of its nominal capital, £500,000, was called up at organization. Nine branches were opened at once, scattered geographically to cover all Scotland. In 1833 it had 24 branches, which number steadily increased to 115 by the opening of the 20th century. In 1831 this bank applied for and received a Royal Charter. The charter granted was distinguished from those of the earlier bank charters. It provided for un-

1. Op. cit., p. 161.
2. Munro, op. cit., p. 173.

limited liability.

Following the monetary crisis of 1825 the government decided to reform and coordinate the note issues of the three kingdoms of England, Scotland, and Ireland. The plans called for suppression of notes under £5. This was done in England, but failed of accomplishment for Scotland because of the great protestation made by the people and the bankers.

It is well to recall here that an important feature of the Scottish banking system was the note issue, without which it would doubtless have been impossible to expand the branch banks so rapidly, since a considerable part of the profit of these latter was provided by issuing notes. Secondly, the methods of clearing notes among the large banks made it practically impossible to issue notes beyond the needs of trade. The sparseness of capital made for a greater need of small notes. Furthermore, the frequent drainage of money from Scotland to England made the need for notes of small denominations greater in Scotland. Without them the banks would have had their business curtailed and specie would have had to take the place of small notes.

> "------ In 1826 there appear to have been about thirty-four individual banks, of which several had numerous branches, and most had some. The total number of offices is stated as 167, or 1 to every 13,000 inhabitants. An evidently very loose estimate of the deposits held by these establishments places the amount at from ten to twenty-five millions sterling; but two estimates which seem to have been thought competent give £20,000,000 and £24,000,000 as the amount."[1]

1. Kerr, op. cit., page 211. According to Henry Dunning MacLeod "in 1826, besides the three public chartered banks with forty-four branches, there were twenty-two joint-stock banks with ninety-seven branches, and eleven private bankers in Scotland, or in all 194 banking offices." See History of Banking in All the Leading Nations, Journal of Commerce and Commercial Bulletin, N. Y., 1896, Vol. II, page 194.

A rapid movement toward banking concentration was taking place. In the ten years following 1829 about thirteen banks, some with several branches, disappeared as separate organizations. Five of this number, all private banks, failed, and one bank liquidated voluntarily because it was unable to compete profitably with branches of other banks. One or two private banks without branches were absorbed by branch banks. Four additional mergers consisted of the consolidation of private banks with a few branches and the larger branch bank systems. The reaction of 1836 and 1837 following a period of speculation stimulated this movement.

This period was not characterized alone by consolidation and elimination of banks. Between 1830 and 1836 five new banks were opened.[1] These new banks were established on a large scale. The largest of these was the Glasgow Union Bank with an initial capital of £350,000 divided among 488 partners. Originally it opened three branches, but by the acquisition of large and small existing banks, it soon merged into a national branch system.

The rapidity with which banking was expanding is indicated by the opening of about 110 new branches, of which 93 were opened by the banks in operation prior to 1827. Joint stock enterprises were the objects of speculation. Banking, as one type of joint stock enterprise merely participated in this growth. Whereas the branch banking participated in the general speculative expansion, it does not appear to have been crippled or injured in the reaction which followed.

1. Two of the old joint stock banks, the Commercial, and the National Bank of Scotland were granted Royal Charters in 1831, but because of changes in the ideas of the times, these charters provided for unlimited liability as distinguished from the limitation of liability in the charters of the older banks.

"The position of banking in Scotland at the close of 1837 was as follows:- There were five chartered banks with aggregate capitals amounting to £4,600,000, on which dividends averaging six per cent were paid. Five other joint-stock banks had capitals amounting to £1,550,000 on which dividends averaged slightly less than six per cent. These ten banks had 213 branches, of which the chartered banks held 158. There were besides, seven other joint-stock banks, and seven private banks, with 37 branches. This gives a total of twenty-four banks with 274 offices."[1]

The seven or eight years succeeding 1837 witnessed a continuation of the trend toward consolidation of banking resources and facilities. The movement accellerated its pace. Private banks practically ceased to exist.[2] Concentration was effected through the usual routes. These were bank failures, mergers of existing branch systems and private banks, and mergers of branch systems with branch systems.

The period was, however, not without new bank promotions.[3] In 1838 alone six new joint-stock banks were established, and in the following six years four more banks opened.[4] All of these were on the joint stock principle with substantial capitals, ranging from £112,500 to £500,000, and numerous shareholders. All, except possibly one or two opened branches, one having six and another seven at their opening. Most of these banks did not last very long. All but four disappeared by 1857, and all but two were gone at the beginning of the 20th century. One of the ten banks, the Edinburgh and

1. A. W. Kerr, op. cit., pages 223 to 224.
2. According to Fleming, op. cit., p. 35, the last private bank disappeared by 1838. Kerr in his book on p. 255, states however that the last private bank voluntarily gave up its business in 1857.
3. The material in this and the four following paragraphs have been extracted from Chapter XVIII of Kerr's History of Banking in Scotland.
4. These statements based on Kerr's History of Banking in Scotland are at variance with the statement of Fleming in Scottish Banking, p. 35. Fleming states that fourteen joint stock banks were established between 1819 and 1845, of which by 1845 all but one had discontinued because of amalgamation or failure.

Leith Bank absorbed two of the other ten, only in turn to be absorbed by one of the older banks, the Clydesdale Bank, which latter bank also absorbed the Greenoch Union Bank in 1843, another of this ten banks. Two others were merged with the Western Bank, and one finally failed in 1878.

In the case of at least three of the above mentioned mergers, failure was thereby probably averted, and was thus a motive to the merger. Two of these were due to poor management, and the third was due to rivalry among managers. The directors of one of the branch systems were unable or unwilling to curb the growing power and rivalry of two of their branch managers. Their independent and antagonistic policies caused difficulties for the bank, which accepted the merger as a way out of its difficulties. An additional merger was attributed to the inability of the bank to issue notes due to its late formation, just preceding the note reform act of 1844. Being thus deprived of an adequate note issue privilege, it appeared unprofitable to continue an independent existence.

The forces of competition and consolidation were likewise noticeable among the older banks which were in existence prior to 1837. Between 1838 and 1844 seven of the small banks were eliminated through the merger route, being taken over by the larger banks. Further reduction in number of banks operating was the result of failures there being three in 1842, one with five branches and another with seven branches. All three were small banks. Their combined liabilities were £490,127 on which an average of eight shillings per pound were paid creditors.

In the years of 1843 and 1844 widespread discussion arose regarding currency reform with the purpose in mind to assure the convertibility of issues in the United Kingdom. In England this ulti-

mately took the form of separation of issue and banking departments of the Bank of England, prohibition of issues to new banks, and restrictions for old banks. At first Sir Robert Peel expected to extend this act to cover Ireland and Scotland, but the protest in Scotland was so vehement that only a modified law prevailed. The law finally enacted in 1845 provided among other things as follows for Scotland: (1) New banks of issue were prohibited. (2) The existing banks could issue notes based on the average issue of a two weeks period preceding the passage of the act, plus all notes that were secured by 100% gold, or silver to the extent of 1/4 of the gold held. However, no separation of issue and banking department was made, which enabled the entire banking specie to be used as security for notes, a most important consideration.[1]

Not only did this act have a profound effect upon the banks preceding and operating at the time of its passage, but it also determined the course of banking in so far as note issue was an essential prerequisite to profitable banking operation. Due to the importance of notes and the undevcloped"check currency," the promotion of banks, particularly branch bank systems, was forbidden by this act for all practical purposes.

The importance of this act is indicated by the following excerpts from an editorial appearing in the London Economist in 1875:[2]

> "------ it is evident that Sir Robert Peel gave the existing banks of Scotland a greater advantage than he gave to any English bank except the bank of England. He allowed them to increase their issue without limit, which is always the most useful advertisements for a bank, and which was more than usually

1. Kerr, op. cit., p. 232.
2. Vol. 33 (March 6, 1875), page 270.

> useful in this case, because this being a £1 issue runs through all classes of the nation--even the lowest--and which is of the highest utility in business because it enables a bank to establish any number of branch banks, which as the phrase is, 'open strong' in its own notes and need scarcely any other cash so long as their credit is accepted. ----"

In another respect the act has a salutary influence on banking: since the note issues frequently exceeded the "authorized" issues, the banks were thus forced to keep a gold reserve in order to issue additional notes. These reserves were available for general banking operations. As the population grew, and as business needs increased the needs for notes increased, and issues became more and more valuable.

Throughout the years 1845 to 1857 at which latter date the Western Bank of Scotland failed, banking concentration continued.[1] Four important bank mergers--absorption of the small by the large--took place. One of the banks absorbed had nine branches. The last private bank voluntarily gave up its banking business. Besides, there were the continued expansion of branches by the large banks. Although only 30 new branches were opened in the first half of this period, 240 were opened in the second half. The Royal Bank first began an active branch expansion campaign about 1855. In the latter half of 1854 it opened three branches, twelve new branches were opened in 1855, and in the following year seven branches were established. Extension of branches was being undertaken because they proved profitable, especially so in the newly developing industrial districts. Increasing demands for banking services led the bank to establish sub-branches

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1. Kerr, op. cit., p. 255-256.

and/or district branches in some cities already having old branches.[1] The two banks which were most aggressive in this expansion policy were the Western Bank and the City of Glasgow Bank, both of which later got into difficulties.

The Western Bank of Scotland was from its origin an aggressive establisher of branches. At the time of its failure in 1857 it had 101 branches, more than any other bank. Its deposits amounted to £5,306,569, and its capital was £1,500,000 which was equalled by only one other bank. Its total liabilities at time of failure amounted to £8,911,932, exclusive of capital and rest of £1,726,777.[2]

The failure of this large bank cannot be considered as an indictment of branch banking. On the contrary, it is likely that the widespread branches enabled the bank to hold its own as long as it did. It is possible that an over-aggressive branch expansion policy was a contributing cause of some of this bank's difficulties. The fundamental cause of this failure was the violation by its management of a cardinal principle of sound banking. The bank failed to maintain adequate reserves, particularly secondary reserves such as British Government Consols. On several occasions prior to 1857 this bank was in temporary difficulties, and had been granted aid by the other large banks. One of the conditions for this aid had been the building up of secondary reserves, but the bank failed to keep

1. Munro, op. cit., p. 236, 241, and 242.
2. Kerr, op. cit., p. 259 and 260.

its promises after receiving aid.[1]

The crisis, however, of 1857, due partly to suspension of specie payments in the United States and consequent monetary troubles in England, were the factors leading to the failure. Heavy losses in American business ventures were sustained by the Western Bank. Finding itself embarrassed due to demands for note payments the bank applied for and received an advance of £510,000 in Consols from the Scottish banks after the Bank of England refused it aid. This was not sufficient and the banks refused further aid.

The failure resulted in a panic and runs on other banks, but when it was realized that creditors of the bank would not lose, and when the other banks agreed to accept Western Bank notes, the excitement abated. One of the features contributing to this was the unlimited liability of shareholders. The bank had been organized as a non-charter unlimited joint stock company. Besides their capital and surplus (or rest) the shareholders lost approximately an additional £1,100,000 in assessments.

As a consequence of the bank runs, the City of Glasgow Bank suspended payments shortly after the failure of the Western Bank. Its liabilities were £5,107,142. About a month later (Dec. 14, 1857) it reopened. The following year a third large bank found itself in difficulties and discredited with the public. After the writing off of half of its capital or £500,000 had failed to restore confidence, the Edinburgh and Glasgow Bank merged with the Clydesdale Banking Co. This resulted in an increase of 20 branches for the latter bank at little cost.

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1. Ibid, p. 260.

The failures of banks were not disadvantages to the remaining banks. The withdrawal of a rival from the field provided opportunity for the banks to expand their systems and increase the scope of their operations. Following the failure of the Western bank, the Royal bank alone opened 26 new branches, twelve of which were directly taken over from the Western Bank.[1]

Absorption continued. Small joint stock banks were merged into larger banks. In 1863 the Clydesdale Bank absorbed the Eastern Bank and in 1864 the Royal Bank absorbed the Dundee Banking Company with its six branches. The Bank of Scotland purchased the Central Bank of Scotland with its nine branches in 1868. One of the motives present in these later mergers which had not been present in the earlier years was the acquisition of the rights of "authorized" note issue. The large banks sought the right to note issues of the other banks which have become increasingly valuable since the Act of 1845.

Depressed business conditions in 1866 to 1868, low money rates and slack demands for capital stifled banking expansion. However, by 1869 approximately one hundred new branches were opened, most of them being sub-offices in Glasgow and Edinburgh. In the seven years which followed three hundred additional offices were opened, bringing the total banking offices to almost nine hundred. The number of offices grew to 950 by 1878.[2]

Toward the end of 1878 the City of Glasgow Bank had discounted an excessive amount of paper. Being unable to meet maturing bills with renewals and new notes, the bank's liquid resources were rapidly being exhausted. Upon application for advances of £500,000 from the other Scotch banks, the latter demanded an examination of the bank's

1. Munro, op. cit., p. 246.
2. Kerr, op. cit., p. 286; Conant, C.A., A History of Modern Banks of Issue, p. 165.

books. This examination showed the affairs to have been grossly misstated. The bank closed October 1, 1887 when help was refused. At that time its deposits exceeded £8,000,000. The examination of the auditors showed that the assets had been willfully overstated, the gold reserves overstated, the bad debts not deducted. Four debtors alone owed the bank almost £6,000,000. The estimated loss to the stockholders was £5,190,000 besides their capital already invested. "This was no case of misfortune due to inflation overtrading, but to unsound and dishonest business methods and deliberate hoodwinking of the shareholders and the public."[1]

This failure produced a calamity in the country and runs were made on other banks. These soon quieted down. The remaining banks were the gainers, as they took over the business and many of the failed bank's branches.

Following these failures with their dire consequences upon shareholders, agitation arose for limitation of liability of the other banks not limited by charter. The result was the "Companies' Act of 1879" which limited liability to companies so organized. Advantage was taken later of this and subsequent acts by all those banks not limited in liability by their charters. Another result of the failures was the agreement among the banks that an independent audit be made annually.

As in the case of previous failures, the surviving banks took over the branches of the deceased member, thereby continuing to provide banking facilities to the various communities, and also enhancing their own resources and scope of operations.[2]

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1. Munro, op. cit., p. 276.
2. Ibid, p. 278.

Summarizing the state of bank development in 1900, Kerr wrote:[1]

"There has been a continuous expansion in the matter of branches: but the rate of increase has only been about two-thirds of what it was in the former period. The total number of offices is nearly 1,100, of which thirteen are in England. This gives a proportion of one bank office to every 4,155 of the population of Scotland, a very liberal supply of banking facilities. All the banks have participated in this activity in branch extension; but the most progressive have been the Commercial, Clydesdale, British Linen, and Union. While this policy has been accompanied by increased profits, it may be doubted if it has contributed in any marked degree to that result. The National Bank, which shows the second largest increase of profits, are hardly over average in the matter of branch extension. It is more probable that the improvement in profits is mainly due to the large increase of public liabilities, the abolition of payment of interest on current accounts, and other lessening of burdens on revenue."

It is pertinent to point out here some inferences which may be drawn from the statements by Kerr and facts presented. Although it can hardly be concluded that the branches of the banks accounted for increased profits, it is nevertheless reasonable to believe that the public gained. Lower costs of service, better service, lower interest rates, etc., while they did not enhance the bank's profits, they did redund to the benefit of their customers. Without the branches which enabled the banks to carry these burdens they would not have been able to provide them. So that what might have been exceedingly high profits attributable in part to branches, were dispersed to their customers by the great competition induced by these very same branches.

A continued expansion of branches by existing banks characterized banking in Scotland during the following years.[2] The large banks expanded their systems by establishing branches in small communities where it would have been impossible for the old type of independent firm to operate at a profit,[3] again providing services to the public with-

1. Kerr, op. cit., p. 324.
2. Conant, op. cit., p. 170.
3. Munro, op. cit., p. 295.

out excessive costs due to the system of branch banking. The year 1907 witnessed the first merger since 1868. The Bank of Scotland absorbed the Caledonian Bank with 35 branches in that year. The great depreciation of Consols was an important factor in stimulating the merger. The banks had for some time been working in harmony. The bank absorbed was the smallest existing and had resources of about £1,350,000. The following year the Town and County Bank merged into the North of Scotland Bank, reducing the number of existing banks to eight. At the time of merger the Town and County Bank had resources of about £3,905,000 and a system of 66 branches.

Because of the frequent amalgamations in Great Britain and especially in England, the government appointed a committee of investigation in 1918. This committee recommended that further amalgamation require the state's sanction.[1] However, this did not prevent affiliations being entered into between three Scottish banks and three of the "Big Five" in England, one affiliation being consummated in 1918 and two in 1919.[2] The practical effects of these affiliations were to place the Scottish banks under the control of the English banks. Two years later a fourth Scottish bank combined with another English institution--Midland Bank.

In 1924 the Royal Bank of Scotland reversed the procedure. Instead of being absorbed into the existing English banks it acquired the private banking house of Drummonds in London.[3]

Without attempting to draw at this time a direct comparison be-

1. Sykes, John, The Amalgamation Movement in English Banking, 1825-1924, p. 74.
2. Munro, op. cit., p. 311.
3. Ibid, p. 332.

tween the relative merits of Scottish and American banking systems and practice, it is possible to draw certain important conclusions regarding features of strength and weakness in the former.

From their beginning to the present time it can be stated that these banks were exceedingly free from governmental regulation and interference. They were less circumscribed in their operations than the banks of any of the other nations studied here. Only a few important restrictions as to note issues were imposed on these banks, and even these restrictions were far less burdensome than those imposed on their neighboring English banks by the same parliament. Likewise they were practically free from special privileges such as found in the Bank of England, although a practical monopoly of banking was forced upon the existing banks by the Act of 1845 forbidding new banks of issue.

> "----; they were happily exempt from that State patronage which usually imposes a more than equal weight of State control and State appropriation; and as they were free from all embarrassing relation of being creditors of the government, so they had no ground of appeal to the factitious aid of the government in the hour of need. They had to stand or fall from the first by their own merits, by their own ability to pay, and to weather whatever storms of adversity might befall them. In this critical adventure of dealing in money, in loans and credits, and pecuniary obligations, the Scotch Banks come before us simply as other commercial establishments which enter upon any new and untrodden path of industry of commerce."[1]

The banks in Scotland were allowed to develop in their natural way subject only to competition and cooperation. They were able to choose that system of banking which seemed most profitable and likewise most suitable for the needs of the country. This presumably resolved itself into a struggle for the survival of the fittest. Presumably those banks which survived did so because of superiority in certain characteristics.

1. Somers, Robert, The Scotch Banks and System of Issue, p. 91.

In general those banks which survived were large banks--large in the sense of having ample capital and resources. Their capital was ample not only for ordinary operations but also for emergencies. Most of the banks were large--even in terms of today's thought. The first bank--the Bank of Scotland had an authorized capital of £100,000 of which £10,000 was immediately called, leaving an additional £90,000 liability to protect creditors. The small private banks did not have the resources to compete, especially when the large banks competed through their branches.

A second important feature of these banks was their type of business organization. Those which ultimately proved successful were of the joint stock type, with its features of transferable shares, continuous life, large sources of capital, delegated management, etc. In the case of the chartered banks their stockholders were limited to the amount of their capital stock; the remainder of the banks were partnership associations with unlimited liability. Even after all the banks except the chartered banks with limited liability had incorporated under the companies act, most of them provided an authorized capital of twice their paid in capital for protection of creditors. Furthermore, the unlimited liability was not an idle gesture. On one occasion shareholders of a joint stock bank paid assessments of as much as £5,500 per share. Yet Scotland is able to make the boast that no creditor has ever lost a pound through the failure of a joint stock bank. As a matter of fact, only three joint stock banks have failed--the Bank of Ayr, the Western Bank, and the City of Glasgow. Even in the case of private bank failures, Scotland can boast an excellent record. About 22 of these failed. Six paid their debts in full and sixteen with liabilities of about

£1,500,000 paid approximately 10 shillings per pound.[1]

In its earlier years, banking in Scotland was prone to be ruthless. Tactics pursued between the Bank of Scotland and the Royal Bank, when the latter was first established, of accumulating large sums of notes and suddenly demanding specie in payment were unethical to say the least. Similar practices were indulged in by these large banks when rival banks sprang up in the provincial towns. In later years when unethical practices were less common, competition was at times ruthless. The private banks were not able to compete on even terms, the advantage was generally with the joint stock banks and particularly with those with branches.[2]

> "But it must be observed that the unions and amalgamations ---- were, in most instances, carried out on terms advantageous to the companies that were merged in others, their partners receiving stock of the united Bank, and participating in its ampler and richer business. It was not a convulsion, it was not the shock of a wrong or disordered state of things which produced these changes, but the natural growth and tendency of a free system, adapting itself to the progress of the country, to the improvements of communication, by which towns and districts once distant and isolated were brought near the great centers, and to the views of practical men as to the arrangements best fitted to promote stability, economy, and profit."[3]

The banks which survived profited by the experiences taught by competition, business hazards, cycles, wars, etc. Suspensions were not unknown even to the oldest banks.[4] These banks learned from experience to follow sound banking principles. They learned to maintain ample cash resources, to diversify their loans, to clear their notes against one another thus insuring against over issue and the like.

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1. This material is from Fleming, op. cit., p. 39, footnote. Since writing his pamphlet the City of Glasgow bank failed.
2. Somers, op. cit., p. 108.
3. Somers, op. cit., p. 89.
4. Munro, op. cit., p. 51 and 53.

Although competition in certain respects was keen, the Scottish banks, particularly the large ones, quickly learned to cooperate. So close did their cooperation become that they have not infrequently been accused of establishing a monopoly. Records are available showing that as early as 1752 the Bank of Scotland and the Royal Bank entered into agreement to mutually fix costs of services, to discourage and cooperate against private banks, and among other things "---- to support, maintain and defend each of them their own and the others interests against all attacks that may be made by the other societies that pretend to carry on the business of banking --------."[1] One writer considers these agreements as the "dawn of common sense in business rivalry."[2]

> Hartley Withers stated that "In Scotland ----- cohesion and cooperation among the banks are carried to an extreme of which the mercantile community frequently complains. The banks are few and stand together like a close corporation; they agree absolutely and arbitrarily among themselves as to the rates they will allow to depositors, the rates at which they will advance or discount, and the terms and commissions for which they will do business for customers. ------ As it is, the Scotch banks in regular conclave fix their rates in accordance with those current in the London money market, on the Bank of England's official minimum, and having fixed them, stick to them. The system is very profitable to themselves, and their customers certainly cannot complain on the whole of the facilities with which they provide them. Nevertheless the cast iron rigor with which they work hand in hand in combination appears to be an excessive development of banking unity, and an ideal banking system would seem to lie somewhere in the middle between the excessive competition of the English bankers and the cast iron combination of their Scotch brethern."[3]

Whatever uniform rates and regulations were agreed to by the banks were of course followed throughout the country by all their branches so that the farmer and the manufacturer paid the same for capital for

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1. Munro, op. cit., p. 117-119.
2. Ibid, p. 119.
3. The English Banking System, p. 49.

the same kind of loans. One could easily suspect that the charges made by these cooperating banks would be excessive,but this is probably not true. Furthermore, there are several factors which would preclude this. In the first place the rates charged by these banks have not fluctuated so greatly as those of the Bank of England. Although they are above the minimum of the Bank of England, they likewise ranged below the maximum. For a period of 68 years (ending in 1867) the rates charged for cash credits, which bear about the largest rate of all advances, has averaged between 4 and 5 per cent, although in certain years it has risen to 8 and even 9 per cent, and not infrequently has stood at 6 and 7.[1] Other kinds of advances and discounts have fluctuated similarly.[2] Offsetting these, however, are the allowances made to depositors of the banks. Balances corresponding to savings accounts have generally received between 2 and 4½ per cent. Certificates of deposit have generally been paid between 2 per cent and 5 per cent per annum.[3]

Another factor tending to prevent the Scotch banks from making excessive charges has been the potential and even direct competition of English banks. Although the small borrower cannot avail himself of this avenue of escape, the large borrower can and occasionally has.[4]

There is still another force which prevents excessive charges. This is the direct competition of the English banks entering the

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1. L. Wolowski, Les Banques D'Ecosse, translation by Somers, op. cit., p. 23.
2. Somers, p. 22 and 23.
3. Ibid, p. 22 and 23.
4. Withers, op. cit., p. 49 and 50.

credit market in Scotland. The acquisition of certain Scottish banks by English banks in recent years, or their affiliation, has brought in a more direct competition of the English banks.

The banks of Scotland have not been free of those criticisms so generally leveled against branch banking--that is, that they are the banks of commerce and industry but not of agriculture, and that the branches act as suctions to take up the deposits of the county, towns and provinces without returning anything thereto.[1] It must be remembered that these banks were and are essentially commercial banks. Obviously they cannot safely loan money on real estate for long terms, but they have and do loan to agriculture for seasonal needs. In fact the "cash credit", whereby a person is given a line of credit without specific security but on the signature of two sureties, was designed largely for the young and honest, but poor farmer.[2] These banks which have never sought the appellation of agricultural banks, have provided service to agriculture.[3] Their numerous branches provide convenient and safe depositories for the farmers' funds. And as was just pointed out the cost of such borrowing as was provided to agricultural purposes was evidently quite reasonable. One writer states that as the branches have increased in number, the loan sharks preying on agriculture have disappeared.[4]

A distinctive feature of Scottish banking is the system of note issue. It has also been of material importance in the establishment of the branch systems. Prior to 1845 the issues of notes were prac-

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1. For a vitrolic attack of this feature of the Scottish banks see Wolowski, op. cit., especially Chapter IV and page 17.
2. Wolowski, op. cit., p. 23 and 51; Somers, op. cit., p. 78 and 79.
3. Ibid, p. 83.
4. Ibid, p. 83.

tically unrestricted. Peel in that year sought to reform the Scottish issues along lines similar to the reforms in England. This he failed to achieve. Whereas he established a monopoly of issue for the Bank of England, in Scotland he established a monopoly of issue for each of the then existing banks. No new banks could issue notes, giving this prize to old banks and virtually prohibiting establishment of new banks.

The Scottish notes still follow the "banking principle" although Peel sought to establish the "currency principle" as in England. The law specified that specie was to be equal to all issues in excess of the fixed average, but did not segregate specie reserves for deposits or notes. The note has proven to be exceedingly adaptable and elastic to business needs. To no small extent this elasticity must be attributed to the clearings of notes, the basis for which was established in 1752.[1] Each branch receives notes of every other bank, but pays out its own notes only. Notes of competitions are cleared and balances settled. The large network of branches quickly takes in excess notes of competing banks.

To the notes must be ascribed a large portion of the ability of banks to establish numerous branches.

> "Were it not for the power to issue notes, and the readiness with which the public receives them, the banks could never have afforded to open a third of the branches which have been established. ----- Without the right of issue a bank must, at every one of its offices, hold the whole of its balance of cash in the shape of coin, or of notes of other banks, which, as far as it is concerned, are as unprofitable as coin. Such balances entail a complete loss of interest which can only be borne where the amount of business is of considerable extent. -----When, however, a bank can hold its till money in the shape of notes, it is enabled to extend its operations into districts which would otherwise be quite inaccessible. It is for this reason and for this almost entirely

1. Munro, op. cit., p. 118.

that the Scotch banks have been able to develop their branch systems to an extent that has made Scotland notable as having the greatest supply of bank offices in proportion to population of all the countries in the world."[1]

The notes, as pointed out later, have in recent years constituted a relatively small proportion of the total resources of Scottish banks. But their importance is not shown in the bank statements. Without the notes the banks could not obtain the large deposits which they now command. It is only through the branches that they obtain much of their deposits from provincial communities, and it is only because of the notes that the banks are enabled to maintain such numerous branches.[2] Doubtless, the importance of the notes has declined in the past twenty years.

One of the practices of Scotch banks which has frequently been criticized is the holding of their own unissued notes in their branches as till money. In 1905 this practice was estimated to save the banks the need for £8,000,000 to £10,000,000 of till money. This virtually results in the banks using their own obligation as a reserve. This is possible only because of the high esteem in which the notes are held and the preference of the public for them.[3]

In an effort to summarize further Scottish banking and interpret the policies of the banks, data from their financial statements have been compiled in the accompanying table. Accurately comparable data are not available, due to variations of accounting classification, variations in dates on which statements are published, etc. The table presents reasonably consistent material from 1865 to 1930.

1. Quotation from Scottish Banking 1865-1896 by A. W. Kerr, given in page 43 of The English Banking System by Hartley Withers; see also similar statement by Robert Blyth, general manager of Union Bank of Scotland, quoted in same source as above, p. 44. Also see editorial in the Economist, Vol. 33, (March 6, 1875), p. 270.
2. Somers, op. cit., p. 88 and 153.
3. Withers, op. cit., p. 48.

Total resources of the banks have increased steadily from £86,637,000 in 1870 to £317,490,000 in 1930. During the years from 1880 to 1930 the number of branches has increased from 876 to 1,718 at the same time that the number of banks declined from 11 to 8.

Analysis of the balance sheets show interesting changes. Paid-in capital and reserves constituted 16.4 per cent of the total resources in 1865 and declined quite steadily to the abnormally low figure of 5.3 per cent in 1920 when the country was on a paper standard. By 1929 and 1930 the relation between capital and total resources was more normal, and constituted approximately 9 per cent of the total. There is, however, a definite trend toward economy in the use of stockholders' capital. While this might well be criticized, the writer is inclined to accept the opinion that the amount of capital invested is not as important as the composition of the assets.

The proportion of deposits to total resources has increased somewhat over the interval of years. Deposits were equal to 75.7 per cent of total resources in 1865 and 80.6 per cent in 1930.

Although notes had shown a tendency to decline in relative importance from 1865 to 1914, there has been an increased use of them from that date. Whereas they averaged between 5 and 6 per cent of total resources from 1865 to 1914, they have averaged above 6 per cent since 1914. As a whole the note has been tenacious and held its own. These items of notes do not, of course, include those held in till.

In 1865 cash and money at call constituted only 7.6 per cent of the total. Steadily this increased to about 13 per cent in 1880 and 1885. From then it increased to approximately 20 per cent of total resources around which figure it has hovered from 1911 to 1930.

Investments, which include Consols and other government securities increased from 19.1 per cent at the beginning of the period to

30.9 per cent at the end. During the war and for a time following, it appears that the banks aided their government by purchasing more than usual amounts of war securities.

Discounts and advances over the period of years have shown unusual changes, particularly, prior to 1890. Whereas they constituted 73.7 per cent of the resources in 1865 by 1930 they constituted 46.1 per cent.

After the banks (other than the charter banks) incorporated under the companies act, their liability was limited to the amount of their outstanding shares. For a long time most of the banks provided that the unpaid balances of their shares would constitute a large contingent reserve for the protection of creditors. This "callable capital" was 2.2 times the paid in capital in 1885. The contingent liability was gradually reduced to 2.09 times the paid in capital in 1910. Thereafter it declined rapidly until it was only .14 in 1925 and .33 in 1930. Thus not only has the capital and reserves paid in declined relative to total resources, but the contingent liability of shareholders has been practically eliminated.

Some other significant balance sheet relationships may be derived from the table. Cash and investments fairly steadily increased from 32 per cent of total liabilities in 1865 to 64.5 per cent in 1915. Since then the percentage has fluctuated between 50 and 60 per cent. Similar trends are shown in the comparison of cash to total liabilities and also of cash to total liabilities exclusive of notes.

Somewhat more interesting figures are those pertaining to earnings. Over the long period of time the earning power of resources employed has been declining. The comparison of net profit with total resources shows an irregular but definite decline in the percen-

tage of net profit. On the other hand, the rate of return on the capital and reserves has more than held its own, even if war profits are omitted. Although the net profit has not increased nearly so fast as total resources, the capital and reserves has declined in relative size, resulting in ample returns to shareholders investments. Net profit has varied from 7.6 to 14 per cent of capital and reserves, being near 10 per cent in recent years. The figures for profits are after deduction for depreciation of investments, which in some years were quite large, such as £986,000 in 1919. Conservative practice in payment of dividends is also shown by the figures in the table.

Figures showing the actual operating results of branches are, of course, unobtainable, but it is possible to glean a few facts by use of averages. If the number of branches is divided into the profits for each year, it is found that profits per branch were relatively steady from 1880 to 1910, averaging in the neighborhood of £1,300 per branch. In later years it has averaged close to £1,700. When one considers that there are probably 20 small branches to 1 large branch, he is led to the conclusion that the net profit of most branches is small--too small to support an independent bank except of the most meagre kind.

A similar process shows that the average capital and reserves per branch was about £16,000 in 1880. Although this figure declined during the war and post war years, it has risen again and averages above £16,000 in recent years. Using an assumption similar to that in the preceding paragraph, a tentative conclusion is reached that the amount of shareholders' capital needed to operate most branches is probably far less than £5,000, and in some instances probably as low as £2,000.

The table further shows that whereas there is almost the same

average capital and reserves needed per branch in 1930 as in 1880, the total average resources per branch materially increased from £115,388 in 1880 to £184,802 in 1930 per branch. This is a sufficient amount of resources to operate a bank of this size, if it were independent, but both the capital and reserves and total resources would in most branches be too small to allow safe operation as an independent bank.

It does not seem amiss finally to quote the following statement regarding the Scottish banking system:[1]

> "The Scotch system of banks of issue comes nearer to the ideal of successful free banking than that of any other country. -------- Such defects as were disclosed in the early years of Scotch banking were corrected with experience, and the few departures which have taken place from sound principles have been such as to suggest no change in the established practice of the majority of Scotch banks, but, at the most, some official regulation which should hold all to the rules voluntarily adopted by the oldest banks and the soundest bankers."

1. Conant, op. cit., p. 142.

Table I - Composite Statements of all Scottish Banks by five year intervals, 1865 to 1930

(Values in £ 000 omitted)

Year	Number of Banks	Number of Branches	Capital & Reserves	Deposits	Notes	Total Resources	Cash & Money at Call	Invest-ments	Advances & Discounts	Callable Liability on Capital Stock	Net Profits	Dividends
1865	11*		10,912	50,398	4,881	66,568	5,078	12,739	49,052		832	
1870	11		12,856	63,016	5,603	86,637	5,718	19,080	62,272		1,159	
1875	11		12,599	74,137	5,725	97,007	7,534	23,796	67,316		1,386	
1880	11	876	13,967	75,584	5,619	101,080	13,661	21,219	58,704		1,181	
1885	11	934	14,785	83,433	5,910	108,807	14,971	24,344	63,334	19,883	1,193	
1890	10	975	14,755	91,610	6,468	117,874	21,427	29,349	60,103	19,883	1,222	
1895	10	1,013	15,090	94,592	7,264	122,525	22,795	30,770	62,241	19,833	1,219	
1900	10	1,075	16,217	107,154	8,056	137,498	26,438	33,401	70,395	19,844	1,615	
1905	11	1,159	17,246	100,643	7,545	132,261	23,947	31,396	68,714	19,847	1,689	
1910	10	1,221	17,559	106,652	7,126	137,850	25,604	33,322	70,661	19,284	1,565	
1915	9	1,251	16,205	140,569	12,555	177,004	36,730	67,019	64,621	6,914	1,937	1,188
1920	8	1,283	17,911	279,228	29,363	339,167	72,974	102,968	153,123	3,964	2,392	1,136
1925	8	1,565	23,947	240,945	21,668	297,839	60,341	95,204	131,309	1,600	2,441	1,377
1930	8	1,718	30,099	256,083	21,405	317,490	63,804	98,092	146,104	4,263	2,867	1,824
			Percentages of above items to Total Resources									
1865			16.4%	75.7%	7.3%	100%	7.6%	19.1%	73.7%		1.25%	
1870			14.8	72.7	6.5		6.6	22.0	71.9		1.34	
1875			13.0	76.4	5.9		7.8	24.5	69.4		1.43	
1880			13.8	74.8	5.6		13.5	21.0	58.4		1.17	
1885			13.6	76.7	5.4		13.2	22.8	58.2		1.10	
1890			12.6	77.9	5.5		18.2	24.9	51.4		1.04	
1895			12.3	77.8	5.9		18.6	25.3	51.1		.99	
1900			11.8	77.9	5.9		19.2	24.3	51.2		1.17	
1905			13.0	76.1	5.7		18.1	23.7	51.9		1.28	
1910			12.7	77.5	5.2		18.6	24.2	51.5		1.14	
1915			9.1	82.0	7.1		20.7	37.9	36.5		1.09	
1920			5.3	82.1	8.7		21.5	30.4	45.0		.71	
1925			8.0	81.0	7.3		20.3	32.0	44.1		.82	
1930			9.5	80.6	6.7		20.1	30.9	46.1		.90	

*Data for this year are for 10 banks, excluding the Bank of Scotland.
Source: Banking Supplements, Economist, various issues.

Chapter III.

BRANCH BANKING DEVELOPMENT IN ENGLAND

In its early development, branch banking in England presents an interesting contrast to that of Scotland, just presented. In England several outstanding features determined the nature of branch banking developments. At this point it appears pertinent to mention two of these.

Previous to the establishment of joint stock banks (other than the Bank of England) there were a large number of private bankers operating, both in London and in the provinces. The joint stock banks, which actively engaged in branch banking, at first had to face the competition of these private bankers, and later largely absorbed them as branches. In Scotland, large joint stock banks were established before private bankers became either very numerous or very powerful.

The second contrast was in the dominance of the English banking system by a single privileged bank, the Bank of England, as contrasted with the relative freedom of banking in Scotland. The whole banking system in England centered about the Bank of England, and for many years was circumscribed by its monopoly.

The pecuniary needs of the Government in 1709 provided the opportunity for the Bank to strengthen its grip on banking. An act passed in that year provided, among other things, that no other corporate bank should be established by Parliament, that no joint stock bank should be permitted, and that no group of more than six persons should engage in banking as partners.[1] The term "banking" was defined by this act to be essentially synonymous with the issuance of notes.

1. Conant, op. cit., p. 93

The importance of this monopoly and of the subsequent renewals of this banking privilege is manifest when it is realized that it forbade (for all practical purposes) all banks except private banks. Although it did not prohibit joint stock banks, provided they did not issue notes, the practice of banking at this time probably could not have existed without note issue privilege. It became practical to conduct banking with "deposit currency" about 50 to 75 years later, and by the end of the eighteenth century practically all the private banks in London had given up their note issues.[1] It was not until the second quarter of the nineteenth century, however, that it was discovered that joint stock banks without issue were permitted and could operate profitably and that the Bank of England did not have a complete monopoly of joint stock banking.[2] Consequently, England had one strong bank and many small private ones for many years.

William John Lawson in his History of Banking enumerates the names of 35 private bankers in London in 1765 as given in the "Royal Annual Kalendor".[3] Some of these had been in existence for many years.[4] Certain principles of banking were thus handed down in the family. This was not the case of the provincial bankers. The provincial banks developed at a later date and as a whole under less favorable circumstances.

Banking and organized credit facilities in the provinces were almost nil prior to 1750. Country merchants frequently had difficulty in obtaining the necessary currency to conduct business.[5] ".... The enormous increase in industrial undertakings demanded a great extension of credit facilities, and in particular an increased

1. McLeod, op. cit., p. 44
2. Andreades, A., History of the Bank of England, p. 259.
3. P. 220-221.
4. Op. Cit,, p. 221.
5. Ibid, p. 259.

supply of paper money; this need was supplied by the country banks formed for this one object."[1] Bank of England notes circulated almost entirely in London, and were not acceptable in most of England.[2] One of the ways by which this difficulty was circumvented was for the merchant or manufacturer to make arrangements with certain shops whereby the latter would receive notes of the former from their employees when given in trade.[3] From such arrangements country merchants, tradesmen, and shop keepers began to function as bankers.[4] According to one writer, there were twelve banks of this kind operating in provincial England in 1750.[5] The origin of many country banks may thus be traced to humble origins in which there was a frequent juncture of banking and mercantile pursuits.[6]

The provincial bankers grew rapidly in numbers, particularly toward the end of the eighteenth century and early nineteenth century This growth was encouraged by the London bankers.[7] The latter acted as agents and depositories of the former, thus obtaining their business. There was no competition between the provincial bankers on the one hand and the London bankers on the other, hence the latter sought to aid the development of the former. Furthermore, the rapid growth of country banks was also attributable to the policies of the Bank of England. Among these may be mentioned three:[8] first of all must be enumerated the alleged monopoly of the Bank which prevented the formation of large strong banks; second the unwillingness of the Bank to establish branches; and third the Bank's maintenance of a discount rate far above the market rate for several years subsequent

1. Andreades, op. cit., p. 170.
2. Andreades, loc. cit.
3. Lawson, op. cit. p. 260.
4. Ibid, p. 260; Andreades, op. cit. p. 171.
5. Ibid, p. 172; Lawson, op. cit. p. 260; Richards, R. D. The Early History of Banking in England, p. 193.
6. Ibid, p. 262.
7. Ibid, p. 265.
8. Andreades, op. cit., p. 171.

to the crisis of 1783 which drove considerable business to the country banks which would otherwise have gone from large merchants to it. Throughout this period the note issues of the country banks and the Bank of England increased, but those of the London bankers were disappearing.[1]

The rapidity with which these banks grew is indicated by the increase from about 12 in 1750 (as mentioned above) to about 400[2] in 1793, 940 in 1814 and 780 in 1820.[3] Not only did the country banks grow, but likewise the London banks, which had grown to about 60 by 1820.[4]

The rapid increase of banks, many of which were side lines for merchants, resulted in difficulties later. Many of the banks were not soundly established; they were open to all the vicissitudes and weaknesses of banking which the private banks in Scotland had had to face--and which many of them could not face squarely. Competition drove them to offer interest on all deposits which they could not well afford to do.[5] In order to earn a profit, every pound of capital had to be placed productively; they did not maintain adequate reserves of coin to support their issues in times of crises or even occasional heavy demands.[6]

The banks of these times were closely tied to agriculture, and not infrequently overloaded themselves with advances for agricultural purposes and loans secured by real estate.[7] Of course, many of these loans were not liquid. The rapid fluctuations in agricultural prices produced periods of high prices, of speculation and of consequent reaction.[8] In the periods of depression many banks were caught.

1. Richards, op. cit., p. 192-193.
2. Andreades, op. cit., p. 172
3. Lawson, op. cit., p. 480; McCulloch, J. R., Historical Sketch of the Bank of England, p. 24-25.
4. Richards, op. cit., p. 195.
5. Andreades, op. cit., p. 172, footnote.
6. Andreades, loc. cit., p
7. Sykes, op. cit., p.x.
8. McCulloch, op.cit.p.24

Other circumstances produced unusual demands on the banks, but because of unliquid loans, suspensions of cash payments frequently occurred.

Upon several occasions these weaknesses manifested themselves in varying degrees.[1] One of the earliest of these periods of strain was in 1772.[2] Private bankers in England were greatly discredited, and their notes fell to heavy discounts. The aid of the Bank of England tided over the solvent banks without any serious consequences.

In 1793 when England unexpectedly entered into war with France, the unusual demands upon the country bankers, who were already faced by an economic crisis growing partly from agricultural problems,[3] were in excess of their immediately available resources.[4] According to McCulloch, runs were made upon most of the banks with the resultant cessation of payments by about one-third of them.[5] In one month alone, 105 bankruptcies were reported.[6]

Again in 1797 a banking and money crisis occurred, largely attributable to disorders among the country bankers.[7] Country banks again withdrew specie from the Bank. The suspension of payments by the Bank in 1797 which was sanctioned by the Government, and the immediate increase in accommodation and circulation restored confidence.[8] The relief afforded to the country banks was not equal to that of the London banks and merchants. The Bank's notes at this time were not legal tender, and country banks could not force their customers to accept them. Even after the suspension, the customers of country banks continued to demand specie, which, of course, could

1. Lawson, op. cit., p. 267.
2. Ibid, p. 267.
3. Baring, Sir Francis, Observations on the Establishment of the Bank of England, p. 19.
4. Lawson, op. cit., p. 86 and 268.
5. Ibid, p. 20 and 32.
6. Andreades, op. cit., p. 187, giving Macpherson, Annals of Commerce.
7. Baring, op. cit., p. 15-35; Andreades, op. cit. p. 195.
8. Ibid, p. 197; Lawson, op. cit., p. 269-271.

not readily be obtained from London and not at all from the Bank.[1] This contributed to the continued embarrassment of these establishments.

According to Andreades, "The two great crises of 1793 and 1797 were due to the defective organization of the provincial credit system. ..... The Bank of England had not chosen to lend any substantial aid to the organization of credit and it now suffered the punishment of its careless selfishness. The speedy collapse of the country banks left it to maintain credit unassisted. .... Nor did the evil cease with the year 1797; the same thing happened in 1810 and 1812."[2]

As in the case of some of the earlier financial disturbances, that of 1824-25 was attributable to speculative hysteria. In addition the issues of the country banks were probably in excess of the legitimate business needs.[3] In the face of an ensuing drain of specie, the Bank of Englamd failed to take the necessary steps to check the drain for almost a year.[4] Failure of several firms engaged in speculative commodities produced a panic in 1824.[5] Before aid was forthcoming from the Bank, 36 country banks failed,[6] and in six weeks this number rose to seventy.[7] As in the case of earlier failures, those which had insufficient capital, which failed to maintain adequate reserves, which failed to recognize the functions, limitations, and scope of commercial banking, which engaged in loans to agriculture, and the like, failed in great numbers.[8]

An idea of the rapidity with which country banks were formed

1. Baring, op. cit., p. 9-11.
2. Op. Cit. p. 172.
3. McCulloch, op. cit., p. 29.
4. Ibid, p. 29.
5. Andreades, op. cit., p. 252.
6. Ibid, p. 252-253.
7. McCulloch, op. cit., p. 30.
8. Ibid, op. 30-31.

during these years and their failures is presented below.

Table II- The Number of Licenses (for bankers to issue notes) to Country Bankers in England and the Number of Commissions of Bankruptcy Issued against Them, 1809-1832.

Year	Licenses	Bankrupts	Year	Licenses	Bankrupts
1809	702	4	1821	781	10
1810	782	20	1822	776	9
1811	789	4	1823	779	9
1812	825	17	1824	788	10
1813	922	8	1825	797	37
1814	940	27	1826	809	48
1815	916	25	1827	668	8
1816	831	37	1828	672	3
1817	752	3	1829	677	3
1818	765	3	1830	671	14
1819	787	13	1831	641	-
1820	764	4	1832	636	-

Source: Lawson, W. J., Op. Cit., p. 480.

One writer estimates that on an average there were four or five suspensions for each commission in bankruptcy during the years 1791 to 1818.[1] If this held true throughout the twenty-four years of the above table, about 1,200 banks stopped payment besides those bankrupt.

Banking throughout this period was practically free of government regulation except as restricted by the Bank charter.[2] Large banks, however, could not be organized because of the partial Bank monopoly; partnerships were not conducive to stable or continuous operation of strong banks. Consequently, there could be no banks with extensive branches during these times.[3] Nevertheless, banking was not conducted by entirely independent banks. Correspondent relationships tied them all together loosely. Chains of banks were organized by certain large wealthy families; intermarriage of families engaged in banking, partners being interested in several banks,

1. MacLeod, op. cit., p. 40; Andreades, op. cit., p. 172, footnote 2
2. According to R. D. Richards, op. cit., p. 195, during most of this period banks were subject to only three regulations, namely: the lowest denomination of notes was fixed by law; a stamp duty on notes was enacted in 1804; and after 1808 all banks issuing notes had to obtain a license for each office of issue.
3. Sykes, op. cit., p. ix.

etc., tended to bring about occasional amalgamations of one private bank with another and give some solidity and uniformity.[1] Agency relationships were not unknown among the private bankers whereby they issued the notes of their more powerful rival or rivals, notably the Bank of England. Branches as such were not uncommon. There were 554 private houses with 681 branches in England in 1825.[2]

The slowness with which the post travelled, the poor conditions of the roads, tended, however, to discourage branch banks. The nature of the existing system of private banks was not conducive to branches in adjoining towns. Banking in general was a distinctly local affair based on a knowledge of the client by the banker. The private bankers had not found it necessary to open extensive branches, nor did it appear profitable in view of the expense such a step involved, or in view of the limited capital of the bankers.[3]

One bank, the Bank of England, was in a position to open branches, but this it did not do. "The Bank of England....not only did not found branches to issue notes, but even was unwilling to allow powerful and well-established companies to be formed for the purpose...."[4] Evidently a part of the reason that the Bank did not open branches was due to its belief that its charter did not provide for or permit such steps.[5]

Naturally the recurrent and widespread failures of banks, which were accompanied by thousands of commercial failures, provoked considerable discussion of the banking problems, both in and out of Parliament.[6] Numerous proposals were voiced, such as a national

1. Ibid, p. xi.
2. Ibid, p. 95.
3. Ibid, p. 8.
4. Andreades, op. cit., p. 171; Richards, op. cit., p. 196.
5. Ibid, p. 254; Turner, op. cit., p. 128.
6. Andreades, op. cit., p. 253.

bank,[1] joint stock banks,[2] branch banking,[3] guarantee of note issues,[4] and the like. Robert Peel was one of those who, at this time, advocated a free banking system such as was found in Scotland.[5]

The culmination of the matter was reached in the Parliamentary Act of 1826, which sought to accomplish two objectives; first the reorganization of the country credit, and second, the suppression of small notes.[6] The reform of country banking, however, was not easily accomplished. The Bank was unwilling to forego its monopoly; an effort had been made in 1823 by the Government to persuade the Bank to permit joint stock banks in the country, but the Bank refused and nothing was done for the time being.[7] However, under the increasing pressure of failures, the Bank acceded to the Government's demands in 1826. The charter was so amended as to permit the Bank to retain its monopoly in London and within a radius of 65 miles.[8] Outside of this area joint stock banks of unlimited liability were to be permitted to operate and could issue notes in the course of their business if they chose. Furthermore, the Bank was specifically authorized to establish branches anywhere in England.[9]

The Bank complied with the desires of the Government and shortly began to open branches.[10] Three were opened in 1826, and twelve by 1834.[11]

It is not to be supposed that the opening of these branches was welcome to the country bankers. Remonstrances were voiced and reso-

1. McCulloch, op. cit., p. 42.
2. Andreades, op. cit., p. 253, 254.
3. McCulloch, op. cit., p. 31.
4. Ibid, p. 9.
5. Andreades, op. cit., p. 253.
6. Ibid, p. 254.
7. MacLeod, op. cit., p. 44.
8. Ibid, p. 45; Turner, op. cit., p.125-126.
9. McLeod, op. cit., p. 46.
10. Turner, p. 129; Lawson, op. cit., p. 125.
11. Report from the Secret Committee, etc., 1838, p. 117, Appendix No. 1.

lutions sent to the Government.[1] Among the criticisms raised were the following:[2]

1. They (the branches) would subvert the existing banking and commerce.
2. The existing system well served all needs.
3. Trade and agriculture were dependent upon the existing system for their prosperity.
4. The country bankers opposed monopoly and exclusive privilege.
5. They would supplant the country bankers.
6. A monopoly of issue would be obtained by the Bank if its branches drove out private bankers.

There is evidence to sustain the opinion that some of the fears of the private bankers were realized, but although they lost, it appears that the public gained. A number of direct consequences are traceable to the opening of these branches.[3]

1. Reductions were forced in the rate of interest charged by the private bankers.
2. Private bankers lost accounts of large merchants which were transferred to the Bank's branches.
3. Note issues of the Bank largely superseded those of private bankers in the cities and neighborhoods of the branches.
4. The same uniform full service was provided at a number of places in the provinces for the first time.

In addition to the opening of branches by the Bank, the Act of 1826 authorized joint stock banks of unlimited liability to operate and to issue notes outside of London and an area of 65 miles adjoining it. For some time before the passage of the Act of 1826 it had been recognized that joint stock banks could legally be established anywhere in England provided they did not issue notes. About 1820 T. Joplin had presented a plan for the establishment of such a bank, and had pointed out the feasibility of such a project by referring to the success of the private London bankers who did not issue notes.[4]

Even after this realization there were no joint stock banks

1. Turner, op. cit., p. 131.
2. Ibid, p. 130.
3. Lawson, op. cit., p. 129; Report from the Secret Committee, etc., 1838, p. 17.
4. See quotation from T. Joplin, Supplementary Observations to the Third Edition of an Essay on Banking, 1823, p. 83-84; McLeod, op. cit., p. 44; Joplin, An Essay on Banking, Sixth Edition,

formed for the time being, and even after the specific authorization of such banks by law in 1826, no important use was made of the privilege. Between 1826 and 1829 only eleven banks of this kind were established--all in the provinces.[1]

As pointed out by Sykes, the "Movement was,.....neither sudden or spectacular, for the difficulties attendant upon the commencement of a totally new type of company business were many. The chief of these were obviously that of securing a sufficient number of persons possessing a satisfactory knowledge of banking practice to set up and staff the new banks. Additionally the Act of 1826 did not permit the formation of banks in London, and this was a severe handicap to progress....."[2]

The significance of the movement towards joint stock banks which commenced with the Act of 1826 and which was greatly accelerated by the subsequent Act of 1833 lies in the relation between banks of this kind and branch banking. As early as 1827 discussion of the advantages in the establishment of branches by joint stock banks are to be found.[3]

Even after Joplin had pointed out the apparent legality and advisability of establishing joint stock banks in London, provided notes were not issued, none of this nature were established. It was not until the rights of such banks without issue in London were reaffirmed by the Act of 1833 that they were established.[4]

Another provision of this Act of 1833 which it seems desirable

Appendix, Prospectus of a Joint Stock Banking Company, proposed to be Established in London in 1824, p. 150.

1. Sykes, op. cit., p. 1; according to the Report from the Secret committee, etc., 1836, p. 250, fourteen banks were opened between 1826 and 1829 and 26 joint stock banks opened between 1829 and 1833.
2. Sykes, op. cit, p. 1.
3. Joplin, op. cit., p. 61; Sykes, op. cit., p. 8.
4. Turner, op. cit., p. 142.

to take under consideration relates to the Bank of England notes which were made legal tender in England, except at the Bank itself or its branches.[1] The main purpose of this act was to relieve the Bank of England of unusual drains of specie for internal purposes.[2] Whenever the provincial banks found themselves in difficulty or were even apprehensive of dangers, they withdrew large sums of specie to strengthen their reserves, as in 1797, 1825, etc. By making the notes legal tender, it was hoped to relieve the Bank of this burden, since the Bank could then substitute notes for demand deposits in its liabilities without suffering loss of its specie.

The numerous independent banks made such drains a constant danger to the Bank. Making its notes legal tender aided in the solution of the problem, but with the separation of the banking and issue departments in 1844, the Bank was again subjected to such dangers, since demands for notes could only be met by the Bank transferring gold to the issue department. Such transfers, of course, deprived the Bank from using the gold as a reserve for general bank liabilities, and placed it in about the same position as would have resulted if specie had been withdrawn and notes not issued.

The solution of this weakness of the banking structure was to be found only partially in making the notes legal tender; the real solution was to come with further development of joint stock banks into national branch banking institutions. The branches of such institutions could be better kept under control by their head offices. Unusual demands at some offices could be met from others without all demanding specie or notes at the same time. The delicate organiza-

1. Ibid, p. 139.
2. Andreades, op. cit., p. 260.

tion of correspondent accounts and bankers' balances could not stand the strain as easily as large branch bank systems, consequently unusual demands of the provincial bankers fell upon the London bankers, and whenever these were apprehensive, the demands fell upon the ultimate reserve held by the Bank of England.

Returning again to the early growth of joint stock companies, it is found that the specific authorization of such banks in London was quickly followed by rapid growth.[1] By January 1837, 106 joint stock banks had been established in England and Wales. The table below gives the number of banks established for each year from 1826 to 1837, as compiled from the Report of the Secret Committee on Joint Stock Banks for 1837.[2]

1826	3	1830	1	1834	9
1827	3	1831	8	1834	9
1828	0	1832	7	1836	47
1829	7	1833	10	1337	2 (January only)
			Total.....		106.

This tabulation shows the rapid growth in such banks. Their rate of growth, however, soon reached its peak. There were only 118 banks of this kind functioning in 1841.[3] Obviously causes were operating to restrain their increase. Some failures and amalgamations had already taken place.[4]

Although expansion by branch banks quickly became an important feature of the joint stock banking, it was by no means looked upon as an unmixed blessing.[5] Some of the banks very definitely adopted the policy of not opening branches because they were "many banks", because they withdrew money from the provinces, because they were not

1. Turner, op. cit., p. 144; Andreades, op. cit., p. 262.
2. Appendix, Table II, No. 1, p. 117.
3. Sykes, op. cit., p. 1.
4. Ibid, p. 1; Report from the Secret Committee, etc, 1836, q. 248; 1838, q. 148.
5. Sykes, op. cit., p. 8.

profitable, and because they were a source of weakness to the parent bank.[1] In many cases each branch was considered and treated as a separate bank.[2] In some districts of England the branches of banks with headquarters elsewhere were looked upon as "foreigners", and branches did not succeed in these localities.[3] There was a very definite feeling on the part of many bankers that branches should be confined to definite local areas, such as the county.[4]

The trend, however, was towards branches. A number of factors contributed to their establishment. The agreement of the Bank of England to rediscount at the fixed rate of 3 per cent for certain joint stock banks which acted as its agencies in issuing notes, stimulated these banks to issue as many notes as they were permitted to by the Bank, since the rate they charged customers was invariably above the rate charged them.[5] Branches afforded a mode of issuing these notes. The desire to obtain funds in the provinces where they could be had cheaply and loaned in the industrial centers stimulated branches. The ability of joint stock banks to obtain funds through plentiful rediscounting at their London agents, or in the money market, which funds could then be loaned at higher rates in the smaller industrial towns, stimulated branches.[6] The law provided that a separate license be obtained at each place at which notes or bills were issued, except that if one bank had more than four offices, it did not need separate licenses for all over the first four.[7] This provision made it cheaper to operate the fifth branch and all above four.[8]

1. Ibid, p. 112, footnote 1.
2. Ibid, p. 3.
3. Report from Secret Committee, etc., 1836, p. 107, q. 1728.
4. Ibid, 1836, p. 77, q. 1254-55; p. 81-82, q. 1324 and 1338.
5. Ibid, 1836, q. 1414-1418.
6. Andreades, op. cit., p. 266; Report of Secret Committee, etc., 1837, q. 839-844.
7. Ibid, 1838, q. 545-549.
8. This provision was reenacted in 1844 insofar as it affected banks

The extent to which branches were employed by the joint stock banks in 1836 and 1837 is indicated below:

Table III - The Number of Joint Stock Banks and their Branches, England, 1836-1837.

Number of Branches	Number of Banks	
	1826	1837
None	23	43
5 or less	24	33
6 to 10	4	9
11 to 15	2	9
16 to 20	5	4
21 to 25	2	4
26 to 30	0	1
31 to 35	0	0
36 to 40	1	2
41 and over	1	1
Total Banks	62	106

Source: Compiled from Reports from Secret Committee on Joint Stock Banks, 1836, and 1837, Appendix, p. 117.

This shows that 23 banks or 37 per cent of them had no branches in 1836 and 43 banks or 41 per cent had no branches in 1837. Further study shows that 62 banks had 348 branches in 1836 or an average of 5.6 branches per bank, compared to about 565 branches and an average of 5.3 branches per bank in 1837. Of the 348 branches listed for 1836 only 259 were permanent full-time branches with established offices and bank managers; 80 were sub-branches in which some merchant, who was actively engaged in business of his own, undertook at his establishment to conduct certain banking functions, notably issue of notes and receipts of deposits for some head bank, while still engaged in his own enterprise; and 9 were temporary branches without locations in which some clerk or merchant opened a street office during fair days, special occasions, or perhaps once a week, taking deposits and issuing notes.

The extent to which banks were willing to expand their branches in order to obtain business or to compete with rivals is clearly

in existence prior to that date. See J. W. Gilbart, History, Principles And Practices of Banking, new edition, revised by E. Sykes, Vol. II, p. 91-92.

illustrated by the report of the Hull Banking Company as given in the Report of the Secret Committee, etc., 1837.[1] This bank had five permanent branches, five agencies or sub-branches, and five temporary branches. One of the permanent branches was located in Brigg, a town of 1,780 population in 1831 and in which there were three bank offices. Three other permanent branches were located in towns of less than 10,000 population and each of which had either three or four bank offices. All five temporary branches were in towns with 1831 populations from 885 to 2,491. With one exception, each of these towns had three bank offices. At that time the people in a community who could or would use bank facilities were a much smaller percentage of the total population than is the case in these days when a bank account is a very common thing.

Some idea as to the extent to which branch banking had expanded itself geographically is obtainable from the figures below. They are a distribution of the average distance of the branches for each bank from its head office.

Table IV - Average Distance of Branches from Home Office of English Joint Stock Banks, 1836.

Average Distance in Miles of Branches for each bank	No. of Banks
None (no branches)	23
5 or less	2
6 to 10	9
11 to 15	8
16 to 20	1
21 to 25	8
26 to 30	3
31 to 35	2
36 to 40	1
41 to 45	2
46 and over	2
Total Banks	61*

*No data for one bank.

Source: Report from the Secret Committee, etc., 1836, Appendix I, p. 1 to 104.

Obviously, most of the banks were confining their branches to within

1. Appendix, p. 81.

restricted areas, so that on an average, most of them were within a radius of 25 to 30 miles from their head office.

Many of the banks which were being established were planned on a large scale. They provided themselves with large capitals for their time. The table below gives the distribution of joint stock banks in 1837 according to their paid in capital and their nominal capital. Only 2 per cent of the banks had paid up capitals of less than £10,000, and 30 per cent had paid in capitals exceeding £100,000. Roughly speaking, the nominal capitals were about 10 times the paid in capital, indicating that about ten per cent of the subscriptions were called up.

Table V - Distribution of English Joint Stock Banks in 1837 according to the Size of their Capital

Amount of Capital (000 omitted)	Number of banks with Nominal Capital of:	Number of Banks with Paid in Capital of:
£ Less than £ 10	0	2
10 to 25	1	13
25 to 50	0	28
50 to 75	0	21
75 to 100	0	6
100 to 200	9	16
200 to 300	21	6
300 to 400	15	6
400 to 500	10	0
500 to 750	27	2
750 to 1,000	3	0
1,000 to 2,000	9	0
2,000 to 5,000	4	0
5,000 and over	1	0
Total Number of Banks	100	100

Source: Report from the Secret Committee, etc., 1838, Appendix I, p. 1-104. Note: Seven banks in Ireland were omitted.

The three years following the Act of 1833 were the years of rapid joint stock expansion; they were also years of prosperity and great speculation.[1] Joint stock banks were one form of enterprise participating in this speculation. Banks were often promoted for

1. Andreades, op. cit., p. 263-264.

the profits to be derived by the promoters and without regard to the need for bank facilities. The motive of Thomas Joplin in promoting or assisting in the organization of a number of joint stock banks was largely to obtain the London accounts of these banks, to act as correspondents, agents, etc., and thus derive profit.[1]

Although the creation of joint stock banks following the Act of 1826 had been heralded as the necessary corrective factor to overcome the shortcomings of the private banking companies, this anticipation was not easily to be achieved. The necessary transition from a system of private bankers to one of joint stock banks with branches involved many problems. Most of these were attributable to the joint stock banks themselves. These banks grew too rapidly and competed too severely to develop in a normal healthy manner. They did not have sufficient time and manpower to work out their problems gradually. Consequently, they made serious mistakes. Many abuses crept into the system. The implication here is not to say that all joint stock banks were open to these abuses, but it may confidently be stated that these weaknesses, abuses, and mistakes were attributable to and were made by a large portion of the joint stock banks. It is now intended to enumerate some of these, without, however, going into a detailed analysis of them. They are all known and easily understood.

The demands for good bank managers and branch managers far exceeded the supply. Many of the new banks obtained young bankers from Scotland and Ireland. The severe competition in England, the new conditions, new problems, made it difficult for these men to conduct banking properly. In many banks men were engaged as managers who had no previous experience.[2]

1. Ibid, loc. cit.
2. Report from Secret Committee, etc., 1836, q. 252, 258, 407, 1838, and 1903-1910; 1837, q. 850.

A number of fundamental principles of banking were violated. Large advances were made to shareholders, in fact many banks were opened for this express purpose.[1] In a few cases some of the townsmen who were dissatisfied with existing banking facilities organized a bank which would pay more interest on their deposits than the existing banks. Most of the banks paid interest on all their deposits.[2] Because of the unlimited liability of the shareholders, many of these banks were able to, and did obtain rediscounts far in excess of what appeared reasonable for their capital paid in. They thus engaged in large volumes of business on a small capital.[3] Many of the banks maintained inadequate primary reserves, and since they likewise did not, in most instances, recognize the need or desirability of keeping a sound secondary reserve such as government securities, they not infrequently were embarrassed, forcing them to undertake additional borrowings.[4] Proper recognition of the problems of investments, such as diversifications as to types, maturities, and the like was not always made.[5]

Adequate reserves were not set aside to care for known and anticipated losses. Dividends were paid out of capital, in the face of such losses.[6] Improper accounting was made as to what constituted profit and what capital.[7] Dividends were paid out of premiums from stock sales, and false statements were presented at shareholders' meetings.[8] Insufficient statements were provided and secrecy in all matters pertaining to the banks' conditions was fostered.

1. Ibid, 1836, q. 692, 1168, 1522, 1740, 1797, 2533, 2363-2366.
2. Ibid, 1836, q. 251 and 1846.
3. Ibid, 1837, q. 827-836.
4. Ibid, 1836, q. 1818, 1763, and 1772.
5. Ibid, 1836, q. 1856.
6. Ibid, 1836, q. 446, 499, and 500.
7. Ibid, 1836, q. 732.
8. Ibid, 1836, q. 1915.

Flagrant instances arose of bank mismanagement, one of the most notable of which was the Northern and Central Bank.[1] Assets were appropriated by directors, statements falsified, dealings entered into for the purchase and sale, and manipulation of the bank stock. Loosely drawn deeds (or charters) allowed many unwise practices to be conducted.

Bank managers did not understand the functions and services of the Bank of England.[2] They did not conduct their banks in accordance with its policies, even in the face of radical changes in rates and money market conditions.

The newness of branches, the lack of experience in their operation and control also brought burdens to the banks. The rapid growth of branches in the face of severe competition led to exceedingly unhealthy expansion. One bank opened 39 branches within two years after its establishment.[3] As many of the bankers before the Parliamentary Committees of 1836 and 1837 testified, it seemed unwise to establish branches more than one or two days ride from their head office.[4] Many, however, greatly exceeded such distances. Not only were incompetent bank managers frequently engaged as previously pointed out, but similar problems were faced in obtaining branch managers. In the case of sub-branches and temporary branches no serious attempts were made, nor were any pretentions to such attempts made, in engaging competent agents and branch managers.

Some of the problems of managerial control and administration had received inadequate attention. Lack of systematic checks upon the acts of agents and branch managers permitted them to far exceed

1. Ibid, Appendix.
2. Ibid, 1836, q. 1291 to 1302.
3. Northern and Central Bank.
4. Report from the Secret Committee, etc., 1837, q. 958.

their stipulated powers. Because of the infrequency of visits by directors or others charged with such duties, unscrupulous agents were able to endanger the banks' operations.[1] Although the practice of the Scottish bankers in heavily bonding their branch managers appears to have been fairly well known, many of the English banks failed to require such protection against the misdeeds of agents, or else required small bonds. Closely allied with such matters was the failure to maintain adequate records and accounts, particularly those between branches and head offices.

Nor had these banks learned some of the lessons of private banks. Loans were still being made on the security of land and for long time needs of agriculture. These were frequently detrimental to the commercial banks.[2]

In addition to the problems which were thrown upon the joint stock banks because of ignorance, lack of experience, wild promotions, speculations, and the like, there were others of a different nature. It is not to be supposed that the Bank of England would meekly acquiesce in the loss of its powers to its rivals, nor was such the case. Furthermore, the private bankers opposed the joint stock banks.

For a number of years the joint stock banks were denied admittance to the London Clearing Association.[3] At first the joint stock banks did not have power to sue or be sued in their own name. A bill was introduced in Parliament permitting them this right, but failed of passage because of the opposition of the Bank of England.[4] Later the Bank contested in the courts the right of joint stock banks to accept bills of less than six months.[5]

1. Ibid, loc. cit.
2. Ibid, 1836, q. 445.
3. Turner, op. cit., p. 144.
4. Ibid, p. 144.
5. Ibid, p. 145.

In its antagonism towards its rivals, the Bank refused to accept their accounts,[1] although it had accepted the accounts of Scottish joint stock banks from as early as the first quarter of the 18th century.[2] The Bank did not, however, refuse to deal with those joint stock banks of issue which were willing to curtail their issues in favor of those of the Bank's notes, or those joint stock banks which were willing to issue notes of the Bank in place of their own.[3] These joint stock banks which acted as agencies of the Bank in issuing notes, of which there were 25 in 1838, were given certain privileges, most important of which was the rediscounting of their paper at the fixed rate of 3 per cent irrespective of the market rate.[4] In some instances this privilege allowed joint stock banks to rediscount amounts in excess of their capital and to take Bank of England notes for their rediscounts. Because the Bank agreed to rediscount certain amounts of notes for these agencies, it was severely criticized as allowing its notes to become inelastic and for losing direct control over them, since it could not curtail the notes of its agencies by charging more than 3 per cent or by curtailing rediscounts.[5]

In August of 1836 the Bank struck another blow at its rivals. As mentioned previously, one of the factors contributing to both the establishment of joint stock banks and their branches was the ease of rediscount in the London market. Although this practice of rediscount was also followed by private bankers, it was especially common to joint stock banks.[6] When the three years of speculation, 1833 to 1836, began to tell in excessive demands for accommodation,

1. Ibid, p. 144.
2. Munro, op. cit., p. 67.
3. Turner, op. cit., p. 146.
4. Report from the Secret Committee, etc., 1838, p. 7, q. 101-105.
5. Ibid, 1838, p. 8, q. 123-124.
6. Andreades, op. cit., p. 266.

the Bank was not content to raise its discount rate to 5 per cent, but also refused to rediscount any bill which bore the endorsement of a joint stock bank.[1] As may be surmised, this was a severe blow to some of the joint stock banks, particularly such as contended that there was no need for adequate secondary reserves and who had relied on heavy rediscounts for their operations. By relaxing its strict policies, the Bank averted a very serious crisis in 1837, but a failure to properly perform its functions as a central bank in the following two years culminated in the panic of 1839 with the subsequent suspension of payments by 63 country banks (of which 29 issued notes).[2]

The growth of large joint stock banks and the diffusion of their branches began to react upon the private banks. The private banks could not always meet the competition of the branches of the company banks,[3] the advantages of which were now in course of realization.[4] Not only were the private banks losing out to the joint stock banks, but the weaker joint stock banks were also being forced.out. As a whole the banking structure was being simplified and strengthened. The joint stock banks were being chastened by experience, government investigations, public discussions, the press, and through pressure of public opinion.

Sykes divides the amalgamation movement in England into several periods, the first one commencing with the Act of 1826, which permitted joint stock banks, until 1844, the year in which the Bank charter was changed so as to restrict note issues and separate the bank departments.[5] The following data are derived from his tabula-

1. Ibid, loc. cit.
2. Ibid, p. 268.
3. Sykes, op. cit., p. 14.
4. Ibid, p. 8.
5. Ibid, preface, p. vii.

tions.

Table VI - Number and Kind of Bank Amalgamations in England, 1826-1924

Years	Private with Private	Joint Stock Absorbs Private	Joint Stock Absorbs Joint Stock	Private Absorbs Joint Stock	Total
1826-1843	23	93	6	0	122
1844-1861	11	23	10	0	44
1862-1889	31	66	40	1	138
1890-1924	38	100	109	1	248
Totals	103	282	165	2	552

Source: Sykes, op. cit., Appendix I, p. 193-195.

Because of the importance of the first period in the development of early branch banking, some detailed attention is given to it. From 1826 when joint stock banks were first authorized until 1843 when plans were under way for banking reform, and especially currency reform, there were 122 bank amalgamations. From 1826 to 1832, years in which joint stock banks were functioning, but prior to their operation in London, there were eight amalgamations of private bankers, and ten absorptions of private by joint stock banks. Six of the eight private bank amalgamations were in the year 1826 following the crisis of 1824-1825. In the years 1833 to 1838 and also 1839-1843 the real rise of joint stock banks is apparent. From the time of the act specifically authorizing company banks in London in 1833 and throughout the ensuing expansion and speculation there were 56 amalgamations of which 43 were absorptions of private banks by company banks. Twenty-six of these 43 occurred in 1836, a year of financial difficulty. The years 1839 to 1843 constituted a period of liquidation and failure following the crisis of 1839.

A number of forces were operating to produce these amalgamations. As may be readily imagined, the motives and causes of these amalgamations were not the same in all times, and varied in their intensity from time to time. Furthermore, the movement went through several distinct phases, although it gathered momentum as it progressed. The tabulations immediately following give the major causes of

amalgamations from 1826 to 1843 and also each of the other periods indicated in Table VI. It has been deemed desirable to present them all together. Most of these causes are operative throughout the entire period.

Factors stimulating or accounting for amalgamations.

1826-1843

1. From the beginning joint stock banks drew business away from private bankers.[1]
2. Joint stock banks were willing to pay interest on all deposits which private bankers could not afford to do.[2]
3. There was an early and growing belief on the part of the public that company banks were stronger.[3]
4. The juncture of banking and mercantile pursuits in private banks facilitated speculations which generally proved disastrous. Too often a single large enterprise was "financed" and the bank's assets "frozen".
5. The death or old age of owners of private banks.[4]
6. Private bankers frequently were willing to sell out before they were forced out.[4]
7. Failures of both private and joint stock banks, especially the former.[5]

1844-1861

8. Private bankers allied themselves under the protection of the Act of 1844.[6]
9. Some private bankers, who emulated the joint stock banks, established branches, but found that they were unable to operate these at a distance from their head office.[6]

1862-1839

10. The entrance of provincial banks in the London market by absorbing existing London banks in an effort to secure membership in the Clearing House and to reduce agency expenses paid to London correspondents.[7]
11. Incorporation under the limited liabilities companies acts which brought larger investment funds to joint stock banks and facilitated expansion.[8]
12. The impetus to new joint stock banks in the period 1860 to 1890 led to repetition of some of the mistakes of 1833 to 1843, when new and untried banks opened, many to fail because of lack of adequate management, speculative promotions, etc.; most of these banks failed and were absorbed by their old rivals.[9]

1. Ibid, p. 8; Report from the Secret Committee, etc., 1826, q.1942-44
2. Sykes, op. cit., p. 15.
3. Ibid, p. 8, footnote p. 10; Report from the Secret Committee, etc.
4. Sykes, op. cit., p. 9.
5. Ibid, p. 5, 12-13; Report from the Secret Committee, etc., 1836, p. 11-32; 1837, p. 1-94.
6. Sykes, op. cit., p. 29
7. Ibid, p. 33.
8. Ibid, p. 38; the failure of the City of Glasgow Bank in Scotland in 1878 greatly stimulated this movement. 9. Ibid, p. 39.

13. The desire of managements to realize the efficiencies of large scale operation by acquiring banks with branches as the quickest way to expand.[1]

1890-1930

14. A period of unusually low money rates from 1892 to 1895 forced London banks to seek connections with provincial banks, since the nature of the business in provincial communities was more conducive to stable money rates and earnings.[2]
15. The agitation of Goschen against weak banks with insufficient reserves led to absorptions between 1890 and 1900.[3]
16. Complete recognition of the competition for size, to provide for needs of large enterprises and to satisfy the personal ambitions of bankers.[4]
17. Provincial banks absorbed neighboring provincial banks in order to forestall London banks from gaining a foothold in the provincial territory.[5]
18. Systematic planning by the large banks which sought to "round out" their geographical territory and business facilities.[6]
19. Failure or threatened failure of joint stock banks due largely to unwise loaning of excessive funds to one or a few enterprises accounted for several absorptions, the last of which occurred in 1911.[7]
20. The desire to reduce capital stock and surplus because they were "too large" to earn a high rate of profit.[8]

Because of reasons such as given above for 1826 to 1843 and due also to the lower operating costs of branches, the private bankers were faced with severe competition.[9] These factors augmented by the natural weaknesses of private banks and recurrent crises resulted in the failure or suspension of 170 of them between 1825 and 1843.[10] Many of these banks were taken over by joint stock companies to prevent failure or after failure.

The absorption of joint stock banks by one another was not common in these years. However, a few failures and near failures provided the opportunity for stronger banks.[11] As had been the case

1. Ibid, p. 41.
2. Ibid, p. 48.
3. Ibid, p. 49.
4. Ibid, p. 49-50 and 59.
5. Ibid, p. 57.
6. Ibid, p. 60, and 64-65.
7. Ibid, p. 69.
8. Ibid, p. 72.
9. Ibid, p. 15.
10. Ibid, p. 5.
11. Report from the Secret Committee, etc., 1836, p. 11-32; 1837, p. 1-94; Sykes, op. cit., p. 12-13.

in Scotland, the failure or suspension of business by a bank provided the opportunity for the stronger banks to reap the benefit. Invariably there was competition among the remaining banks to acquire the branches and business of the loser. Even after joint stock banks failed, their branches frequently commanded good prices for their goodwill.[1]

From the evidence which is available, at this period it appears that the note issue privilege was a profit maker which stimulated both the formation of joint stock banks and the expansion of their branches. Because the Bank of England was the only joint stock company permitted to issue notes prior to 1826, and even after 1826, within 65 miles of London, the private bankers had educated their customers in the use of checks. This was seized upon by those joint stock banks in London, but the country banks, both private and company, generally issued notes because it was profitable. The growth of branches was stimulated by note issue privilege, since the branch provided an outlet for notes; indeed, the sub-branch and temporary offices were particularly desirable because of their ability to issue notes. As pointed out by J. W. Gilbart, bank notes were still indispensible to the country districts where banking facilities were not so numerous and quickly accessible, and where population was sparse.[2]

The ability to circulate notes which frequently remained out for considerable periods, especially in the agricultural sections, materially contributed to bank profits, and was thus an important source of profit to the small branches, many of which could not have operated otherwise, particularly at the time of their establishment.

1. Report from the Secret Committee, etc., 1837, q. 907 and 922; 1836, q. 248.
2. Op. Cit., Vol. I, p. 139, and 111-112; Vol. II, p. 444.

The law required each office of issue to take out a license, and provided that the notes be redeemable at place of issue. This was consistently violated by temporary branches since they took out no license and could not redeem notes at demand at place of issue.[1] Notes issued at temporary offices were generally made payable at the nearest full time branch. As previously mentioned, the failure to require licenses for issue at all offices above four in number, stimulated such offices.

That the notes issued by joint stock banks were displacing those of private banks is indicated by the following figures pertaining to their circulations.

Quarter Ending:	Private Banks	Joint Stock Banks
December 28, 1833	£ 8,836,803	£ 1,315,301
" 28, 1834	8,537,655	2,122,173
" 26, 1835	8,334,863	2,799,551
" 31, 1836	7,753,500	4,258,197

Source: Report from the Secret Committee, etc., 1837, Appendix, Section IV, Table No. 6, 168.

By 1844 the joint stock banks and their branches were firmly established. They had not yet reached the full extent of their expansion, but they had made a reputation which did not augur well for private banks. By now they were freed from the legal restrictions which had fettered them.[2] The superior prestige of the private bankers due to social and political importance of old families of bankers and due to custom and public conservatism, were no longer a stumbling block for the joint stock banks[3] although some of the strongest private bankers still remained.[4] Some of these were almost as strong as the joint stock banks.[4]

The financial difficulties of 1836, 1839, and following years provoked demands for banking and monetary reforms. The result was

1. Report from the Secret Committee, etc., 1837, q. 2230 to 2237.
2. Gilbart, op. cit., p. 442.
3. Ibid, loc. cit.
4. Sykes, op. cit., p. 16.

the Joint Stock Bank Act and the Bank Charter Act of 1844 which had profound influences upon joint stock and branch expansion.

The acts of 1844 restricted the note issues of all existing banks (except the Bank of England) to an average of their then existing circulations. They aimed to encourage private banks, but discouraged joint stock banks which the government feared would obtain an excessive control over note issues through their amalgamations and eliminations of private banks.[1] Private banks were permitted to absorb others and to retain their combined note issues. But joint stock banks could not increase their note issues by absorbing either private or joint stock banks.[2] The circulations of the banks absorbed by joint stock banks lapsed and eventually went, in part, to the Bank of England. No new banks of issue were permitted, and upon the failure of any old bank to maintain its circulation, the same was to lapse and go to the Bank of England. These acts effectively restricted and almost prohibited the establishment of new joint stock banks.[3]

> ".....the tendency of the Act was undoubtedly a reactionary one, inasmuch as it clearly struck various blows at a customary and valuable method of joint stock expansion, and deferred the development, on evolutionary lines, of the system best equipped to serve the growing financial needs of the country. The result is seen in the low number of agreements registered, and the fact that only one new joint stock bank was set up between 1846 and 1860."[4]

As yet, however, branch banking, either through amalgamation or through the opening of new offices, had not entered into the phase of geographical extension, but was confined for the most part to local territories or uncoordinated areas.[5]

1. Ibid, p. 20.
2. Ibid, p. 19-20.
3. Ibid, p. 21, footnote 1; See Table VI, p. ; the number of amalgamations between 1844 and 1862 were far fewer than in the years 1826 and up to 1843.
4. Sykes, op. cit., p. 21.
5. Ibid, p. 29.

It was not until after 1862 that amalgamations and branch bank expansions definitely showed signs of careful planning, although this movement is not so clearly shown in the period from 1862 to 1889 as it is after 1889.[1] The Companies Act of 1862 and the more liberal Act of 1879, both granting limited liability, gave a new impetus to branch expansion and bank amalgamation.[2] An unusual growth in the use of checks made it possible to open branches without the support of note issues, and also made it profitable to absorb private banks, even if the note issues were lost. The renewed strength of joint stock banking is also indicated by the establishment of 42 such concerns from 1860 to 1875,[3] whereas only 1 had been established between 1846 and 1860. On the other hand, only one private bank was started in the years 1862 to 1889, and it was absorbed upon its failure in 1894.[3]

Not only was there a notable increase in the number of bank absorptions for the period 1862 to 1889 as compared to the period preceding, but an important change in emphasis took place. The absorption of one joint stock bank by another became sufficiently prominent to account for 29 per cent of all the amalgamations (see Table VI, p. 73). In addition absorption of private banks by joint stock banks accounted for almost 50 per cent of the amalgamations.

During the years of this period, several joint stock banks failed. In one of these, the West of England and South Wales Bank, which failed as a consequence of the collapse of the City of Glasgow Bank in Scotland in 1878, shareholders were called upon to pay £2,750

1. Ibid, p. 39.
2. Ibid, p. 45.
3. Dun, J., British Banking Statistics, 1875, p. 20-22; Sykes, op. cit., p. 35. Sykes incorrectly gives the number of new joint stock banks as 24, misquoting statistics from p. 22 of Dun's book, instead of p. 21.

per £100 share.[1] This bank (as of 1875) had 43 branches and a paid up capital of £750,000. The bank's operations were confined entirely to provincial territory.[2] Its failure resulted in the temporary discrediting of such banks and gave company banking a temporary setback. This bank had been established in 1834.[3] The Staffordshire Joint Stock Bank established in 1864 and which had (in 1875) 9 branches and a paid up capital of about £175,000[4] prevented failure by seeking absorption in the Birmingham Banking Company in 1889.[5] Two small banks, both relatively new, failed in 1864 after engaging in unsound banking.[6]

Some indication of competition for and of the ability and power of joint stock banks to pay high prices for absorbed banks is indicated by a couple of instances. The sum of £187,500 was paid for the goodwill of a private London bank in 1864; £218,750 was paid for another private bank in 1865.[7] When Lloyd's acquired the Birmingham Joint Stock Bank, which had several branches, it paid a premium of about 100 per cent above the normal market value of the stock which it purchased.[8] Instances such as these were not unusual at this time. Much higher sums were paid as premiums or goodwill for banks in later years. Some of these approached £700,000 in instances where joint stock banks took over other large joint stock banks.[9]

From 1903 on, the amalgamation movement is confined almost exclusively to joint stock banks. The social and financial significance of the events of these later years, however, is out of all proportion to the numbers shown in Table VI on page 73. Especially was this the case

1. Ibid, p. 38.
2. Dun, op. cit., p. 17.
3. Ibid, p. 16.
4. Ibid, p. 16 and 17.
5. Sykes, op. cit., p. 41.
6. Ibid, p. 41 and 42.
7. Ibid, p. 31 and 32.
8. Ibid, p. 42.
9. Ibid, p. 85, 87.

between 1918 and 1924. Whereas joint stock banks had largely "fed" themselves from private banks by taking their business and absorbing them in the earlier years, after 1890 this became increasingly difficult, because of the almost complete disappearance of private banks. The movement then began to assume a more direct competition among joint stock banks themselves.

The size of some of these later amalgamations is shown by the numbers of branches involved. In several of these, banks with 308, 472, and 550 offices were taken over at one time.[1]

Nor was that the complete extent of the expansion as it developed in these years. The large English banks acquired companies through stock ownership in Scotland, Ireland, France, Argentina, and other important countries. The acquisition of some of these banks, as for instance, the Clydesdale Bank of Scotland, added more than 150 branches at one stroke.[2]

The first important opposition to the constant swallowing of banks by large banks is to be found in Manchester in 1904, when the opposition of townspeople and businessmen was sufficient to prevent an amalgamation.[3] Similar instances, although infrequent, arose in later years. So great did the cry against the consolidation of banks become, that the hitherto complaisant English people took alarm and in consequence a government commission of inquiry was set up in 1918 to determine whether further amalgamations were in the interest of public welfare.[4] It is doubtful, however, whether the result has been to seriously restrain the concentration of banking.[5]

A complete picture of banking in England must give some atten-

1. Ibid, p. 81, 82, and 84.
2. London Economist, Banking Supplement, Vol. CVIII , May 11, 1929.
3. Sykes, op. cit., p. 66-67.
4. Ibid, p. 74.
5. Ibid, p. 84.

tion to individual banks, and the extent to which a small group--the so-called "big five" dominate the financial structure. At December 1930 there were 16 joint stock banks.[1] Two of these banks had no branches, and four of them had less than ten branches each. The remaining ten banks had numerous branches, as many as 2,090 for the largest.

Five of the banks were listed as owning 8,540 branches out of 10,082, or about 85 per cent. Their combined resources totalled £1,736,304,000 or 77 per cent of the country's resources. A list of these banks, their branches, and their resources follow:

Name of Bank	Number of Branches	Total Resources
Barclay's Bank	2,090	£ 388,092,000
Lloyds Bank	1,947	364,649,000
Midland Bank	2,090	399,605,000
National Provincial	1,363	292,379,000
Westminister Bank	1,050	291,579,000
Total	8,540	1,736,304,000

Even these data do not give a complete picture of the concentration of banking resources. Affiliation of some of the banks tends to provide harmony of interests. As shown in the accompanying table (No. VII), there were four "private" banks in 1930 with resources of £36,680,000. These were all "affiliated" with joint stock banks. In addition, it should be recalled that these large English banks own and control banking subsidiaries in other countries such as Canada, France, Scotland, Ireland, etc.

The accompanying table contains factual data pertaining to banking in England over a period of years by five year intervals. Accurate data prior to 1890 is not available. With the aid of this table it is possible to picture the trend of certain banking operations and to summarize them.

The capital and reserves of 104 joint stock banks amounted to

1. These data are all taken from the Banking Supplement of the London Economist, May 1931.

£67,826,000 in 1890 and constituted 14.5 per cent of their total resources of £464,075,000. Large increases in capital funds, particularly from the accumulation of large reserves (rest funds) were made in the items of capital and reserves, so that by 1930 they amounted to £144,323,000. This was an increase of more than 110 per cent over the figure for 1890, but in spite of this, these stockholders' funds constituted only 6.4 per cent of total resources in 1930. The decline in this percentage was quite regular. The explanation is partially to be found in the much more rapid growth of total resources, which had increased to £2,255,682,000 by 1930, or about 385 per cent larger than they were in 1890.

In this connection it is desirable to point out that the English joint stock banks are all registered under the companies acts, and hence have no double liability or unlimited liability attaching to their shares of stock. The only liability of shareholders to creditors of these companies is the amounts of the subscription price of their shares in excess of the amounts paid in. When the joint stock banks first began to take advantage of these acts in order to avoid unlimited liability, they uniformly made it a policy to have their subscribed capital stock exceed their paid in capital stock by two or three times. This, however, is no longer the situation. The difference between amounts subscribed and paid in is now so small as to be insignificant and of little protection to creditors.

In view of the fact that the capital funds have been reduced to an exceedingly small percentage of resources, and because there is no added or contingent liability of stockholders, it is obvious that these companies are operating on what appears to be rather meagre capital.

Deposits have increased more rapidly than either capital and

reserves or total resources. Somewhat irregularly deposits have increased from 79.4 per cent of total resources in 1890 to 87.6 per cent in 1930.

The item of cash, money at call, and at short notice has not varied greatly relative to total resources. Whereas it was 18.0 per cent of total resources in 1890, by 1930 it was 20.9 per cent. A different situation is found as regards investments, which have declined in recent years (1920 to 1930) relative to total resources. Whereas in former years it ranged from 16 to 20 per cent of total resources, in 1930 it had declined to 14.6 per cent.

A more direct and far less favorable situation is disclosed by comparing cash and marketable securities to total liabilities. Although cash items alone increased about as fast as liabilities, so that cash items constituted 20.5 per cent of total liabilities in 1890 and 22.4 per cent in 1930, investments fell off. Cash plus investments were equal to 65.2 per cent of liabilities in 1890. Between 1895 and 1915 they were equivalent to about 44 to 45 per cent of liabilities. Since 1920 they have declined to less than 40 per cent of total liabilities.

Except for the war year 1915 and the period thereabout, the discounts and advances have held a fairly constant relationship to resources. Due to war financing the discounts and advances fell below their usual proportion. This usual proportion is that between 55 and 60 per cent of resources are invested in discounts and advances.

The effects of branch banking and amalgamations are clearly shown by the reduction of private banks from 38 in 1895 to 4 in 1930, the decline of joint stock banks from 104 in 1890 to 16 in 1930, and the increase of branches from 2,203 in 1890 to 10,082 in 1930.

The average amount of capital and reserves per branch at five

year intervals has declined regularly (except 1915) from £30,788 to £14,315 in 1930. The movement of resources is not so regular. From an average of £210,656 in 1890 average resources per branch declined to £165,731 in 1910 and reached a peak of £289,059 in 1920. Evidently this reflects the disinclination of banks to open branches during the war, as well as the great expansion of resources incident to war financing. Since 1920 the average resources per branch have again declined, although still well above the low figure of 1910. In 1930 the figure was £223,734 or almost $1,000,000 per branch. Of course, many branches would be much smaller than this, just as many would be much larger.

It may be well to restate here that the joint stock banks no longer are permitted to issue notes. Through the operation of the Act of 1826 whereby a joint stock bank could not open an office within 65 miles of London, unless it forfeited its note issue, all joint stock banks have relinquished their issues, an office in London being considered more valuable than the issue privilege. This has not been a serious handicap to branch bank operation and expansion in recent years, because notes are no longer as essential as formerly. The use of checks has taken the place of notes.

The Bank of England, which still operates branches, is no longer the dominant bank as formerly. The far greater resources of the other banks overshadow it, and even at times hinder its policies. It occasionally becomes necessary for the Bank to take away from these banks their excess reserves through the expedient of selling them government securities in order to make its rates of discount effective.

The growth of the joint stock banks has been accompanied by their assumption of many functions and operations which were formerly performed by specialized agents in the money market. An important

function which they took over or entered into was the acceptance business. Since the banks themselves were the large purchasers of acceptances, they thus began to accept and purchase their own obligations.

In this way as well as in others they have weakened or destroyed the delicate adjustment and specialization of money market functions.[1] Because of their widespread branches in foreign countries which are in contact with world-wide trade movements, these banks have become dominant factors in the foreign exchange markets.

1. Sykes, op. cit., p. 170-177.

Table VII - Composite Statements of all English Private and Joint Stock Banks (excluding the Bank of England) by five year intervals, 1890 to 1930

(Values in £ 000 omitted)

Year	Private Banks		Bank office per population	Joint Stock Banks								
	Number	Resources		Number of Banks	Number of Branches	Capital & Reserves	Deposits	Acceptances	Total Resources	Cash & Money at Call	Investments	Discounts & Advances
1890	38		7,788	104	2,203	67,826	368,663	22,693	464,075	83,955	182,816	269,507
1895	38	85,483	(1891)	99	2,690	69,215	455,561	23,724	558,744	111,208	107,498	311,678
1900	19	48,029	6,787	77	3,757	73,847	586,726	21,530	698,762	144,400	127,766	395,313
1905	12	33,270	(1901	59	4,558	82,010	627,529	39,225	758,712	179,530	131,731	401,485
1910	9	31,497	5,630	45	5,202	80,946	720,687	52,653	861,134	199,724	137,711	467,880
1915	7	36,917	(1911)	37	6,027	81,731	992,555	62,512	1,146,807	262,453	310,771	503,617
1920	5	55,012	4,923	20	7,612	128,154	1,961,527	102,920	2,200,317	449,153	368,734	1,263,091
1925	4	35,373	(1921)	18	8,873	134,846	1,806,810	125,005	2,073,810	441,787	317,572	1,167,952
1930	4	36,680		16	10,082	144,343	1,976,806	128,024	2,255,682	472,358	329,286	1,281,034

Percentages of Above Items to Total Resources.

1890			14.5%	79.4%	4.9%	100%	18.0%	17.8%	58.0%
1895			12.4	81.6	4.2		19.9	19.2	56.7
1900			11.3	84.0	3.0		20.7	18.3	56.6
1905			10.8	82.6	5.2		23.6	17.3	52.9
1910			9.4	83.6	6.0		23.0	16.0	54.3
1915			7.1	86.4	5.5		22.9	27.0	43.9
1920			5.8	89.0	4.7		20.4	16.7	57.4
1925			6.5	87.1	6.0		21.3	15.3	56.3
1930			6.4	87.6	5.7		20.9	14.6	56.8

Source: Banking Supplenent, Economist, various issues.

Chapter IV

BRANCH BANKING DEVELOPMENT IN CANADA

Banks have had branches from the very beginning of banking in Canada, whereas the unit system of banking is the vogue in the United States. This is surprising in view of the fact that both countries at one time had a common mother country--England--from which they largely drew their institutions, and because of the fact that banking in Canada and the United States had actually commenced along very similar lines. In fact, Canada obtained many of her early banking ideas from the United States as well as from England. This was natural, since the United States was more advanced financially and commercially.

Joseph French Johnson, writing for the National Monetary Commission in 1910 stated that "----- to the student of the history of banking there is little that is radically new in the Canadian system. He finds in it many of the practices and expedients that were found excellent in the United States in the first half of the nineteenth century, and is almost persuaded that but for the civil war what is now known as the Canadian banking system would everywhere be called the American System."[1]

Before undertaking the actual tracing of branch banking in Canada, it is desirable to mention a few facts as to its political organization. At the time when this study begins Canada was divided into several provinces without a single coordinating government in America. This continued until 1841 when two of the provinces--Upper Canada and Lower Canada--were united. Later in 1867 the unified Do-

1. The Canadian Banking System, p. 10.

minion government was formed. Prior to 1867 each province determined its banking organization, subject in some respects to the Crown's approval in England. In 1867 the provinces relinquished these powers to the Dominion government. To a very limited extent these provinces may be likened to our several states, each with its own banking system; however, banking in the provinces developed along substantially similar lines and was easily coordinated in 1867. Furthermore, there are no longer "provincial" banks.

Until 1867, the date of the union, it is simple to follow the procedure of R. M. Breckenridge and trace the development in each province separately.[1] The provinces of Upper Canada (Ontario) and Lower Canada (Quebec) provide the material for this study prior to 1867.[2] These two provinces were combined as the Province of Canada in 1841. The provinces of Nova Scotia and New Brunswick contribute little to the early history and development of branch banks.

Province of Lower Canada, 1792 to 1841

From the very first, plans for banks incorporated features calling for branches. A bank to conduct all banking functions and "to extend the operations -- to every part of the two provinces where an agent may be judged necessary" was planned in 1792 because of the need for adequate circulation. The plan failed but a private bank of deposit was organized instead.[3] After several failures to obtain parliamentary authority to incorporate a bank, and because of the continued needs for a uniform and adequate medium of exchange, an unin-

1. The Canadian Banking System, 1817-1890. Much of the early development of branch banking in Canada is taken from this source and from Breckenridge's study for the National Monetary Commission in 1910, History of Banking in Canada.
2. Breckenridge, The Canadian Banking System, 1819-1890, p. 14.
3. Ibid, p. 22.

corporated, unlimited joint stock association with an authorized capital of £250,000 was established in 1816. The Bank of Montreal, as it was called, was the first bank of issue, discount, and deposit in Canada.[1] The citizens of Quebec followed the example of those at Montreal and formed a joint stock bank of £75,000 authorized capital in 1818, as did likewise another group of Montreal citizens who in the same year promoted the Bank of Canada with capital limited to £200,000.[2] By special laws approved in 1822 these three banks were incorporated as chartered banks.[3]

The provisions of these three charters were substantially the same.[4] The capitals were to be paid up in full within a specified number of years--9 for the Bank of Montreal. Statements of the condition of the banks had to be presented to shareholders at their annual meetings. If the debts of the bank (other than deposits) exceeded three times the capital paid in, the directors were personally liable for such debts. Stockholders had limited liability, their possible loss being restricted to the amount of their subscriptions. No loans on real estate could be made; real estate to the amount of not more than £1,000 could be held; but mortgages and pledges of realty could be held as security for ordinary loans. Reports of condition were to be submitted to the legislature as requested.

"In their constitution and variety of function, in the simplicity of the law regulating them, the first Canadian banks more closely resemble the chartered banks of Scotland than any similar institutions then in existence.[5] These early banks incorporated some of the funda-

1. Ibid, p. 25.
2. Ibid, pp. 25 and 26.
3. Ibid, p. 27.
4. Ibid, pp. 29-33.
5. Ibid, p. 34.

mental principles which have always been characteristic of Canadian banks. Among these may be mentioned (1) the issuance of notes on general credit of the bank,(2) the requirement of large initial capitals, (3) the creation of banks by special and individual charter enactment, and (4) reports of condition to the government.[1]

The banks quickly commenced the organization of branches and agencies. The Bank of Canada opened one agency; the Bank of Montreal opened a branch at Quebec and two agencies elsewhere.[2] The Quebec Bank was not pleased to find a branch of its rival at the place of its head office. The branch of the Bank of Montreal at Quebec was allocated £30,000 capital and £60,000 notes payable at that city. Some of the Quebec merchants, motivated by the interests of the Quebec Bank caused charges to be brought against the Bank of Montreal as acting contrary to public interest, and that it had no right to establish a branch at Quebec. Investigation proved most of these charges were unfounded and disclosed that the branch had stimulated competition with beneficial results for commerce and agriculture in the way of lower rates and better service.[3]

Province of Upper Canada, 1819 to 1839.

Because of the unreliability of note issues of private individuals and private banks, and because of the need for sufficient currency, the Bank of Upper Canada was chartered in 1821. A capital of £50,000 was subscribed and £10,000 immediately paid in. This bank was established at the seat of the province and expressly authorized to establish branches.[4]

1. Ibid, pp. 34-35.
2. Ibid, p. 35.
3. Ibid, p. 44.
4. Ibid, pp. 54 to 56.

The Commercial Bank of the Midland District was incorporated in 1833 with head office at Kingston and authorized capital of £100,000.

Provisions for the banks were quite similar to those for the banks in Lower Canada. However, in one respect there was an important difference. The government became the owner of one-fourth of the stock of the Bank of Upper Canada. This bank became the official bank of the province.

The extent to which these banks were providing their services to various communities is indicated by the fact that they had about "fifteen or sixteen offices and agencies" in 1833.[1] Doubtless, an important reason for this extension of offices is to be found in the needs for circulation in various communities, which also provided a source of profit to the bank.

New provisions promulgated in England about 1840 required that notes were to be dated at place of issue and were to be payable in specie at that place as well as at the head office. No branch was required to redeem notes not made payable there. The shareholders were made liable for an amount equal to their subscription in addition to the original subscription. Some other provisions provided for loss of charter upon suspension of payments, limitations of loans to directors, more detailed and frequent public statements, etc.[2]

Joint stock associations were not forbidden, and four banks of this kind, without government charters commenced business between 1834 and 1836. These were unsound banks with small capitals, all four having less than £50,000 and two less than £13,000.[3] One of the smaller banks had two agencies. In an effort to stop such banks and

1. Ibid, p. 67.
2. Ibid, p. 69-71.
3. Ibid, p. 74.

their issues, unauthorized note issues were made a misdemeanor in 1837, but exceptions were made for these four non-charter banks and for the Bank of British North America.[1] During the Parliamentary session of 1836-37 bills were passed for nine new banks, but due to objections from the authorities in England they were postponed, and due to a collapse of speculation which originally gave rise to them, they were not revived.[2] The restraints provided by the mother country thus provided, as they were likewise to do in the future, a sound influence in providing a healthy banking system.[3]

The effects of competition, and the efficiency of branches in largely providing the means therefore is shown in the case of some of these banks. Prior to competition from the Commercial Bank, the Bank of Upper Canada had been able to keep out a relatively large note circulation, consequently it was enabled to make liberal discounts for terms of fifteen months. The Commercial Bank through its branches received many of these notes which it presented for payment, and substituted its own in place. The older bank was forced to reduce the terms of discounts to nine months or less.[4] At this time these banks could hardly be called commercial banks.[5]

Partly due to political disturbances, the Bank of the People was weakened, and purchased by the Bank of Montreal. Since the Bank of Montreal chartered in Lower Canada could not open an office in Upper Canada, it held stock in the Bank of the People and operated it under that name. One of the sources of profit to the Bank of Montreal was to purchase Bank of the People notes at a discount and remit them to its own office for payment.[6]

1. Ibid, p. 75.
2. Ibid, pp. 77-78.
3. Ibid, p. 77.
4. Ibid, pp. 80-81.
5. Ibid, p. 85.
6. Ibid, p. 106.

Province of Canada, 1841-1867.

Shortly after consolidation of the two provinces, proposals were made to set up a state bank of issue patterned after Peel's Act of 1844. One of the motives for this proposal was to aid the province financially. Had this bill passed, it would doubtless have meant the withdrawal of numerous branches, which derived much of their profit from note issue.

By act of 1841 the charters of the banks were continued, and their powers to conduct branches were widened so that whereas previously they were confined to each province, they now could extend over what was formerly the two.[1] The power to issue notes was limited to an amount equal to capital stock paid in. The following year the banks began to conduct their offices as full branches, i.e., the power to issue notes was given to them in addition to discount and deposit.[2] The double liability of stockholders, which was already in force for Upper Canada banks, was extended to all.

Although three new banks which had been incorporated in 1841 and 1847 had failed to obtain the necessary capital and hence forfeited their charters, there was widespread dissatisfaction with existing banking facilities and agitation for their augmentation through expansion of old banks territorially, and demands for small banks in small communities.[3] As a result by 1859 the branches had increased to about 74.[4]

Influenced by the experiments in "Free Banking" in New York, a law was enacted permitting partnership or corporations with a capital

1. Ibid, p. 117.
2. Ibid, p. 117.
3. Ibid, p. 134.
4. Report of the Proceedings of Committee on Banking and Currency, Toronto, 1859, p. 1.

of £25,000 or more to issue notes. These banks could have no branches. Provincial securities were deposited with public officials as security for note issue. Notes were also given a preferred claim to general assets of the bank.[1]

Altogether five banks were organized under this act. The banks thus organized were not very successful; they never developed to the stage where they challenged the supremacy or superiority of the chartered branch banks.[2]

These banks were limited in their loaning power. By investing their capital in government bonds and obtaining notes in exchange, their loaning power was restricted.[3] In contrast the old chartered banks issued notes in addition to their capital paid in. The return on these investments was small, reducing profits. The "free" banks could not operate as profitably and economically as the branch banks.[4]

This movement reached its apex in 1855. In 1866 the act was repealed, terminating the experiment. Three of the banks would up their business after three years of operation. The other three obtained charters, and continued under the older fundamental banking system.[5]

The failure of the Bank of Upper Canada in 1866 provided one of the most disastrous losses in Canada's banking history. At its height the bank had about $11,000,000 of resources. At the time of its failure they were about one-half this sum.[6] Although these are not large sums, they were very large relative to the resources of the

1. Ibid, p. 136-139.
2. Ibid, p. 145.
3. Ibid, p. 146.
4. Breckenridge, History of Banking in Canada, p. 63.
5. Breckenridge, The Canadian Banking System, p. 151.
6. Ibid, p. 170.

province at that time. The loss to stockholders and creditors amounted to about $5,000,000 or about 17 per cent of the banking resources of the province.[1] The failure destroyed the faith of the people in their banks and forced the banks to face a careful scrutiny of their acts and condition.

There were several factors contributing to the failure, such as loss of the government accounts, excessive loans on real estate or secured by real estate, failure to recognize losses at the time they occurred, etc. Another cause which is more significant for purposes of this study was the part of the branches in the failure. The internal organization of the bank and in its branches was defective. Furthermore the bank had failed to recognize changing economic conditions. The old towns in which the branches were established had lost their vigor and prosperity to new industrial districts. This the bank failed to recognize; it failed to open new branches and clung to its old.[2]

Banking in the Dominion of Canada.

The new government was given authority to regulate matters pertaining to money and banking at its inception in 1867. Some of the first acts provided for the unification of laws applying to all banks of the former provinces. Because the former province of Canada had the largest representation in the new Parliament, in general the laws in force there were extended over the entire Dominion.[3] Because banking had developed along substantially similar lines in each of the provinces under the guidance of English regulation, the task of coordination was not difficult.

1. Ibid, p. 174.
2. Ibid, p. 169.
3. Ibid, p. 220.

The privilege of branch banking was extended over the entire territory of the Dominion. Thus the way was paved for nation-wide branch systems. To a very limited extent this had already been accomplished by one bank. The Bank of British North America which had received a royal charter, had also received the right to operate in each of the four (later three) provinces. This it did through its branches. In addition to this bank there were operating at the time of the confederation, eighteen banks in Ontario and Quebec (the former Province of Canada), five in Nova Scotia, and four in New Brunswick.[1]

One of the plans proposed at this time was modeled after the then existing National Banking system in the United States. It provided for "free" banking and for issue of notes based on government securities.[2] Fortunately for Canada, this plan failed. As one critic of the plan, a bank official, stated:[3]

> "The question of bank circulation is essentially a question for the agricultural districts, and the small towns and villages which derive their existence and support from them. Withdrawing bank circulation, or covering it with government securities, would be felt far more severely in such districts than in commercial centers. There is no considerable volume of circulation in large towns and cities, either in Canada or elsewhere; business being transacted mostly in checks, and the system of depositing in banks being almost universal, very little interruption would be caused to business there by the withdrawment of circulation, except by reaction from the smaller towns. But in the country district bank circulation is a matter of vital importance, for the banking facilities which are essential to their development are largely derived from it. In case of an alteration of the currency laws, there can scarcely be a doubt that the loans of the banks in the country towns would be largely cut down. Many agencies would become so unprofitable under this process that they would be discontinued altogether, and all of them would be injuriously affected."

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1. Ibid, p. 222.
2. Ibid, pp. 223-245.
3. Ibid, p. 238 quoting a statement from George Hogue.

In 1870 an "Act respecting Banks and Banking" was approved, which became the fundamental provision of the Canadian system. It reiterated and perpetuated the system of large banks with branches, incorporated by special and individual charters. Among some of the provisions which appear worth repeating here are the following.[1]

1. A minimum paid in capital of $200,000;(shortly changed to $100,000 paid in and $500,000 subscribed)

2. Notes shall not exceed unimpaired paid in capital, nor should notes be issued for less than $4 (later changed to less than $5)

3. Bank notes required to be received at any office, but redeemed in cash or Dominion notes at place of issue and chief office.

4. Between one-half and one-third (later fixed at not less than 40 per cent) of the cash reserve to be in Dominion Notes.

5. Shareholders liable for an amount equal to their subscription in case assets do not pay debts in event of failure.

The provisions of this act together with changes enacted in 1870 provided a comprehensive body of regulations for Canadian banks. The fiscal needs of the government again played an important part, in that the restriction of bank notes to sums above $4 was dictated by the desire to obtain financial assistance cheaply. By forcing the banks to hold Dominion notes as partial reserves, an outlet for such notes was assured. Since the original authorization of $9,000,000 of Dominion notes were only required to be secured by Dominion debentures and by at least 15% specie, the gold reserves of the country were thereby reduced.[2]

In the sixteen years from 1868 to 1874 twenty-eight charters were granted by Parliament of which nine were forfeited because of

1. Ibid, pp. 254 to 256.
2. Ibid, pp. 251 to 254.

failure to obtain necessary capital, etc., and nineteen new banks commenced operations. Of the nineteen only nine survived in 1873. In addition four banks in operation prior to the Confederation in 1867 had disappeared. There was thus a net increase of five banks in 1873 bringing the total in operation to 33.[1] Some facts as to the size of these banks are given below:[2]

	1870	1875
Number of Banks	33	36
Number of branches	147*	230*
Average Branches per bank	4.5	6.4
Total Resources	$110,973,000	$167,155,000
Average Resources per bank	$ 3,363,000	$ 4,643,000
Average Resources per branch	754,900	726,700

* These data are for 1869 and 1874.

As these figures show, the average resources as well as the number of branches per bank increased. On the average, however, the banks were small, not only in resources but in number of branches. The average resources per bank was $3,363,000 in 1870 and $4,643,000 in 1875. A few of the banks had no branches, but on the other hand three or four of the banks had several times the average number of branches given above. Most of the banks had very few branches at these times. Although the total resources per bank increased, the resources per branch declined on the average.

It is evident that banking--particularly branch banking was still in its infancy. Nor was banking to approach "maturity" for a number of years. The bank failures which occurred in these years, and for some time later cannot fairly be considered weaknesses of branch banking, except to a very limited extent and in special instances. The reserves of the bank, their small size, their fail-

1. Ibid, p. 266-275.
2. See Table IX, page 120.

ure as yet to achieve the size in branch development where the advantages of branch banking could be realized, are important considerations. Furthermore, not all of the banks which disappeared did so because of insolvency. Some liquidated, others were absorbed, etc.

The Gore Bank got into difficulties when its agency in Montreal, the Bank of Upper Canada, failed. The account was then transferred to the Commercial which also got into difficulty shortly.[1] Inspection of the Gore bank by stockholders' committee resulted in recommendation that three agencies be closed (presumably because they were unprofitable), and showed that another agency was endangered because of misappropriation of funds by the manager. Loose administration of branches was shown. Earlier losses had not been written off. These difficulties caused runs. Finally the bank was taken over by the Canadian Bank of Commerce in 1869.[2] No losses were suffered by creditors and partial losses by stockholders.

Canada like the United States had been experiencing a period of expansion and speculation.[3] Banks had participated in this with other enterprises. With the approach of liquidation in 1873 the banks faced the problem of curtailing credit and maintaining themselves in solvency. In spite of the heavy losses through commercial failures, no bank suspensions occurred until the storm had been partly well weathered.[4] By 1880 three banks had failed, two had been forced to seek amalgamation with stronger institutions, four others suspended payments and later resumed, and five liquidated.

Altogether the losses to creditors amounted to less than $590,000, but the losses to stockholders because of assessments, losses of share investments, assets written down to surplus, etc., ap-

1. Ibid, p. 272.
2. Ibid, p. 273.
3. Ibid, p. 275.
4. Ibid, p. 277.

proximated $12,000,000.[1]

As a result, with the approach of time for the renewal of all bank charters in 1880, numerous proposals were made for reform. Only two of these are here discussed, the one pertaining to notes and the other to bank inspection.

The then recent bank failures and suspensions brought to light certain defects of the notes.[2] Although only one bank finally failed to redeem its notes in full, the public were seriously inconvenienced by others in which they were obliged to hold the notes for considerable time to obtain payment in full. If they disposed of them shortly after the failures, usually the time of greatest need, they suffered because of heavy discounts.

To protect their own interest, as well as to provide safer currency, the bankers proposed to make the notes a preferred claim on bank assets.[3] This was enacted into law by the government. In this way the banks avoided a possible further relinquishment of their notes to the government, or a possible plan for making notes secured by government debentures as in the United States, either of which would have crippled their branches.

Another proposal was to provide for examination of the banks by auditors appointed by stockholders or by the government.[4] These suggestions were opposed by the bankers who pointed out the difficulty of auditors examining numerous branches, the inability of outside auditors to evaluate commercial paper, etc. The bankers preferred to rely on their own internal examinations, etc. This proposal failed.

The situation of the banks during the next few years is well

1. Ibid, p. 286.
2. Ibid, pp. 288-289.
3. Ibid, p. 290.
4. Ibid, p. 291.

stated by Breckenridge, and shows several influences of branch banking, such as their influence on capital needed for operation, total resources obtained, etc.[1]

"The story of the banks themselves during this decade (1880-1890) has fewer sensational features, and no such strong contrasts as that of the preceding ten years. In most cases the end of the term found the banks with increased business rather than capital. The total capital in 1889 was $60,289,910, $70,000 less than in 1879. -----

"For this heavy increase of business ----, there are two causes at least, close at hand. The one is the growth of Canadian trade and industry; the other the policy by which the number of branches was increased, and the banks brought into closer relations with the country's needs, particularly those of the agricultural sections. This last may have been partly prompted by the evidence of discontent with their banking facilities among the farmers. But two other strong inducements were also effective, the first being the chance profitably to employ funds in the assistance to agriculture and the industries that thrive by its side; the second, the opportunity for increasing the note circulation that a country business always affords to a bank.

"As a general rule, the practice of the banks was marked by greater caution and prudence than in 1870 to 1875. A share in this bettering of the discount business must be ascribed to changes in personnel of the staffs of the banks. Whether their first training had been received in Britain or in Canada, nearly all the higher officers of the banks had now enjoyed a long Canadian experience. To the admirable tradition of Scotch and English banking, they added a minute and extensive knowledge of Canadian conditions ----."

Although there were lessons already learned, there were still others to come. In 1879 and 1880 the rapid settlement of Manitoba was accompanied by a land boom. The fall of land values rendered many bank creditors insolvent, even though the banks did not loan on real estate.[2] Although great losses were suffered, and three of the old banks dismissed the managers of their Winnipeg branches, the banks were not endangered by the losses. The profitable and sound business of other branches offset these losses. The only effect was reductions in dividends and earnings.

1. Ibid, pp. 300 to 302.
2. Ibid, p. 304.

Between 1883 and 1888 six banks disappeared because of failure or liquidation.[1] Branches appear of interest in only one of these. One bank had been able to finance itself through promising to establish branches in various towns if certain sums were subscribed to the capital. It appears that after obtaining the money branches were usually not opened.[2]

The experience of these times uncovered certain banking defects.[3] Among these were: (1) although notes were preferred claims and thus certain of ultimate full payment, their immediate payment was at times doubtful; (2) the notes failed to circulate at par in sections of the country far from places where they were payable in specie. The discount on notes existed because notes were payable only at the office where issued, although accepted in payments at all of a bank's branches. Banks would not always take notes of their competitors, except at a discount, if the competitor had no nearby office for payment or clearing.

The first difficulty of the note circulation was corrected by establishing a guarantee fund, each bank making contributions to a general fund until the fund equalled 5% of each bank's circulation. The fund provided a source to pay notes of failed banks within 60 days plus interest at 6 per cent.[4] The second was solved by the banks voluntarily agreeing to arrange with other banks to provide for redemption of their notes in those localities where there were few branches.[5]

The extent to which branch bank banking had developed in 1894 is indicated by the following data. On June 1, 1894 there were about 40

1. Ibid, pp. 305 to 313.
2. Ibid, p. 311.
3. Ibid, pp. 315 to
4. Ibid, p. 332.
5. Ibid, p. 321.

odd city branches,[1] and in addition 465 offices of the chartered banks in 259 different localities. The number of branches of individual banks varied widely, but even the largest were still not large. A distribution of the banks by number of offices shows:[2]

Number of Offices	Number of Banks
1 (no branches)	8
2 to 9	8
10 to 19	16
20 to 29	3
30 to 39	1
40 to 54	2

Even at this date eight banks had no branches. The largest had 51. Several of the banks had foreign offices. These are included in the above tabulation.

The trend which is noticeable for an expansion of branches continued at an intensified pace in later years.[3] Between 1889 and 1899 the number of banks remained at about 38, but the number of branches grew from 402 to 663. During this time the capital and rest increased from about $81,000,000 to 94,000,000 (most of the increase coming from rest funds), although the percentage of capital and rest declined from 47 to 28 per cent of total resources. In spite of this reduction of capital and the increase of business, profits declined from 5.7 per cent to 5.2 per cent of capital funds. These changes were due to and accompanied the increased competition of the banks through their branches as they expanded territorially.

Competition for deposits and competition for opportunity to lend these deposits were the motivating causes of this expansion then as it had been in earlier and were also to be in later years.[4] This has also been a force in lowering the discount rate and in equalizing the rate throughout the country.

1. Estimated by averaging the number at December 1893 and 1894. See Breckenridge, History of Banking in Canada, Appendix IX.
2. Compiled from Breckenridge, The Canadian Banking System, p. 376.
3. Breckenridge, History of Banking in Canada, p. 159.
4. Ibid, p. 161.

Between 1901 and 1908 nine banks were absorbed by others,[1] two banks, the Bank of Montreal and Canadian Bank of Commerce each taking three. In addition two banks merged to form a new bank, the Northern and Crown in 1908. As a whole these changes affected small banks and few branches.

From 1889 to 1908 eight banks disappeared because of failure and losses, six because of the former cause and two voluntarily liquidating after suffering heavy losses.[2] Fraud, dishonesty, haphazard or ignorant management, excessive loans to directors and their friends, accounted fof four of these. Five of these banks were small--too small to cause general discredit of the banks or to inflict heavy losses on the public.[3]

Two of the banks were liquidated with "open doors." They were large, but no losses were suffered by creditors. The reason for their closing in this fashion was that the other banks feared to let them do otherwise.[4] One of these two had total resources of $19,000,000 and 29 branches at the time of its difficulties in 1906.[5] The bank had lost prestige for several years and a new manager had been called in to rehabilitate it. Instead he speculated with its funds and further discredited it.[6] The Bank of Montreal took over this bank for liquidation upon being guaranteed as to losses by the other banks.

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1. Ibid, p. 165.
2. Ibid, p. 166.
3. Ibid, p. 170.
4. Ibid, pp. 170-174.
5. Beckhart, The Banking System of Canada, Chapter V of Foreign Banking System, by H. P. Willis, and B. H. Beckhart, Henry Holt and Co., N. Y., 1929, p. 481.
6. Breckenridge, History of Banking in Canada, p. 173.

The Sovereign Bank, established in 1901 was one of the young, aggressive, and rapidly expanding banks.[1] After large blocks of stock were sold to American and German financial houses to provide capital, it began an aggressive branch expansion. It accepted much business of questionable character at its branches, which in 1907 numbered more than 90 with more than $25,000,000 of assets. In its quest for business it offered inducements of various kinds and forced a general lowering of bank earnings. Its management was corrupt and statements falsified.[2] Efforts were made at reorganization, but failed to instill the necessary confidence in the public. In 1908 twelve banks divided among themselves the branches and business of the Sovereign Bank and assumed its liabilities and assets.[3]

To meet a demand for greater flexibility in the loaning power of the banks, particularly in financing harvest needs, changes were made in the law pertaining to notes in 1908.[4] The banks were permitted to increase their note issues by an additional 15 per cent of unimpaired capital and rest from October 1 to January 31. On this sum the banks were required to pay interest at 5 per cent or less to the government. In 1912 the period during which such emergency legislation could be issued was extended from September to February, inclusive.[5]

Increasing demands for note circulation, as well as what was doubtless a desire to inject more "backing" into the banking system, led to the enactment in 1913 of a provision allowing the banks to issue additional currency provided it was covered by deposit of specie

1. Ibid, p. 173.
2. Interviews on the Banking and Currency Systems of Canada, p. 14.
3. Breckenridge, History of Banking in Canada, p. 174.
4. Ibid, p. 147.
5. Canada Yearbook, 1931, p. 895.

or Dominion Notes with the Minister of Finances in "Central Gold Reserves."[1]

In 1913 provision was also made for the examination of the bank by auditors appointed by and responsible to the stockholders. At the fifth revision of the bank codes in 1923 the provision as to examination was extended. Two auditors (responsible to stockholders) were now required. In addition, a provision was enacted in 1924, after the failure of the Home Bank of Canada, for periodical examination of the banks by an Inspector-General of Banks under the Department of Finance.[2] Such governmental supervision had been opposed for years by the bank managements. Many other minor provisions were enacted into the bank laws to protect creditors and stockholders.

Writing in 1913 in the Journal of the Canadian Bankers Association, H. M. P. Eckhardt, a Canadian banker of wide experience pointed out some of the tendencies which were prominent then, and which were to assume increasing importance during the next fifteen years.[3] The changes which were then occurring demonstrated that the branch banking system had great powers of expansibility, and were in this way providing for needs of new provinces. Between 1901 and 1911 the branches in western provinces tripled.

He pointed out that "One respect in which the Canadian banking system shows great superiority over other systems, is its ability to supply unsurpassed banking facilities to the small villages and towns. In all countries, even in those possessing decrepit or very inferior

1. Ibid, loc. cit.
2. Ibid, pp. 895-896.
3. "Distribution of Canada's Banking Facilities", Vol. XX, p. 90-105.

banking systems the need of the principal cities and towns will be fairly well looked after. But it is only under a system possessing extraordinary merit that the smaller places acquire decent banking facilities."[1]

About 1910 a movement which had been noticeable for some time began to acquire increased momentum. This was the amalgamation of large banks. In numbers, in size of bank resources, and numbers of branches involved these mergers rivalled those which were undertaken in England. Since 1910 there have been 19 bank amalgamations and the number of banks in operation has declined from 29 to 11, one new bank being opened as a subsidiary of Barclays Bank of England.[2]

The Bank of Montreal, the Canadian Bank of Commerce, and the Bank of Nova Scotia have each acquired three other banks since 1910 and the Royal Bank of Canada has absorbed five. As the movement progressed, it increased both in rapidity and scope. In 1924, the peak year, three banks were absorbed.

Some indication of the size of these corporate mergers is indicated by the fact that on December 1923 preceding the mergers these three banks had 542 branches and $157,134,000 of resources in addition to the continuing banks which at that date had 1,063 branches and $703,859,000 of resources.[3] The amalgamation of the Bank of Montreal and the Merchants Bank in 1922 involved about 700 branches;[4] another large amalgamation in 1925 between the Royal Bank of Canada and the Union Bank involved about 1,000 branches.

1. Ibid, p. 91-92.
2. Canada Yearbook, p. 908 and 910.
3. Ibid, 1924, p. 799, 805.
4. Ibid, 1921, p. 720-721.

The reasons for these amalgamations were numerous and their significance of broad import. Sound economic reasons have played the important part in some, rivalry among larger banks, and absorption to prevent failure, have been prominent among the various motives.[1]

It, nevertheless, is worth while pointing out a few clear instances of causes of specific mergers. In 1919 the Bank of Nova Scotia with about 157 domestic branches and 32 foreign branches and $138,000,000 resources, absorbed the Bank of Ottawa with about 94 branches and $63,000,000 resources.[2] A number of reasons were given of which a few appear significant. The Bank of Ottawa and its branches were confined very largely to the eastern parts of Canada. Its deposits were growing rapidly but its loans and discounts had declined.[3] In order to obtain an outlet for these funds, it was faced with the necessity of greatly increasing its capital in order to enable it to open new branches in the west where there was an adequate demand at a remunerative price. The opening of branches would have entailed great expense and time.[4]

The branches of the Bank of Ottawa and the Bank of Nova Scotia overlapped at only seven places. A large percentage of the branches of the latter bank were in the west. Besides the latter bank had 32 foreign branches; the former had none. The need for foreign banks to facilitate trade was also pressing upon the Bank of Ottawa.[5]

The Ottawa Bank was thus at a competitive disadvantage. It was restricted geographically. It was forced to invest too much in low

1. Beckhart, op. cit., p. 341.
2. Canada Yearbook, 1918, p. 518-519.
3. Debates, House of Commons, Dominion of Canada, Session of 1919, Vol. II, p. 1090.
4. Ibid, p. 1090.
5. Ibid, p. 1091.

return securities, thus reducing its profits. It was forced to expand through branches, to amalgamate, or to accept a lesser role in Canadian banking. The amalgamation provided a strong union of sound banks.

An entirely different situation is found in the absorption of the Merchants Bank by the Bank of Montreal in 1922. This was a "forced" joining of banks, the Bank of Montreal taking over a bank which would otherwise probably have failed.[1] At this time the Merchants Bank had close to 400 branches, $160,000,000 resources,[2] $10,500,000 capital, and a reserve of about $9,000,000.[3] It had paid large dividends and a bonus at the rate of about 13 per cent.[4] The bank was endangered because it made large loans to a stock-brokerage firm and a manufacturing firm, which were virtually controlled by a representative of the bank. These loans were losses, and wiped out the reserves of the bank.[5]

There was considerable overlapping of branches of the two merging banks. This of course was a secondary matter in view of the necessity of maintaining confidence and preventing additional losses. Within less than a year more than 100 branches of the combined banks had been dropped. These were dropped to avoid duplication and for purposes of economy.

One of the reasons frequently given by the banks in obtaining permission from the Minister of Finance to amalgamate, has been the economies which may be secured through elimination of overlapping offices,

1. Debates, op. cit., Session 1922, Vol. II, p. 1085.
2. Canada Yearbook, 1921, p. 720-21.
3. Debates, op. cit., Session 1922, Vol. II, p. 1085.
4. Ibid, p. 1085.
5. Ibid, p. 1085.

as well as providing more uniform and adequate service throughout the country. That this was not an idle statement in numerous instances may easily be demonstrated.

In 1922 the Bank of Montreal and the Merchants Bank amalgamated. At the end of the year preceding amalgamation the former bank had 321 branches and the latter 389 or a total of 710.[1] At the end of the year following the combined company had 628 branches, or a reduction of almost 100.[2] Similarly, prior to merging in 1925, the Royal Bank of Canada had 668 branches and the Union Bank of Canada had 329 branches, or a total of 997;[3] the year ending following the merger the continuing bank had 901 offices, a reduction of almost 100 or about 10 per cent.[4]

Whether these amalgamations resulted in material reductions in operating expenses, whether they resulted in better service, whether the costs of services were reduced to customers, or other social benefits followed, is not easily demonstrated. The amalgamation of banks in England did not usually lower costs, but frequently increased them.[5] In some instances the public benefitted, the savings being passed on to them because of sharp competition; usually the banks failed to realize the benfits of amalgamation as increased earnings. This does not appear to be the case in Canada. Although the data on profits which was available to the writer were meager and inadequate, the indications were that the amalgamating banks gained considerably from consolidation. It appears that the banks which have amalgamated since 1924 have had a larger percentage of increase in Net Profits since that date after making allowance for absorption, than those banks which

1. Canada Yearbook, 1921, p. 720-21.
2. Ibid, 1924, p. 805.
3. Ibid, 1925, 838.
4. Ibid, 1926, 828.
5. Sykes, op. cit., p. 135-140.

have continued growth in a slower fashion.[1] The profits of the bank, however, are only one criterion as to the desirability of mergers. More important are services to the public and their costs. Beckhart is inclined to doubt that the larger amalgamated banks have been able to operate as economically as, or more economically than smaller institutions.[2]

Widespread protestation was raised against this great concentration of banking wealth in fewer and fewer hands. Many and violent objections were raised by the people, and by their legislators in the Dominion Parliament. Particularly were these objections voiced by the western citizens, very largely the agricultural classes, who saw their business being taken over by eastern corporations, and the passage of those last few banks which had headquarters in western provinces.[3] These objections of the agricultural sections were based on the belief that these amalgamations would result in the elimination of competition in the small communities. This would enable the banks to exact higher charges and enforce stricter requirements for collateral. There was also a very definite feeling that the banks were niggardly in their loans, and would be more so if there was less competition. There is reason to believe that some (if not all) of these fears were well founded. Nor were they new. Experiences of earlier years have shown a tendency for the banks to charge less at the branches where there were competitors than at branches where they alone had the entire business.[4]

1. Canada Yearbook, 1931, pp. 907-908.
2. The Banking System of Canada, p. 342.
3. Debates, op. cit., Session 1922, Vol. II, p. 1088.
4. Interviews on Banking System of Canada, op. cit., p. 34.

The farmers and small merchants feared the "money trusts" and concentration of wealth.[1] As the banks expanded in size and decreased in number by amalgamation, control more and more centered in the East. An increasing amount of "red tape" and less direct contact was forced between borrower and lender. "It is almost impossible for a man in Western Canada who wants to borrow a hundred thousand dollars ..... to get the money unless he goes to the head office; and all these mergers make it just so much harder for the small borrower."[2]

One should not assume that this was the first time serious objections or criticisms had been voiced against the Canadian banking system by the Canadian people. At various times serious criticisms of the system have been made there, and many people have evidently favored some system of unit bank such as is found in the United States. The experiment in unit banks in 1850 (see page 94.) was the result of such demands. It has also manifested itself at numerous times in connection with the bank note privilege, and the gradual steps by which the government has assumed parts of the issue of notes in the Dominion.

Canadian banks have been greatly favored by laws giving them great freedom and control in the nature of the collateral of a wide variety of goods. Beginning with an act in 1859, the provisions have been enlarged to virtually make the bankers partners in the private businesses.[3] In discounting bills or notes they may take as collateral bills of lading, titles to grains, etc. This Act was later amended to give banks preference in their lien over the unpaid seller.[4]

1. Debates, etc., op. cit., Session 1919, V. II, p. 1093.
2. Ibid, p. 1095.
3. Breckenridge, The Canadian Banking System, p. 156.
4. Ibid, p. 220.

Further extension of protection to banks protected them in liens where the goods were undergoing conversion from raw stages into processed goods,[1] or where they were undergoing sale but were replenished by similar goods.

One of the most serious disturbances in Canadian banking history was precipitated by the failure of the Home Bank of Canada in August 1923.[2] Although the paid up capital and reserve fund of $2,510,000 were less than the capital of the Sovereign Bank which failed in 1908, the assets of this latest failure far exceeded the former. Total resources of the Home Bank were $27,434,000 at the time of its suspension.

Noteholders, of course, have been paid in full. Yet some idea as to the probable losses may be gleaned from a few facts. The advisory board appointed by the Canadian Bankers' Association investigated the possibility of keeping the bank open during liquidation and making of advances to creditors by the solvent banks. They were willing to advance sufficient funds to pay only 25 per cent to depositors.[3] Investigations which have been made indicate that the shareholders capital and a large portion of the depositors funds were lost.

Shortly before its failure, the Home Bank had 63 full branches and 15 sub-agencies in Canada.[4] It does not appear that these contributed to the causes of failure, although the expense of a rapid expansion of branches was a burden to the bank.[5]

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1. Ibid, p. 261.
2. Canada Yearbook, 1930, p. 862.
3. Journal of the Canadian Bankers Association, Vol. XXXI, October, 1923, p. 9.
4. Canada Yearbook, 1922-1923, p. 828.
5. See footnote 116, p. 371 of Beckhart, op. cit.

In spite of this last failure and in spite of numerous others, Canada presents an exceedingly favorable record as to losses. Since the formation of the Dominion in 1867 there have been 26 bank failures. Nine of these have occurred since 1900. There were five between 1900 and 1910, two in 1910, one in 1914, and one in 1923. For the most part these have been small banks. Thirteen of the banks had a paid up capital of less than $500,000, six had a capital of from $500,000 to $1,000,000, five had a capital between $1,000,000 and $2,000,000, and only two had more than $2,000,000 but not over $3,000,000.

In two instances prior to 1890 the note holders failed to be paid in full, but participated as general creditors. That was before the provisions giving note holders preferred claims. In all other instances holders of notes were paid in full. Of those banks which have completed liquidation, thirteen have paid creditors in full, two have paid in excess of 90 per cent of their debts, three have paid between 50% and 90%, and only three have paid less than 50 per cent.[1] In general the larger banks have paid a larger proportion of their debts than the small banks. This is shown below.

Table VIII-Percentages of Deposits Paid by Failed Canadian Banks, which have completed liquidation, 1867-1932.

Percentage of Deposits paid	Size of Bank by Capital Stock			
	Less than $500,000	$500,000 to 1,000,000	$1,000,000 to 2,000,000	$2,000,000 and over
Less than 50%	3			
50 per cent but less than 90	2	1	1	
90 per cent but less than 100%	1	1		
100% (in full)	5	3	2	2

Source: Canada Yearbook, 1930, p. 862.

1. Canada Yearbook, 1930, p. 862.

The total amount involved in insolvencies has been less than $100,000,000 which is an insignificant item compared to the resources involved in banking. In general bank failures have resulted from mismanagement and dishonesty of officials at the head offices and not from officials or operations of the branches.[1] Branches have, however, contributed in an indirect way in some instances. Branches provide a means whereby small communities may safely have banking facilities, and provide a profit to the bank. But an excessive competition for branch expansion, forestalling of rivals, etc., may lead to results detrimental to both the public and the bank.

Efforts to open too many offices, as has happened in Canada, saddle sound banks with many unprofitable offices. In efforts to recoup themselves for costs of operating such branches, rates charged may frequently be excessive. In the Western provinces of Canada the rates charged for loans in one bank towns usually exceed those charged in plural bank towns, and even in towns with more than one bank, rates as high as 10% are not unknown, "cooperation" among the banks keeping uniform and what at times appear to be unreasonable rates.[2]

Although the ruling charges for interest in agricultural Canada were usually between 7% and 10% with the latter being quite common, and prime agricultural loans being made at 6%, Beckhart believes that these rates are reasonable.[3] The available evidence is that agricultural districts are receiving a far greater amount of accomodation than the amount of deposits from such district alone would justify, thus indicating the ability of the banks to shift funds from

1. Beckhart, op. cit., p. 479.
2. Beckhart, op. cit., p. 372.
3. Ibid, p. 451-453.

the Eastern centers of plenty to the Western districts of need.[1] Not only is the West receiving capital from the East, but there is a noticeable tendency for the banks to "carry" the farmer and press the city borrower in times of need.[2] In view of the greater safety of banking service, and in comparison with charges in the United States, Beckhart's conclusions seem reasonable.

Some interesting facts as to banking operations are to be found in Table VIII, containing composite statements of the Canadian banks from 1867 to 1930, as well as a few other figures. The relatively constant decline in the number of banks to the low figure of eleven in recent years is shown. One of these eleven banks is the foreign subsidiary of Barclays of England, and operates no branches in Canada. In contrast with the decline of banks is the growth of branches from 123 in 1867 to 4,083 in 1930. Whereas the average bank has about 400 branches in recent years, the largest has 966, and resources of $962,000,000.[3] Using the five year intervals in the table, it is evident that the number of branches has declined from the peak which was reached about ten to fifteen years ago.

In general the same trends are noticeable in the financial statements as were found in the banks of Scotland and England. From 1867 to 1930 the total resources increased from $78,866,000 to $3,257,073,000 or an increase of 41.2 times the earlier figure. During the same interval the capital plus rest fund increased from $31,342,000 to $305,179,000, or an increase of only 9.7 times the earlier figure. Of course, there has been a tremendous growth during this period in resources, accompanied by important changes in the nature of banking.

1. Ibid, p. 453.
2. Ibid, p. 31 and 411-12.
3. Canada Yearbook, 1930, p. 858and 860.

But as shown in the percentages in the table, there has been a steady slow decline in the percentage of capital and rest to the total resources. With a few interruptions, this has declined from 39.7 per cent to the recent figure of 9.5 per cent. At the recent figure, it does not appear that the capital and rest are unduly small, especially when these banks are compared to those of Scotland and England. And this statement appears more reasonable when it is recalled that there is no additional liability attaching to shares of bank stocks in these two latter countries whereas that of Canada still carries double liability. Nevertheless, the same trend is evident, and the question may well be asked whether these banks are not or may not be approaching the minimum of safety in capital.

There is another reason for believing that the capital of Canadian banks is low, and that is the large number of branches which this capital must support. By dividing the number of branches in operation into the sum of the capital and rest, it is found that the average amount of capital per branch has declined from $255,000 in 1867 to $75,000 in 1930.

The average resources per branch has shown a remarkable stability throughout the entire period, fluctuating with little exception between $600,000 and $800,000 on the average. Due to the curtailment of offices in recent years, there has been a tendency of resources per office to increase. Just surmising from these figures, it seems likely that many of the branches do not contribute more than $260,000 to $300,000 of resources, which is quite a small sum and on a ten for one basis would mean a capital of $20,000 or less for such an office. It is in banks of this size that failures in the United States have been common.

The item of notes reached its peak during war financing, but has

again declined, amounting to $159,341,000 in 1930. It has declined quite regularly relative to total assets, indicating a declining importance attached to note issues in Canadian banking. In recent years it has constituted about 5 per cent of total resources.

Coincident with the relative declines in capital and notes, the items of deposits have increased relative to resources, going from 43.4 per cent in 1867 to almost 80 per cent in recent years. Although the items of cash and primary reserves (i.e., cash, call loans, and due from banks) have tended to increase in recent years compared to total resources, constituting close to 30 per cent of the total, the percentage of cash and primary reserves relative to deposits and notes has declined somewhat. The combined total of cash, cash items, and investments have increased in recent years relative to total deposits and notes outstanding, being about 52.1 per cent in 1930. But this good showing is largely to be attributed to increases in investments in recent years. Prior to 1900 investments seldom constituted over 10 per cent of resources, but since that time they have irregularly increased, reaching a peak between 1920 and 1930. On the basis of five year data the peak was 20.3 per cent in 1925; since then investments have declined, and in 1930 constituted 14.6 per cent of resources.

Loans and discounts have increased greatly in amount, but have declined rather steadily relative to resources and to deposits. Whereas deposits have been increasing, the amount of loans and discounts have been declining relative to these items, and also relative to total resources.

Table IX - Composite Statements of all Canadian Banks by five year intervals, 1867 to 1930

(Values in dollars-000 omitted)

Year	No. of Banks	No. of Branches	Inhabi-tants per Branch	Capital paid Up	Rest Fund	Notes	Deposits	Total Resources	Cash, due from Bank and Call Loans	Invest-ments	Loans & Discounts	Real Estate
1867	28	123		31,342		8,851	34,201	78,866	16,284	5,507	52,827	4,245
1870	33	147		33,449		18,526	52,967	110,973	26,345	4,847	75,763	4,105
1875	36	230		63,446		25,595	70,727	167,155	30,715	1,162	129,204	3,654
1880	36	295		59,819		27,328	93,878	192,537	56,068	2,687	124,706	8,222
1885	41	335		61,763	17,803	32,363	114,724	227,863	50,263	7,668	160,679	9,243
1890	38	426	11,226	60,057	21,940	35,006	143,469	260,137	40,607	8,603	202,515	8,403
1895	38	530	9,525	62,196	27,655	32,565	214,358	322,184	76,631	23,466	210,905	11,175
1900	36	708	7,510	67,087	34,502	50,758	330,540	501,542	130,502	50,248	302,393	18,388
1905	34	1,145	3,842	85,294	59,898	69,981	573,511	815,533	228,006	68,994	480,111	24,872
1910	29			98,787	79,970	82,120	909,964	1,211,452	339,650	92,631	692,813	52,658
1915	22	3,159		113,982	113,020	105,137	1,198,340	1,596,424	535,117	118,387	874,693	51,656
1920	18	4,676	1,879	123,617	128,756	228,800	2,438,079	3,064,133	953,723	379,213	1,616,393	62,892
1925	11	3,840	2,438	118,831	123,108	165,235	2,221,160	2,789,619	849,388	565,504	1,216,466	81,705
1930	11	4,083	2,188	144,560	160,639	159,341	2,516,611	3,257,073	921,409	471,637	1,650,174	83,937
				Percentages of above items to Total Resources								
1867				39.7%		11.2%	43.4%	100%	20.6%	7.0%	67.0%	5.3%
1870				30.1		16.7	47.7		23.7	4.4	68.3	3.7
1875				38.0		15.3	42.3		18.4	.7	77.3	2.2
1880				31.1		14.2	48.8		29.1	1.4	64.8	4.3
1885				27.1	7.8%	14.2	50.3		22.9	3.4	70.5	4.1
1890				23.1	8.4	13.5	55.2		15.6	3.3	77.8	3.2
1895				19.3	8.6	10.1	66.5		23.8	7.3	65.5	3.5
1900				13.4	6.9	10.1	65.9		26.0	10.0	60.3	3.7
1905				10.5	7.3	8.6	70.3		28.0	8.5	58.9	3.0
1910				8.2	6.6	6.8	75.1		28.0	7.6	57.2	4.3
1915				7.1	7.1	6.6	75.1		33.5	7.4	54.8	3.2
1920				4.0	4.2	7.5	79.6		31.1	12.4	52.8	2.1
1925				4.3	4.4	5.9	79.6		30.4	20.3	43.6	2.9
1930				4.5	5.0	4.9	77.7		28.5	14.6	51.0	2.6

Sources: Breckenridge, R. M., The History of Banking in Canada, National Monetary Commission, 1910, p. 162, 287,288, and 289, and Appendices IV and V.
Canada Yearbook, various issues.

Chapter V

BRANCH BANKING DEVELOPMENT IN THE UNITED STATES

The present chapter does not pretend to be a history of banking in the United States; it does not even lay claim to being a history of branch banking in the United States. The purpose here is to point out some of those important banking developments which are intimately related to branch banking. The important branch banking events will be presented and discussed.

A considerable amount of material has been written about certain aspects of early branch banking. This is the situation for the First Bank of the United States, and particularly so for the Second Bank of the United States. Various studies have also been made of branch banking under the states in early banking development.

Brief discussions of some of these early branch banking systems, however, have been included in this chapter. There are several reasons for incorporating such material in this study, even though it amounts very largely to abstracting what has been done before. One reason is that it will aid in the presentation of a more complete and consecutive picture of branch banking in this country. In addition it is expected that a proper and more adequate perspective will be acquired for the study and understanding of the subject in contemporary years. It is an all too common belief that the American system of banking is the unit system. Few people know and realize that the original "American system" was as much a branch banking system as a unit system.[1]

In returning to branch banking in the 20th century this country is not adopting a system of banking which is untried and novel in

1. Johnson, op. cit., p. 9-11.

this country. We are not following foreign nations and subverting our unit bankers to a foreign system of monetary and banking control. In a large sense the recent growth of branch banking is the revival of a system which almost became extinct due to arbitrary restrictions, note issue tax, enactment of laws for bond secured currency, etc. Certain economic changes have taken place--of which may be mentioned the change from note issue banking to deposit banking--which have made possible the operation of branches, although not necessarily fostering it. Restrictive conditions, economic, political, and legal hindered and destroyed branch banking by the time of the civil war. Certain of these economic, political, and legal restrictions have been relaxed, some have been modified, some have been outgrown. On the other hand branch banking has adapted itself to the new circumstances and environment.

Branch banking as it has evolved today has been fettered and circumscribed by arbitrary environment in most of the states. It has had to adapt itself to many unfavorable environmental conditions. It has been the "under dog" for the most part. Under these circumstances it has been cramped in its evolution and accomplishments. In judging branch banking in the states and in the United States, it must be judged in accordance with these circumventing and inhibiting restrictions. It must not be judged as a full-fledged completely grown independent institution, but as a child, stunted in many ways, and whose freedom of action has been so hindered that its development has been partially by stealth.

It is not possible to fully picture the development of branch banking in the United States in the same straight-forward manner as

1. Collins, C. W., Rural Banking Reform.

was possible for each of the other countries discussed in previous chapters. There are several reasons for this. One is the diversity of the laws and provisions under which banks have operated. Throughout our history there have been the numerous states permitting banks to operate. In addition banks have operated under national charter since 1864 and even on occasion prior to that date.

Partially because of the reason just given, and also because of numerous other forces, the banks in the United States have not been permitted to develop along unrestricted, natural, evolutionary lines. Because of the early development of unit banks, the emphasis placed at various times on states rights, the evolution of banking has followed in many respects lines distinctly different from those in most of the leading industrial countries. A different philosophy as to powers and control of banks has developed, partially as a result of the prominence of unit banks. Because of the great diversity of banking under the states and because of the immensity of the task, no comprehensive treatment of each will be attempted. Attention will be given to summaries of the states which are important to the study of branch banking, and to the National banks which constitute the "backbone" of the banking institutions.

Evidently one of the earliest steps relating to branch banking was the effort to make the bank of New York a branch of the Bank of North America shortly before 1790. Nothing materialized from this plan, seemingly due to the inability of those fostering the proposition to agree as to the merits of the plan and as to what benefit would accrue to the banks from such an arrangement.[1]

1. Summer, William Graham, A History of Banking in the United States published as Volume I of A History of Banking in all the Leading Nations, Journal of Commerce and Commercial Bulletin, New York, 1896, p. 17.

The First Bank of the United States.

The first important bank with branches in the United States was the First Bank of the United States chartered by the national government under an Act signed by Washington February 25, 1791.[1] There were wide differences of opinion whether the national government had the powers to create such an institution.[2] The charter provided that no other bank would be authorized by the national government during the 20 years of its corporate life. It was established on a large scale with a capital of $10,000,000, part of which was owned by the government.

Evidently against the wishes of Alexander Hamilton who fostered the plan, a provision was inserted to permit the directors to open branches where they saw fit within the country.[3] Hamilton later changed his attitude towards the branches. These branches were authorized to perform the functions of discount and deposit, and the bank was authorized to issue notes which were legal tender in payments to the government.[4]

Shortly after the commencement of business in 1792 branches were opened in New York, Boston, Baltimore, and Charleston.[5] Within the next few years branches were opened at Norfolk, Savannah, Washington, and New Orleans. This made a total of eight branches. The directors of the parent bank selected 13 directors for each branch who exercised considerable authority over the branches' operations, subject to approval of the directors of the parent bank. A large part of the cap-

1. Holdsworth, John Thomas, The First Bank of the United States, National Monetary Commission, 1910, p. 19.
2. Ibid, pp. 18 and 19.
3. Sumner, op. cit., p. 28; Holdsworth, op. cit., p. 36.
4. Holdsworth, op. cit., pp. 19 and 20.
5. Ibid, p. 36.

ital stock had been paid in as government bonds; it was decided at first not to allocate portions of this (the capital) to the branches but later $5,300,000 out of $10,000,000 was allotted to the branches, and the balance retained for the Philadelphia office. Notes (from the parent bank) could be issued at the branches and were payable at the branch issuing them. Weekly, each branch reported to the head office on the notes issued, cash on hand, and other information.[1]

At the time of the establishment of the Bank of the United States there were three others, the Bank of Massachusetts, Bank of North America in Philadelphia, and the Bank of New York.[2] The relations of these banks were friendly and cooperative.[3] Similar relations were maintained with new banks which were established from time to time. The policy of the Bank in meeting its demands in specie, and requiring its competitors to meet their notes and clearings in specie had a healthy influence upon banking and restricted the circulation of state banks to reasonable bounds.[4] The state institutions apparently recognized this service and desired it. The bank and its branches provided the necessary coordinating force in the country's banking; its resources and branches not only restrained the other banks, but also aided them when needed, and provided the required equalization of loanable capital throughout the country.[5]

At this time, and for many years note issues were to be of greater importance than deposit banking. Consequently the privilege to issue notes was of prime importance to the bank in enabling it to

1. Ibid, p. 37.
2. Ibid, p. 15.
3. Ibid, p. 41.
4. Ibid, pp. 42, 51.
5. Ibid, p. 125.

profitably maintain branches. Notes could be issued in denominations of not less than $5. At their maximum the notes never exceeded $6,000,000.

The bank performed many valuable services to the government and the public, in which its branches were of considerable importance. In the words of Holdsworth:[1]

> "The relations of the bank to the Treasury were, as designed by its establishment, of a most intimate character. In addition to making loans, it aided the government in its foreign exchange operations; it was the depository of a large part of the government funds; it assisted the importers in the payment of customs duties; it transferred the public funds from place to place at its own expense.
>
> "The article of the charter which set forth the objects in which the bank might trade, specifically permitted dealings in bills of exchange. In view of its superior resources, the wide distribution of its funds through the medium of its eight branches, its practical control of the specie supply of the country, and its intimate relation to the Government, it is but natural that the Bank of the United States should have secured the lion's share of the exchange business, both foreign and domestic. The purchase of the Government's foreign remittances generally fell to the bank or one of its more important branches. At certain periods the volume of this business on government account was very large. That it was profitable may be inferred from the fact that the second Bank of the United States was eager to secure a monopoly of it."

Although the Bank had certain weaknesses, as a whole it appears to have been a sound, well-managed and useful institution. Those weaknesses which may be attributed to it, do not appear to have been necessarily related to the branches, but rather were largely inherent in the nature of the banking of those days.[2] It was so conservative as to restrict the full extent of its possible usefulness.[3]

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1. Ibid, p. 54.
2. Ibid, pp. 124-125.
3. Ibid, p. 123.

Second Bank of the United States 1816-1836.

The charter provisions of the Second Bank of the United States were in general similar to those of the First Bank.[1] The conditions under which the banks operated, and the problems which it faced, however, were quite different. When the First Bank was established, there were only a few other banks. As new banks were opened, they took their place beneath the large bank and came to accept its powers and influence and to abide by its regulations.

When the Second Bank was established, there had been in operation for some time, several hundred state banks. Their notes and accomodations were providing for business wants. They had suspended specie payments. Their loans were in many instances made upon slow or unrealizable assets. They did not have an effective system of clearing and were in many instances both unaccustomed and unwilling to pay specie for their debts. They enjoyed the business of the government and acted as depositories.

In establishing a new bank of large proportions, with numerous branches, it was natural to expect that there would be clashes of interests. The new bank took business from the old banks. In some sections of the country it forced interest rates to be lower than would have been probable had there been no branches. Not only did it do these things, but the Bank forced existing banks to abide by trade practices which they had not had to meet formerly and which they felt were onerous and monopolistic.

Not only did the Bank take its place in an already crowded field of finance, but it was definitely expected to exert and force upon the state banks definite restrictive, regulatory, and sound monetary and banking policies. Primarily it was intended that the Bank would

1. Dewey, Davis R., The Second United States Bank, National Monetary Commission, p. 152, 163-175.

lead the other banks to specie resumption, and would force them to regulate and control their note issues.[1]

The new bank which was chartered was capitalized at $35,000,000, a large sum, of which the Government was to subscribe to $7,000,000.[2] Five out of 25 directors were to be chosen by and represent the Government. Indebtedness was restricted to $35,000,000 in addition to deposits.[3] Real Estate holdings were confined to the strict needs of the business and property conveyed in payment of debts. Periodical statements of the bank's operations and condition were to be sent to the Secretary of Treasury. He was empowered to examine its books. Notes of the Bank were accepted in payments to the United States. The Government was to keep its deposits with the bank or its branches. The Bank was to handle government funds and their transfer without charge.[4]

The provisions as to branches were more definite than for the First Bank. Not only were they permitted, but some were mandatory.[5] One branch office was specified for the District of Columbia. Any State whose citizens held 2,000 shares of stock could obtain a branch. The directors could open other branches at their discretion. Boards of directors and presidents of the branches were to be appointed by the general directors of the Bank.

The situation at the time when the Bank commenced operations is clearly summarized by Dewey.[6] He wrote:

> "During the period which attended suspension and unwise legislation, state banking had assumed proportions which were beyond control. If the bank had been organized when commercial

1. Ibid, p. 151.
2. Ibid, pp. 152-153.
3. Ibid, p. 154.
4. Ibid, p. 155.
5. Ibid, p. 154.
6. Ibid, p. 157.

operations were normal and banking methods were sound, the United States Bank would undoubtedly have had a different history. Established, however, at the time it was, after local banks had enjoyed a free license for their operations, it was well nigh impossible for it to do its work without clashing with local and selfish interests. The First Bank was organized to aid public and private credit; the Second to restore to the country an orderly currency through the resumption of specie payments. The burden was placed upon the bank."

The Bank charter provided that not less than 7 nor more than 13 directors were to be selected by the general Bank directors for each branch.[1] The head bank reserved the right to select the cashiers. It appears that these local boards of directors were to perform important functions in general supervision and control, but for the most part they were not fully effective. Close control of branches which were widespread was difficult of accomplishment at that time. It was intended that local directors would fill the breach, although they evidently did not. The difficulties in branch management, and the failure of the bank strictly to control its branches accounted for and caused many of its difficulties.

By 1817 nineteen branches were in operation. In subsequent years nine additional branches were opened, but three of the original branches were discontinued or removed.[2] In addition the bank had three agencies which acted in its behalf, but could not make discounts.[3] The extent and complete coverage of these branches is realized when it is noted that "Every state on the Atlantic seaboard, except New Jersey and Delaware had a branch, and in the interior every district except Indiana and Illinois were provided for."[4]

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1. Ibid, p. 172.
2. Catterall, The Second Bank of the United States, p. 376.
3. Dewey, op. cit., p. 171.
4. Ibid, p. 196.

The bank had many opportunities to open additional branches, but these it refused. Requests came from various sections of the country. An important reason for the bank refusing to establish additional offices was the doubt as to whether they would pay their keep. Indeed, it was felt that the existing branches were somewhat excessive in number, and that some should be withdrawn.[1]

An undue number of branches were located in agricultural communities where the requirements were for permanent capital and not commercial credits.[2] Although the branches proved an integral and profitable part of the business, their losses were ten times as large relative to their capital as those of the head office.

The value and importance of the branches is emphasized by the statements of Catterall that the branches were the ".... most characteristic and the most essential feature in the plan of the .... second Bank of the United States."[3] But for the branches the bank would have been of little value fo the Government, and it would have found it difficult if not impossible to effectively perform its regulatory and supervisory duties regarding state banks. Furthermore, its ability to provide a safe and uniform currency would have been greatly impaired.

The central directors promulgated minute regulations for the guidance of branch cashiers. Their duties and powers were closely defined. Frequent and detailed reports were required to be sent to the head office. A careful check was provided on the notes furnished to

1. Ibid, p. 196.
2. Ibid, p. 197, Catterall, op. cit., p. 379.
3. Op. cit., p. 376.

and issued by each branch. Competent examiners visited the branches. The groundwork was thus laid for a strict and sound control of branches. The central directors, however, did not avail themselves of this opportunity and duty to control in the early years of the Bank's operations.[1] Within a short time the Baltimore branch had suffered great and unwarranted losses and the assets of some of the branches in agricultural sections were "frozen."[2]

It was not until Biddle became president that a firm hand was placed over the branches.[3] Even in these later years complete and adequate control was not effected. Branches in the south and west continued to make accomodation loans and employed too large a proportion of the bank's resources.[4]

The advantages and disadvantages of these branches is so ably summarized by Catterall, that they are presented verbatim below.[5]

"The particular advantages of the branch system, evident from the experience of the Bank of the United States, were briefly as follows: The funds of the treasury were collected, transferred, and disbursed only by means of the branches. In the dealings in exchange, both foreign and domestic, the bank's advantage was derived altogether from its system of branches. The same statement holds good for the circulation of the bank. Without the branches it would have been insignificant in quantity, and could not have been either general or uniform; as it was, the system furnished the country a currency better and cheaper than any other paper currency which had yet existed in the United States. The branches not only made this paper more convertible, but more elastic, since it was issued in response to business demands in the various localities, and withdrawn as the demands died away. Another consequence of the possession of branches was the supplying of loans at a cheaper rate to the West and South than would have been possible without them. A further result of this ability to supply cheap loans was an otherwise impossible development of western and southern industries, which was beneficial to those sections, whatever its effect upon the bank might be. Again, the con-

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1. Ibid, p. 379.
2. Ibid, p. 380.
3. Ibid, pp. 380-382.
4. Ibid, p. 390.
5. Ibid, p. 400.

trol of the state-bank issues was possible only through the branches, so that the system not only gave the people a better currency, but protected them from the ravages of a much poorer one. It may be added that the branches were sure of more capable management than merely local banks, since they received the attention of able men at Philadelphia as well as that of the local directors; that the branches facilitated the distribution of loanable capital owned but not employed in one part of the Union and needed in another; and that the system gave to the managers of the bank much greater opportunities to secure valuable information about business and about men than any other system could furnish. These various advantages, it is safe to assert cannot be furnished by any bank without branches, and it was in these that the Bank of the United States exhibited its superiority over any other banking system ever established in the United States.

"The defects of the system were, however, great and perilous. In the last analysis all resolved themselves into a failure to exercise an adequate control over the offices. To do this demanded first-class branch officials, complete intelligence, eternal watchfulness, and constant checking of the operations of the distant branches. The conditions rendered all this well-nigh impossible. The denial of accomodations at the branches made the bank unpopular, and consequently there was an overwhelming temptation to be lenient in the management of them. This difficulty was involved with a second--the nature of western and southern business. Loans in a new country are almost certain to be made on real-estate security and at long dates. This is not good banking. Yet the Bank of the United States indulged in it, and the practice of renewing even long loans, and finally of making such loans with the understanding that they would be renewed, inevitably grew up. Still more serious was the character of the branch officers and the branch directorates. On the whole they were not men of knowledge and experience in sound banking. The president, who had most influence in determining loans, had to be selected from these directors, who in turn must be taken from the state in which the branch was established--conditions which made the selection of competent officials at times impossible. Moreover, these men had to deal with their neighbors, sometimes their relative, and in the handling of the funds of distant stockholders were more inclined to care for their friends than for the bank. Then, too, the presidents were insufficiently paid, and first-class talent could not be secured from meager salaries. In such cases it was almost vain to attempt the checking of the boards, and it was not until the cashiers were carefully selected that any considerable check upon local banking methods and reprehensible loans was possible. Finally, the knowledge necessary and the investigations requisite for a proper control of the offices were excessively difficult to secure because of the remoteness of the offices from the mother bank and the lack of first-rate means of communication. It took weeks to get information from New Orleans and the far western offices. Yet it would not do to attempt complete government of the branches from Philadelphia, even had that been possible. The needs of the local community had to be consulted, and only men of the place could justly measure these.

"..... Had the central board been confined to general questions of management and supervision, the danger of managing the institution from the point of view of local Philadelphia interests would have been avoided, and the opportunities for correcting bad methods

and prohibiting unjustifiable loans would have been enormously increased. The difficulties of communication would have been solved in time by the extension of railroads and the introduction of the telegraph, while the lack of adequate banking knowledge in the local boards would have been remedied by further experience."

Although the bank was not so designated, it assumed and performed many of the functions of a central bank. This was not the result of the state banks depositing funds in the bank, but because they depended upon it in times of difficulty or emergency.[1] The state banks traded with little feeling of responsibility; after the establishment of the Bank, it assumed this responsibility.[2]

The state banks felt that the bank would aid them in time of need; they were guided primarily by self interest and profits. The task of maintaining specie payments fell to the Bank. On numerous occasions the specie and credit of the bank were called upon to support state banks.[3]

On the other hand the Bank had some very powerful weapons through which it could keep the state banks in check. These were provided by the branch systems and clearings of notes.[4] Since the bank's notes or its branches' notes had more general acceptability than state banks' notes, the branches constantly received state bank notes in exchange for Bank of United States notes. By presenting these state bank notes for payment, the banks were forced to keep themselves in hand. It has been estimated that the Bank received five times as many notes of state banks as they received of its notes.[5]

An excellent summary has been written by Catterall, and it is repeated here.[6]

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1. Ibid, p. 430.
2. Ibid, p. 431.
3. Ibid, pp. 432-43.
4. Ibid, p. 435.
5. Ibid, p. 436.
6. Ibid, p. 476, et. seq.

"Up to the period of the Bank War, the connection between the bank and the government was an immense benefit to both, but particularly to the government. But having stated this conclusion, there is a corollary which is just as inevitable. With the growth of the Union, with the increase of national wealth and of population, the bank would have been progressively useful. From this point of view, it becomes obvious that Jackson and his supporters committed an offense against the nation when they destroyed the bank. The magnitude and enormity of that offense can only be faintly realized, but one is certainly justified in saying that few greater enormities are chargeable to politicians than the destruction of the Bank of the United States. It was the overthrow of a machine capable of incalculable service to this country--a service which can be rendered by no bank not similarly organized. Would it not be better for the nation if it could command that service today? Why should it be almost unanimously admitted that a bank of this type is of paramount importance to the finances and commerce of England, France, Germany, Austria, Russia, and yet denied that a similar bank would be of equal value to the United States? No answer to this question can be found in our political organization, none in the nature of American institutions, none in the history of our country, none in the nature of men as citizens of a republic, none in such a bank's political power; for the bank possessed no political power. In truth there is no answer."

Branch Banking in the States Prior to the Civil War.

The widespread recognition of branch banking in the states during the early parts of the 19th century is indicated by the fact that a large number of them are definitely recorded as having some fair extension of this form of banking organization in Knox's History of Banking in the United States.[1]

The establishment of branch banking systems in the states was very largely a direct reflection of the First and Second Banks of the United States.[2] In making their banking plans many of the states copied the characteristic features of these banks. In general, however, the states did not incorporate important restrictive provisions in their bank charters. In other cases no serious attempts were made to force these banks to abide by sound principles even where they were incorporated in the banks' charters.

1. Bradford, Rhodes and Company, New York, 1900.
2. Sumner, op. cit., p. 20.

It is difficult to appraise the merits and shortcomings of these various branch banking systems. To do so would require much more space than has been devoted to the entire thesis. It will suffice the purpose to make a few general statements about some of these banks and to emphasize some facts about those which were outstanding.

Among the states, the earliest banks with branches were evidently those established in Pennsylvania. These were for the most part without major branch developments. The first incorporated bank in Philadelphia in 1781 had branches.[1], The Bank of Pennsylvania which was chartered in 1793,[2] evidently opened five branches during its life;[3] by 1810 the branches were abandoned. It was expected to provide for the state the same advantages provided to the United States by the First Bank of the United States.[4]

One bank in New York City, the Bank of the Manhattan Company, which is the only bank in New York City to ever have non-home branches, had two such branches outside of the city in 1811.[5] These had disappeared before 1848. There had been branch banking in other sections of the state prior to 1848. For the most part the country banks were the active agents in opening branches.[6] Evidently most of these were not profitable.[7]

In general branch banking was very much in evidence in the western and southern states in the second quarter of the century.[8] In

1. Branch, Chain, & Group Banking, Hearings before the Committee of Banking, and Currency, House of Representatives, H. R. 141, Vol. I, part 4, page 430.
2. Knox, op. cit., p. 443.
3. Knox (op. cit., p. 443) gives five branches, but Sumner in his History of Banking notes only four.
4. Knox, loc. cit.
5. Address by Edmund Platt, Proceedings of Thirty-Second Annual Convention of the New York State Bankers' Association, Ithaca, N. Y., 1925, p. 150.
6. Ibid, p. 150.
7. Ibid, p. 151.
8. Ibid, p. 146.

several of these it was the rule rather than the exception. Apparently the movement for branches did not receive its impetus from large city banks, but from the banks in the small and medium-sized cities.

In certain of the states, particularly those in the North and East, branch banking was soon legislated out of existence either directly or indirectly. Certain evils in banking, particularly in relation to note issues were becoming prominent. In an effort to stamp out these abuses, branch banking received the brunt of the attack.

Banking, of course, was largely characterized by note issuing privileges. The instability of banks and consequent losses of note holders provided one of these weaknesses. Many banks were loosely regulated and loosely constituted; the function of note issue frequently was not properly safeguarded. In consequence there were overissues and losses to note holders which the legislatures sought to overcome. This led in many states to bond secured issues. Such note issues were not flexible and branch banking was not necessarily prevented but it was made less profitable or unprofitable. Banks with bond secured note issues were usually restricted to a definite capital sum and this required each bank office to have a definite capital.

The second attack upon branch banking was more direct, but it likewise was not aimed at branch banks per se. It too had as its underlying motive the desire to eradicate note issue abuses. Since branch banking lent itself easily to such note abuses, the legislatures in some states struck at the instrument of the abuse (i.e., branches) rather than at the abuse itself.

In connection with "wild cat" note issues, a bank was frequently incorporated with a "head office" in some small, obscure and inaccessible hamlet, and then it opened a "branch" or "agency" in a large business center. Notes would be issued by the bank at its "head office" and its "branch", but would be redeemable only at the "head office." Frequently the "branch" purchased its notes at a discount and reissued them at par.

An incomplete list of banks in the United States in 1848[1] show that there were:

State	Unit Bank	Branch Bank	Branches
Ohio	19	1	29
Indiana	--	1	17
Missouri	--	1	5
Kentucky	--	3	13
Tennessee	--	3	17
Virginia	--	6	30
North Carolina	--	4	14
South Carolina	12		2
Georgia	13		7
Delaware	5		3
Alabama	2		4
New York			2
Maryland			2
New Jersey			2

Legislative restrictions were beginning to take effect on branch banking by this time. For the most part these were in the Eastern and Northern States. New York on April 12, 1848, passed an amendment to the Free Banking Act which restricted branch banking although it did not prohibit it.[2] In evidence that this and similar laws were not aimed at branch banking, but at wild cat note issues, is the statement of Millard Fillmore, then Comptroller of New York. In a

1. Ibid, p. 146; cf. Bankers Magazine, Vol. 2, part 2. Edmund Platt gives the Bankers Magazine for February, 1848 as the source of this data. The writer was unable to verify these data in the issue referred to, but located a similar tabulation in the June issue of the same volume and year. The data given there was in substantial agreement with that given by Platt.
2. Platt, op. cit., p. 147.

circular explaining the amendment, its purpose, and the policy of enforcement, he stated that the law was aimed at wild cat banking and abuse of note issues.[1] Pennsylvania passed similar legislation in 1850 and both Massachusetts and Connecticut took such action at this time.[2]

As further evidence that these laws were not aimed at branch banking, Platt points out that the 1848 law in New York did not affect the "safety fund" banks which might still have branches, but applied only to "free banks."[3]

The next few pages are devoted to brief statements of some early branch banking systems in the states. Those that are presented may be considered above the average--certainly they were far superior to branch banking in Kentucky, Tennessee, and some other southern states.

Indiana

The State Bank of Indiana provides an illustration of a type of banking which in some respects was branch banking and in others unit banking. Its structure in certain important features resembled what is now called group banking. Even though there may be some justification for believing that such a system was not strictly a branch bank,[4] the success of the bank was closely tied up with certain features characteristic of branch banks. Branch banking has had to adapt itself to varying conditions and ideas, and in certain respects this appears to have been true of this bank.

1. Bankers' Magazine, Vol. 2, June 1848, p. 744; Platt Op. cit., p. 148.
2. Ibid, p. 147.
3. Ibid, p. 149.
4. Cf. Southworth, S. D., Branch Banking in the United States, p. 7.

Evidently this bank drew many of its features from the Bank of the United States.[1] In general, however, a less strict central control and less definite interdependence tied the branches together. The bank was established in 1834 with $1,600,000 capital and 10 branches which before long were increased to 13 branches and proportional increases in capital. These 13 branches were for many practical purposes independent banks. Each had its own individual capital; each had its own board of directors, although three of these for each branch were appointed by a State Board; each accounted for its own profits; each issued its own notes on its own capital although the types of notes for all "branches" were uniform.

There was no parent bank, but a central board with certain restricted important supervisory functions. This board consisted of a president and four members appointed by the Legislature and a representative from each branch.[2] This provided for coordination and cooperation in securing uniform policies. This central board could exercise important functions such as:[2]

(1) Limit and control the discounts of a branch after they reached one and one quarter times the paid in capital
(2) Suspend a branch, and if necessary close and liquidate it
(3) Distribute public deposits among branches
(4) Examine branches at pleasure
(5) Assess each and all the branches to make up the deficiency of another branch in paying its debts
(6) Regulate elections for branch directors
(7) Have charge of printing of notes
(8) Determine the number of directors

The central board did exercise these functions in a wholesome manner, and so as to make a flexible system of coordinated "branches."[3]

1. Harding, W. F., "The State Bank of Indiana", Sound Currency, Vol. V, No. 16, p. 262.
2. Ibid, p. 259.
3. Ibid, p. 275.

"The relations of the branches to the central board thus exhibited something of the nature of a federal union, with a large amount of local self-government, but at the same time an efficient central supervision."[1] The central board even exercised powers over individual loans, etc., and required that any loan of $5,000 or more be made only with its consent.[2]

Except for independent accounting for profits and capital this plan is not greatly different from the arrangement of the Second Bank of the United States and of some modern branch banks. It is a common practice to permit local managers and local boards of directors to pass on all loans except unusual amounts. In some of the early branch banks branches were for all practical purposes independent banks except for a common stock and profits. The Indiana system did not, however, provide for the flexible provisions in regard to shifting and equalizing of funds at various branches. In the final analysis, however, it did provide for a common capital fund in that each branch could be assessed for the debts of the others if they failed, and in this manner provided that each branch would have a very definite interest in the policies and management of every other.

Each bank issued its own notes based on the general assets of the branch, and was required to redeem them in specie.[3] Convertibility and acceptability were accomplished by requiring each branch to receive the notes of the other branches in payment of debts, etc. The notes were elastic and far safer than notes of most banks of the period.[4] Since the note issue was the most important feature of banking to the average person of that time, and since this feature

1. Ibid, p. 260.
2. Knox, op. cit., p. 695.
3. White, Horace, Money and Banking, Second Edition, 1902, p. 358.
4. Harding, op. cit., p. 272-273.

was exactly the same as under a full fledged branch system, the analogy between the Indiana plan and branch banking is strengthened.

Shortly after the expiration of the charter in 1859 a new bank of almost identical plan was incorporated and operated until 1866 when its charter expired.[1]

Ohio

In 1845 the state provided for a system of banking which in certain respects was branch banking, and although not full branch banking, at least deserves mention because of its success.

In addition to providing for unit banks, the act established a State Bank of Ohio. Any bank meeting the necessary provisions as to minimum capital of $100,000 might become a branch. Each branch could issue notes in graduated proportions to its capital, these notes being redeemable at the branch office in gold or legal money. Each bank had an allocated individual capital. Each branch used the common name, and followed the general policies of the Board of Control. Provision was made for the protection of notes by requiring each branch to contribute an amount equal to 10 per cent of its circulation to a common safety fund to redeem notes of any failed branch. Failed branches were to be taken over by the Board of Control.

In essence this system of branches was a coordinated group of unit banks. One or more of the branches might fail and be liquidated and yet not involve the remainder of the branches. The guarantee fund for notes again suggests unit banks. Each office accounted for its own profits to its own stockholders. The coordinating force of the central board, the uniform policies, the uniform requirements and interdependence of the banks indicated an organization of banking

1. White, op. cit., p. 361.

somewhat between a strict unit and branch banking system.

This system of coordinated banks provided a sound circulating medium and otherwise served the state well. In 1847 there were 25 branches. At one time it had thirty-six branches. The bank dissolved when its charter expired in 1866.[1]

Virginia

The state banks in Virginia presented a well developed branch system prior to the Civil War. Perhaps it may be said that in no other state prior to the Civil War was branch banking so thoroughly tested and highly developed. Evidently the ideas for these banks came largely from the Scotch banking and banks of other European countries.[2] An important reason for the choice of this system of banking is to be found in the scarcity of capital and the inability of most communities to support single banks. Branch banks provided the small towns with facilities at a minimum of investment.

Between 1804 and 1837 the state chartered six banks with note issue privileges and right to operate branches.[3] The charter provisions of these banks were quite similar. The state held a substantial interest in each bank. They were permitted to hold considerable real estate. Note issues could not exceed three times the capital and in addition specie reserves of 20% of the outstanding notes were required. Notes of less than $5 were prohibited. Reports were made to stockholders and to the legislature.

These six banks operated 42 offices in Virginia and what is now West Virginia. The number of branches ranged from 2 to 10 for the

1. White, op. cit., p. 368.
2. Starnes, G. T., Sixty Years of Branch Banking in Virginia, MacMillan Company, N. Y., 1931, p. 27.
3. Sumner, op. cit., pp. 530-531; for a recent and much more elaborate study of branch banking in Virginia see Sixty Years of Branch Banking in Virginia by George T. Starnes.

various banks. Their offices had considerable overlapping at competitive towns and thus tempered one another's operations. In addition under the banking act of 1837 additional banks of issue were established which also opened branches.

These banks provided a very liberal system for Virginia. By interchange of notes through their branches, a highly satisfactory currency was provided, which was acceptable at 1/4% discount in New York.[1]

In practically all respects these banks were branch banks. Each branch, however, had a definite segregated capital, issued notes, and performed all the functions necessary to operate as full fledged banks and to meet the needs of their community. The issue of uniform notes by each bank system, the general supervision exercised by the mother banks, the common name for each branch, and the uniformity of policies provided the essential characteristics of branch banks.

Although the state provided for unit banks after 1851 in addition to the branch banks, the former did not thrive in the face of branch competition. Most of the towns in the state were not large enough as business centers to pay the operating expenses of unit banks.[2]

These branch banks were quite successful and creditors never suffered losses during their operation until the end came with the war.

Branch Banking From the Passage of the National Bank Act to the 20th Century.

The passage of the National Bank Act in 1863 marks a profound

1. Sumner, op. cit., p. 529.
2. Starnes, op. cit., p. 106.

break in the development and evolution of banking in the United States; it likewise marks an equally profound change in branch banking. Although branch banking had been waning, as pointed out in the preceding paragraphs, due to its unfair and unscrupulous exploitation, due to the enactment of state laws providing for bond secured currencies, due to its direct prohibition in some instances, and due to the losses suffered by banks in the southern states (which were the strongholds of branch banking) during the Civil War, it is possible that branch banking would have reestablished itself in many states except for the passage of this act.

The ways in which the National Bank Act determined the course of branch banking may be considered under four heads. These are:

1. The failure to provide for branches
2. Provision for a bond secured currency
3. Placing a tax on state bank notes
4. Nationalization of the country's banking system.

The Bank Act of 1863 made no specific provisions for branch banking. Since the act was passed by a government made up for the most part from the representatives of the northern states where branch banking was not so well known, and since some of these states had prohibited branch banking because of its relation to wild cat note issues, it is not surprising that no specific provision was made for branches. Evidently the subject of branches was not of material importance to passage of the act nor to the discussion of it prior to its passage.[1]

As mentioned there were no sections of the act referring directly to branches but the certificate of organization of each bank was to state "The place where its operations of discount and deposit are to be carried on, designating the State, Territory, or District, and also

1. Southworth, op. cit., pp. 10-11.

the particular county, and city, town, or village."[1] In contradiction to this was to be found the following, which appeared among the provisions for the powers of national banks. "And its usual business shall be transacted in banking offices located at the places specified respectively in its certificate of organization."[2]

In the revision of the Act in 1864 the inconsistencies of the above specifications, one evidently prohibiting branches and the other implying permission for branches, were reconciled by modifying the second clause to agree with the first. The revised clause read, "And its usual business shall be transacted at an office or banking house located in the place specified in its organization certificate." The interpretation from this revised law was far less favorable to branches.[3]

In an effort further to induce state banks to join the National system and perhaps partially to offset the severity of the 10% tax on state banks notes,[4] an act of 1865 made it possible for state banks with branches to convert into national banks and to retain their branches irrespective of location. It was required that the capital of the bank was to be "joint and assigned to and used by the mother banks and branches in definite proportions."[5]

The revised act failed to stimulate an influx of state banks with branches. As already pointed out many state banks had disappeared or dissolved by this time. For the most part those banks which had branches and which converted into national banks did not continue

1. Ibid, pp. 11-12; 12 Stat. L., 666; 13 Stat. L., 100, Sec. 6.
2. 12 Stat. L., 668, Sec. 11.
3. 13 Stat. L. 100, Sec. 8.
4. Southworth, op. cit., p. 12.
5. Collins, The Branch Banking Question, p. 44.

as branch banks.[1] The northern state banks which had operated branches had mostly a modified form of branch banking in which each office had a considerable independence. These converted each of their branches into independent national banks.[2]

Altogether, there have been only 165 branches[3] taken into the national bank system under the operations of this amendment of 1865 and the Act of 1918 which provides for the consolidation of two or more national banks and the retention of their various branches (but not for the retention of both home offices).[4] Of these 165 branches more than a third have been brought into the system within the years 1924 to 1927.

That the provision permitting state banks to convert and retain their branches has been ineffective is obvious when it is realized that only four State banks had availed themselves of it by 1909.[5] Altogether only four banks have ever converted under the provisions of this section and retained branches outside of the city in which the parent bank is located.[6]

There is little evidence to support the contention, but it appears reasonable that the bond secured currency which was legislated into existence by the National Bank Act was a factor detrimental to branch banking. It is possible that this feature was an important consideration in inducing the branch banks of northern states to enter their branches as unit banks.

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1. Southworth, op. cit., p. 14.
2. Knox, op. cit., p. 685, 704, 777; cf. Southworth, op. cit., p. 14.
3. Report of the Comptroller of the Currency, 1931, p. 15.
4. Collins, The Branch Bank Question, p. 46.
5. Barnett, G. E., State Banks and Trust Companies, National Monetary Commission, 1911, p. 135.
6. Report of the Comptroller of the Currency, 1925, pp. 14-15; Collins, The Branch Banking Question, p. 43.

The history of banking, and particularly of branch banking shows conclusively the superiority of a bank as to profits, flexibility, economy, etc., when it has an "asset currency" as distinguished from a bond secured currency. The currency of state banks secured by the general assets were so profitable that the state banks refused to convert into national banks until forced to do so by the loss of their circulation.[1] After the tax on state banks notes the banks chose the bond secured currency as being more profitable than no issue privilege.

By placing a ten per cent tax on State bank notes a further blow was struck at branch banking. The ten per cent tax made it difficult if not impossible for most state banks to operate--either as unit banks or as branches. And since the issuance of notes by a branch frequently provided its prime reason for existence--its major source of profit--the destruction of note issues doubtless meant the destruction of many branches.

Originally as enacted there was no feature compelling state banks to convert into the national system. When it was realized that a uniform commercial banking system and sound currency would not be achieved voluntarily the ten per cent note tax was added.[2] This forced most of the state banks to become national banks or to dissolve. Unfortunately, many of the branch banks of the Southern states chose the latter method.[3] An almost complete nationalization of all banks was brought about.[4]

Not only did these restrictions affect branch banking at the time, but they were to have influence upon it for some time to come.

1. Editorial, "Defects of Our Banking System", Commercial and Financial Chronicle, Vol. 3, No. 66, p. 385.
2. The Banking Situation in the United States, National Industrial Conference Board, Inc., N. Y., 1932, p. 28.
3. Southworth, op. cit., p. 12.
4. Ibid, p. 17.

The practical destruction of the state banking systems meant also the annihilation of branch banking. It was only as the state banking system revived that there was a possibility for the revival of branch banking.

The extent of the nationalization of the country's banks is easily demonstrated. The figures below give the numbers and resources of national and state banks.

Table X - Number and Resources of National and State Banks, 1863 to 1869.

Year	Number of Banks		Resources (000,000) Omitted	
	National	State Commercial & Loan & Trust Companies.	National	State Commercial & Loan & Trust Companies.*
1863	66	1,466	16.8	1,185.4
1864	467	1,089	252.2	725.9
1865	1294	349	1,126,5	165.8
1866	1634	297	1,476.3	154.8
1867	1636	272	1,494.5	151.9
1868	1640	247	1,572.1	154.6
1869	1619	259	1,564.1	156.0

* Estimated Resources

Source: Report of the Comptroller of the Currency, 1931, pp. 5 and 6.

The number of national banks increased from 66 in 1863 to 1,294 in 1865 during which time state commercial banks and loan and trust companies declined from 1,466 to 349. The changes in resources were even more pronounced.

Although there was evidently little agitation of the branch banking question at the time of the enactment of the National Bank Act in 1863 and its amendment in 1865, the problem did shortly receive recognition. As early as 1867 there is evidence to conclude that the matter was cause for serious differences of opinion and practice. In the Commercial and Financial Chronicle for January 26, 1867, the

statement is made that some national banks had considered that they had the right to open and operate branches, and that some national banks had actually done so.[1] H. R. Hulburd, Deputy and Acting Comptroller of the Currency, had stated the policy that national banks could not legally open branches.[2] Although the Comptroller was emphatically opposed to branch banking, the editor of the Chronicle was not, and stated that "this decision is not in accordance with the opinion of some of our best lawyers."

Although the discussion and agitation for branch banking continued intermittently, the net result of these numerous forces was the virtual extinction of branch banking in the United States, both in the state and national banks. The country was definitely committed and forced to a unit banking system.

Before long, however, certain changes began to manifest themselves which were to lay the ground work for branches at a later date. One of these was the development of deposit banking which permitted a revival of state banking. Others were the changes which were arising in the composition and numbers of the national banks themselves. A third was the appearances of weaknesses in the banking systems which some thought could be remedied by branch banking.

The rise of the state banks after 1870 is shown in the table below. For comparative purposes data on national banks are included, and the year 1868 also given, this year being the minimal for state banks.

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1. Vol. 4, p. 108.
2. Ibid, p. 108; a letter from H. R. Hulburd to the editor dated January 8, 1867.

Table XI - Number and Resources of National and State Commercial Banks and Loan and Trust Companies, 1868 to 1930 (As of June 30 approximately)

Year	Number		Resources (000,000 omitted)	
	National	State	National	State
1868	1,640	247	$ 1,572.1	154.6
1870	1,612	325	1,565.7	201.5
1880	2,076	650	2,035.4	481.8
1890	3,484	2,250	3,061.7	1,374.6
1900	3,732	4,659	4,944.1	3,090.0
1910	7,145	13,257	9,896.6	7,911.8
1920	8,030	19,603	22,196.7	22,329.8
1930	7,252	15,146	29,116.5	32,972.6

Source: Report of the Comptroller of the Currency, 1931, p. 3 and 5.

These figures indicate that there was an unusual growth in state banks after 1880, both in numbers and resources. They have grown much more rapidly in numbers and resources relative to the national banks. The figures also indicate that the typical state bank is substantially smaller than the average national bank. After 1900 it became possible to open national banks with capital as low as $25,000 compared to the original minimum of $50,000. The purpose was to provide currency in smaller communities, as well as to permit competition with state institutions. Apparently this had little restraining influence on state bank growth.

Whereas the state banks were being fed largely by small banks and small communities, similar changes occurred in national banks. Due to the entrance of new, small banks, the average capital per bank in the national system declined regularly from $239,254 in 1876 to $189,722 in 1887.[1] Between October 1881 and October 1887 the number of banks with capital of $50,000 and less increased by substan-

1. Commercial and Financial Chronicle, Vol. XLV (December 3, 1887), p. 719.

tially more than 100%, banks with capital of over $50,000 capital and including $100,000 increased more than 50% in number. On the other hand banks with capital over $100,000 increased only 15% in number.[1] As an indication of the localities from which these new banks came, it is stated that about 85 per cent of them came from western and southern states.

Additional light is thrown upon the comparison of changes in states and national banks by a few figures. The number of state banks with a capital of less than $50,000 increased from 187 in 1877 to 8,980 in 1909,[2] or an increase of 8,793. This increase of 8,793 small state banks was almost twice as large as the increase of all national banks. While national banks of all sizes increased 4,848,[3] state banks increased 11,767. Of the 8,980 small state banks in 1909, 8,300 with capital of less than $50,000, and 5,600 with capital of less than $25,000 were in the southern, middle western, and western states.[4]

At first there appeared to be a favorable feeling towards the growth of banks--small and large.[5] But it was soon recognized that abuses and weaknesses were involved. Banks were being organized by professional promoters, inexperienced and unqualified business men. This was evident in both state and national banking systems.[6]

A few inferences may be drawn from the preceding sketchy and inadequate statement of changes in banking composition and structure.

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1. Ibid, loc. cit.
2. Barnett, op. cit., p. 208.
3. Report of the Comptroller of the Currency, 1931, p. 3.
4. Barnett, op. cit., p. 209.
5. Commercial & Financial Chronicle, Vol. 50, April 19, 1890, p. 535; Vol. 54, April 16, 1892, p. 618; Vol. 55, Nov. 26, 1892, p. 880.
6. Ibid, Dec. 6, 1873, Vol. 17, p. 765; May 6, 1911, Vol. 92, p. 1217; May 27, 1911, Vol. 92, p. 1408; Oct. 14, 1911, Vol. 93, p. 995.

Quite obviously there was an effective demand for banking facilities in thousands of small communities. Many of these could not support a national bank with its stricter and higher standards; hence they were provided with state banks. With the rapid growth of small independent banks, numerous far reaching problems were introduced, and the way paved for financial difficulties which were to manifest themselves on many occasions in later years. The opportunities for these weaknesses and abuses were far greater in the state banking systems than in the national system, and especially in the western and southern states, those states where economic development had progressed least.[1]

Had the law permitted national banks to open branches, it is quite possible and highly probable that many of these small banks would ultimately have been branches of other banks. Many of the problems of banks failures, currency reform and uncoordination of commercial credit institutions might have been simplified, if not avoided. Such ideas were held by many people of those earlier years.[2] Towards the fourth quarter of the 19th century and commencement of the first quarter of this century there was considerable discussion and agitation for banking and especially currency reform. Branch banking was one of the numerous remedies prominently discussed. It was increasingly evident that one of the weaknesses of our banks was the isolation and lack of coordination.[3] Later years were to bring additional complexities to the fore as the banking system operated under stress.

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1. Barnett, op. cit., p. 223.
2. Commercial & Financial Chronicle, Vol. 117, (Dec. 6, 1873), p. 767.
3. Ibid, Jan. 25, 1902, Vol. 74, p. 179-181.

The problems of banking and currency reform occupied the attention of the National Congress. A bill favorably reported in the House of Representatives in June, 1898, provided both for branches of national banks and an "asset currency" in addition to other forms of currency.[1]

In the meantime the discussion of the merits and demerits of branches was as active in the state banking systems as in the national. Certainly the agitation in the states was more productive of tangible results.

Although New York had in 1844 enacted legislation which was unfavorable to branch banking,[2] it was not until 1892 that a specific and definite prohibition was enacted.[3] In 1898, however, the statute was revised without opposition at the request of New York City bankers permitting any state banks to operate branches within the city.[3]

Branch Banking in the 20th Century

State banks in Illinois had opened branches in 1904 but here they were withdrawn since the State Auditor upon legal advice ruled that they were illegal, even though the law was then silent.[4]

The Massachusetts Commissioner of Savings Banks in January, 1902 ruled that trust companies could not establish branches,[5] but within the year legislation was passed permitting restricted branches within home cities.[6]

At a joint meeting of the Missouri, Kansas, and Oklahoma Territory bankers' associations in 1902, branches provided the main topic.

1. Sound Currency, Vol. 15, No. 12, June 15, 1898, and No. 17, Sept. 1, 1898.
2. Platt, op. cit., p. ; Southworth, op. cit., p. 8.
3. Ibid, op. cit., p. 130; Barnett, op. cit., p. 136.
4. Commercial & Financial Chronicle, Vol. 79, Sept. 3, 1904, p. 882.
5. Ibid, Vol. 74, Feb. 1, 1902, p. 239.
6. Southworth, op. cit., p. 140.

The association condemned it as being "unamerican, unpatriotic, unbusinesslike, and monopolistic."[1] Similar action was taken a few weeks later at the Iowa bankers association.[2] The opinions and acts of these states were typical of most southern and western bankers, who feared branches of large Eastern banks.[3]

Texas passed a law in 1904 virtually prohibiting branches.[4] Branches were being opened by small banks in California prior to 1903, in which year an interpretation of the statute was rendered by the Attorney General favorable to them.[5]

Evidently there was some waning of the intentness and volume of discussion and progress of branch banking during the next few years, as little literature appears until about 1907 when the panic perhaps in part revived the question. New York bank authorities recommended strengthening the regulatory and supervisory provisions pertaining to branches as well as their extension to smaller cities in 1907.[6] At about the same time the Wisconsin Bank Commissioner advocated the prohibition of branches, giving among other reasons the difficulty of conducting adequate examinations of branches.[7] In the same year both Indiana and Oregon ruled unfavorably on branches. In the former State the State Auditor acting on an opinion of the Attorney-General ordered all branches of state and private banks to close.[8] The Attorney-General of Oregon ruled that each branch was "a bank" and must render a report and meet all provisions of the law as would an independent bank as to capital, etc.[9]

1. Commercial & Financial Chronicle, V. 74, May 17, 1902, p. 1006-7.
2. Ibid, May 31, 1902, Vol. 74, p. 1121.
3. Ibid, May 17, 1902, Vol. 74, p. 1007.
4. Barnett, op. cit., p. 135, footnote b.
5. Southworth, op. cit., p. 29.
6. Commercial & Financial Chronicle, Vol. 85, July 27, 1907, p. 197.
7. Ibid, Vol. 84, Feb. 16, 1907, p. 366.
8. Ibid, Vol. 85, July 27, 1907, p. 197.
9. Ibid, p. 195.

Other states in which some definite actions were being taken at or about this time were: Kentucky, which requested banks to give up branches in 1908 based upon a ruling of the Attorney-General;[1] Georgia, in which the Attorney-General ruled that branches were prohibited but that "an office for the convenience of the public in making deposits is not a branch bank";[2] Ohio, where the Attorney-General ruled unfavorably toward extra city branches, but impliedly favored home branches;[3] trust companies in New York were authorized to open home city branches with the consent of the Superintendent of Banking.[4]

A shifting of banks from national to state became apparent at about this time. National banks which had to compete with state banks and branches, found it profitable in some instances to renounce their charters and to enter state systems.[5] The privilege of opening branches provided another inducement for state banks as against national banks.

Interest in banking reform was also heightened by the creation of the National Monetary Commission following the panic of 1907. Among the various plans considered were branches; the original Aldrich plan provided specifically for home city branches and forbade other branches.[6]

Nor was branch banking interest and activity confined to domestic banking. In 1909 the International Banking Corporation, which had been organized in 1902, with head offices in New York, was operating 18 branches, all but two of them in foreign countries.[7] At this

1. Ibid, Vol. 89, Aug. 7, 1909, p. 324. The opinion was upheld by the State Supreme Court on June 15, 1909--see Chronicle, Vol. 88, June 26, 1909, p. 1591.
2. Ibid, Vol. 89, Nov. 13, 1909, p. 1257.
3. Ibid, Vol. 90, Feb. 26, 1910, p. 535.
4. Ibid, Vol. 91, Aug. 20, 1910, p. 436.
5. Ibid, Vol. 84, March 9, 1907, p. 546.
6. Ibid, Vol. 93, Oct. 23, 1911, p. 1158.
7. Ibid, Vol. 89, Aug. 7, 1909, p. 324.

later date it had a capital and surplus of $6,500,000. This corporation was authorized to conduct foreign branches and prohibited to carry on regular banking operations in the United States.[1]

The slowness with which domestic branches developed in these early years is shown by the following tabulation of year of establishment of branches which were operating in June, 1924.

Table XII - Number of Branches Established in the United States, 1865-1924.

Date	Total	In Home City	Outside Home City
1865-69	1	-	1
1870-74	3	2	1
1875-79	3	2	1
1880-84	4	2	2
1885-89	8	3	5
1890-94	24	8	16
1895-99	48	18	30
1900	60	24	36
1905	166	80	86
1910	329	161	168
1915	565	306	259
1920	1,052	629	423
1924	2,233	1,463	770

Source: Federal Reserve Bulletin, Dec. 1924, Vol. 10 p. 935, Table 9.

It is at once evident from the above table that the growth of branches did not assume importance until after 1900. Even though there were as many as 3,618 branches as of June, 1930,[2] the actual branch development is still meager, as will be pointed out more clearly in later pages.

1. Phelps, C. W., The Foreign Expansion of American Banks, p.
2. Federal Reserve Bulletin, Dec. 1930, Vol. 16, p. 813, Table 4.

The trend of the times is fairly well indicated by the efforts to obtain legislation for branches of national banks. In its annual reports, the Federal Reserve Board at various times recommended the enactment of laws giving substantial branch bank privileges to national banks, within restricted areas.[1] Such recommendations were made in the annual Reports for 1915, 1918, 1919, and 1922.[2]

Among the reasons given by the Federal Reserve Board for its recommendations was the superior competitive powers enjoyed by state banks with branches resulting not only in the diversion of business to state banks, often non-member banks, but the impairment of the system through losses of national banks. The Federal Reserve Board appeared to favor branches, not only to aid national banks competitively, but apparently favored branches for the sake of their own advantages.[3]

The Comptroller of the Currency attempted to remedy the situation to a limited extent. He, too, recommended to Congress equilibratory powers for national banks. Upon Congress failing to act the Comptroller himself assumed authority of granting certain national banks right to open "teller's windows."[4] The reasons for desiring such powers for national banks were substantially the same as given by the Federal Reserve Board. By October, 1922, he had granted banks in twelve states and the District of Columbia permission to operate a total of 51 local offices.[5] These local offices could receive deposits, but could not make loans.

A ruling given by the Attorney General in 1923 placed these offices on a somewhat more definite status.[6] The ruling confirmed the

1. Federal Reserve Bulletin, Vol. 10, December, 1924, p. 926-27.
2. Ibid, loc. cit.
3. Ibid, pp. 927-28.
4. Annual Report, Comptroller of the Currency, 1922, p. 4-5.
5. Ibid, 1923, p. 85.
6. Ibid, 1923, p. 12.

rights of national banks to home city offices performing only routine matters.

State banks, particularly member banks, continued the expansion through branches which was restricted to competing national banks. The growth of branches in numbers is shown below from 1920 to 1930.

XIII - Number of Branches in Operation, June, 1920 to 1930.

Year	Total	National	State Member	Non-member (Commercial, Mutual Savings & Private)
1930	3618	1041	1308	1269
1929	3440	993	1298	1149
1928	3230	941	1220	1069
1924	2293*	248	1137*	908*
1923	1882*	200	993*	689*
1922	1602*	136	856*	610*
1921	1211*	65	644*	502*
1920	1052*	56	547*	449*

* These data are for branches in operation in June, 1924. Information for 138 are lacking prior to 1924.

Source: Federal Reserve Bulletin, Vol. 10, December, 1924, p. 935, Table 9.
Federal Reserve Bulletin, Vol. 16, " , 1930, p. 813, Table 4.

From 1920 to 1924 branches of National banks increased from about 5 per cent to in excess of 10 per cent of the total branches in the country. State Member branches accounted for about 50 per cent in 1920 and about the same percentage in 1924. Non-member banks declined from approximately 45 per cent of the branches in 1920 to 40 per cent in 1924.

The increase of national bank branches from about 5 per cent to 10 per cent of the total was very largely due to the permission given by the Comptroller of the Currency to open tellers windows. About 190 of these had been opened towards the end of 1924.[1]

1. Report of the Comptroller of the Currency, 1924, p. 27-28.

The situation, however, was far from satisfactory for the national banks. The status of these teller offices were not definitely fixed by law. They were definitely and sharply restricted to routine banking operations. On the other hand the state member banks enjoyed the privileges of the Federal Reserve System and in many states of liberal branch operations. The national banks of certain states thus faced the competition of state member and non-member branches. Many state banks were permitted to operate state wide systems of branches. This the Comptroller sought to equalize by granting permission to operate limited home city branches where the competitive situation seemed to justify the need.

The matter was further intensified by the deflection of banks to state systems, resulting, in certain localities, in the impairment of national banking and to a lesser extent weakening the Federal Reserve System. This was the situation in several of the larger cities of the country in states permitting branch banking.[1]

Desiring to strengthen the national system, or at least to equalize its powers with state systems, the Comptroller on several occasions recommended limited branch banking, as had likewise the Federal Reserve Board for national banks.[2] The policy of the Comptroller of the Currency appeared to be to give only powers necessary for competitive equalization; the Federal Reserve Board desired to go further and permit rather extensive type of branches to national banks irrespective of state laws.[3]

Being unable to obtain definite legislation from Congress, and desiring to prevent undue advantage of the state members over the

1. Ibid, 1924, p. 4; 1923, p. 6.
2. Ibid, 1924, pp. 4-6; 1923, p. 12.
3. Ibid, 1923, p. ; Federal Reserve Bulletin, Vol. 10, Dec. 1924, p. 927; Annual Reports of the Federal Reserve Board for 1918, p. 83, 1919, p. , 1922, p. 5-6.

national banks, the Federal Reserve Board on November 7, 1923, adopted a restrictive policy towards branches of state banks.[1] A resolution provided that all state member banks were to virtually forego the establishment of branches outside of their home city after February 1, 1924. Likewise new members were to relinquish branches other than in the home city established subsequent to February 1, 1924. Simultaneous audits of head offices and all branches were to be required.[2]

After a great deal of deliberation, uncertainty, and agitation by the various interests, the McFadden Act became law on February 25, 1927. It contained a great number of important provisions regulating banking operations and policies; it also contained specific authorization of national bank branches under certain restrictions.

The important provisions pertaining to branch banking of national banks were:[3]

1. All lawfully operating branches could be continued.
2. When State banks convert into or consolidate with national banks or when two or more national banks consolidate, branches which were in lawful operation when the act was approved may be continued.
3. New extra-city branches cannot be established by a national bank regardless of the state laws regulating state banks. Moreover, extra-city branches of state banks established subsequent to the passage of this act must be relinquished if the state bank seeks to convert into or consolidate with a national bank.
4. Upon approval of the Comptroller, intra-city branches can be established in states which permit state banks to operate branches. This right is subject to the following restrictions as to the number of branches in cities of various sizes.

1. Federal Reserve Bulletin, Vol. 10, April 1924, pp. 282-85.
2. Preston, op. cit., p. 212.
3. Most of these are copied almost verbatim from Preston, H. H., "The McFadden Banking Act", American Economic Review, Vol. XVIII, p. 200, June 1927.

(a) No branch in cities of less than 25,000 population.
(b) One branch in cities of 25,000 to 50,000
(c) Two " " " " 50,000 to 100,000
(d) Any number, within the discretion of the Comptroller in cities of over 100,000

5. Approval of the Comptroller must be obtained for the change of location of a branch.
6. The right to retain foreign branches and to establish new ones is not affected.

The important provisions pertaining to state bank members of the Federal Reserve System are:

1. All branches in operation at the time of passage of this act may be continued.
2. New extra-city branches cannot be established.
3. New intra-city branches can be established if permitted under state law. These are not subject to the population limitations imposed upon national banks.
4. A state bank hereafter applying for membership in the Federal Reserve System must relinquish extra-city branches established subsequent to the approval of this act.

From its passage the law was neither an adequate nor a satisfactory reform. For the most part it embodied the ideas which Comptroller H. M. Dawes had previously formulated.[1] The law was a compromise in which the opponents of branch banking gained the "lion's share" of objectives.[2] It restricted national banks to home city branch expansion, and also state member banks. It gave first consideration to the state laws, and forced national banks to be guided by the powers given by each state to its state banks.

It is true that Congress declared a national policy with the passage of this act, but this policy decreed that branch banking for member banks was to be one of local option for each state.[3] A truly national policy was subverted to local interests.

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1. Preston, op. cit., p. 214.
2. Bradford, F. A., "Proposed National Banking Legislation", American Economic Review, Vol. XX, p. 401.
3. Preston, op. cit., p. 212.

The utter confusion which accompanied the passage of the act is well illustrated by the fact that many proponents of branch banking argued in favor of the bill as achieving the objectives sought, while at the same time the opponents of branch banking pointed to it as dealing a death blow to branch extension.[1] Comptroller Dawes was opposed to branch banking per se, but felt it necessary to give national banks limited competitive powers. He did not object greatly to home city branches, these being subject to local control and not tainted by "absentee control" as in the case of extra-city branches.[2]

The trends of the events of these years was to deprive a few member banks with branches of their full privileges. Earlier (1919) the Federal Reserve Board had induced state banks to enter as members on the understanding that there would be practically no restrictive influences upon branches. The policies formulated in 1923 and 1924 and the McFadden Act of 1927 definitely violated these earlier policies. They did not, however, prevent the expansion of state branch banks, since the larger banks at least were able to circumvent the law through the use of corporate organization. Whereas the intent of the McFadden act was to place both state member and national banks on an equal plane and deprive the former of an advantage they formerly held, it is doubtful that this has been achieved.[3]

That the McFadden Act has produced important realignments in banking is rather clear. By referring to Table XIII on page 159 some of the changes may be noticed. Based on the data there, the following percentages are computed.

1. Commercial & Financial Chronicle, Vol. 1242, April 16, 1927, p. 2277.
2. Preston, op. cit., p. 214.
3. Ibid, p. 212-13.

Percentage Distribution of all Branches as to National, State Member, or Non-member Bank, 1924 and 1930

	1924	1930
National	10.8%	28.8%
State Member	49.7	36.2
Total Members of F.R.S.	60.5	65.0
State Non-member	39.5	35.0
Total State member and Non-member	89.2	71.2
Total all bank branches	100.0%	100.0%

From the point of view of numbers of branches, it may be concluded that since the passage of the McFadden Act the national banks have obtained a great number of branches, sufficient to increase from 10.8 per cent of the total in 1924 to 28.8 per cent in 1930. State member banks show the smallest increase in absolute numbers and have actually declined relatively to the others. Branches of non-member banks have increased absolutely, but not relatively so much as those of the national banks. The number and percentage of branches under the control of the Federal Reserve System have increased from 60.5 per cent in 1924 to 65 per cent in 1930.

The McFadden Act has had some direct and indirect influence upon state banks and state bank laws. For instance the passage of this bill automatically gave branch privileges to New Jersey state and national banks, since the New Jersey law had provided that state banks were to have branches when national banks could likewise have them.[1] When in the same year a law was proposed in Massachusetts to give trust companies power to establish extra-city branches, the restraint of the McFadden Act aided in the defeat of the bill.[2] Because na-

1. Commercial & Financial Chronicle, Vol. 1242, April 2, 1927, p. 1925.
2. Ibid, p. 1926.

tional banks could not establish extra-city branches they opposed the bill with success. A third case arose in Washington where national banks sought branch privileges. National banks there proposed a law permitting branches, but it was withdrawn under great criticism.[1] State banks were in the minority in the cities, and the national banks would have been the prime gainers had branches been authorized.

In recent years a number of other states have modified their laws pertaining to branch banking. A few of these changes will be discussed in subsequent pages. At this point, a tabulation of important provisions affecting branch banks is given in the accompanying insert. This is compiled mainly from data which has appeared in the Federal Reserve Bulletin from time to time, in sundry issues of the Daily American Banker, and state statutes. It is based, to a large extent upon the writer's classification and interpretation of the laws and abstracts as reported in these sources.

The states and their data are classified according to the nature of their branch banking statutes as of May 1, 1933. In the first group are the states permitting state wide branches. This includes those states for the most part in which branch banking has its freest opportunity and greatest full fledged development, as will be pointed out later. Four of these thirteen states have come into this group in the last three years. These four, Nevada, Oregon, Washington, and Utah, had formerly prohibited branch banking. All these thirteen states except Maryland and Vermont expressly provide for branches on a full basis, i.e., they expressly permit all normal banking activities to be conducted at branches and with practically no restriction as to geographical areas. In Maryland direct implication for full

1. Preston, op. cit., p. 213, 1927.

Table XIV - Summary of Branch Banking Provisions in the Various States, May 1933

State	Natureof legal Provisions	Type of Office Permitted	Geographical Restrictions	Supervision of Banking Officials	Type of Bank Which may open Branches	Amount of Capital and Other Provisions
Group I - States permitting state-wide branch banking						
Arizona	Express Statute	Full Branch	None	Superintendent of Banks may give his consent if public convenience and advantage are promoted.	Banks & trust	$50,000 capital and surplus plus $15,000 per branch
California	" "	" "	"	ditto	ditto	$50,000 for each home city branch; must equal local bank requirements for out of town branches
Delaware	" "	" "	"	Bank Commissioner authorizes branches	ditto	Capital of $25,000 for each office plus $25,000 for each previously operating office.
Maryland	Implied in statute	" "	"	-	ditto	Equal to that required for independent banks or trust co's.
Nevada[1]	Express Statute	" "	"	Written consent of Superintendent of banks.	-	State wide branches for banks with capital and surplus of of $1,000,000; two adjoining counties for banks with not over $50,000 capital and $25,000 surplus
North Carol.	" "	" "	"	Corporation Commission may give consent if public convenience and advantage are promoted	Corporations, individuals receiving money or deposits and industrial banks	$25,000 for parent bank capital plus $25,000 to $100,000 per branch, depending upon population of town.
Oregon[2]	" "	" "	"	Shall be approved or disapproved by Superintendent of Banks.	Banks or trust	State-wide branches for banks or trust co's. with $1,000,000 capital or more. Any bank or trust co. in counties of less than 200,000 population may establish branches in "trade areas". Capital and surplus of bank and branches shall equal that for independent banks.
Rhode Island	" "	" "	"	Board of Bank Incorporation	Bank and trust	Same as for independent banks.
South Carolina	Implied in Statute	" "	"	-	-	Branches may be opened in towns without banks or by consolidation
Utah[3]	Express Statute	" "	"	State Bank Commissioner	-	-
Vermont	" "	Agencies	"	Bank Commissioner shall determine Whether the branch will promote the general good of the State	Savings banks & trust co's.	-
Virginia	" "	Full Branch	"	Bank Commission may authorize branches in its discretion	Banks & trust	"$50,000 capital and surplus". Home city branches, except in cities of 50,000 population and over. Does not prohibit acquisition of branches in adjoining counties by merger.
Washington[4]	" "	" "	"	Branches may be opened with approval of Supervisor of Banking		State-wide branches for banks or trust co's with capital of $500,000 or more; home city branches for those with capital of $200,000 or more. Capital shall equal or exceed that required for independent banks. Any extra-home city branches may be acquired only by merger in towns with unitbanks.
Group II - States permitting branches within limited areas						
Georgia	Express Statute	Full branch	City or municipality	-	Chartered banks	-
Indiana	" "	" "	County(if no other bank in operation)	State Charter Board shall ascertain that public convenience and advantage will be promoted	Bank, trust, or safe deposit co.	One branch in cities of 80,000 to 125,000 population unlimited branches in cities of 200,000 pop. of over.
Iowa	" "	Agency (no loans)	Contiguous Counties	Subject to the jurisdiction of Banking Department	Banking institutions	In county seats of over 50,000 population, one home city branch may be established for each $225,000 of cap. & sur. Branches may be established only in towns without facilities and must be withdawrn if new unit bank opens.
Louisiana	" "	Full branch	Municipality or parish	Obtain certificate of authority from State Bank Commissioner	Trust & savings & Safe Deposit	$50,000 cap. to operate one branch; $50-75,000 cap. operate 2 branches; $75-100,000 cap. for 3 branches; increasing amounts until 7 branches is reached at $300,000 capital; above that amount $100,000 is required for each branch.
Maine	" "	" "	County or adjoining county	Bank Commissioner shall issue warrant when satisfied that public convenience and advantage will be promoted.	Trust & bank	Capital must equal that required in place of population equal to aggregate population of all offices.
Massachusetts	" "	" "	Town	Board of Bank Incorporation may authorize branches	Trust companies	1 branch if population is 50,000 or less; 2 branches if population is 50-100,000. Any office may be acquired by merger.
Mississippi	" "	Agencies[5]	City (but branches may be removed to another)	Superintendent of Banks may permit branches when he believes that public convenience and interest will be served	Bank	A capital sum set aside and devoted to each office shall not fall below $10,000; branches permitted only in cities of 10,000 population or above.
Montana	" "	Full branch	Adjoining counties	Written consent of Superintendent of Banks	Bank	If the banks consolidating have a paid up capital of $75,-000 or more, each office may be operated. De novo offices are not authorized.

Table XIV (continued)

State	Nature of legal Provisions	Type of Office Permitted	Geographical Restrictions	Supervision of Banking Officials	Type of Bank which may open Branches	Amount of Capital and other Provisions
Group II (continued)						
New Jersey	Express Statute	Full Branch	Same city, town, township, borough, or village or in the county by merger of banks.	Approval of Commissioner of banking shall be given only if it shall appear to him that branches will be of public service.	Bank (other than savings) and trust	$50,000 added capital for each branch if a bank and $100,000 added capital for each branch if a trust co. State banks may operate 3 branches in cities of 40,-80,000 population .No. of branches in cities of above 40,000 pop. for trust co's and above 80,000 pop. for banks determined by Commissioner of Banking.
New York	"	" "	City limits of cities of 50,000 population or more	Superintendent of Banking shall give his written approval if expedient and desirableand for public convenience and advantage	State banks & trust co's. & savings banks	Paid in capital of $100,000 per office in cities of 50,000 population or more.for state banks. Trust Companies must have $100,000 for parent bank plus $100,000 per branch in cities of less than 25,000 pop. and same home office capital plusamounts ranging up to $500,-000 per branch in cities of more than 250,000 population. Savings banks may acquire branches by merger, and in cities of 175,000 population or over, they may open one office.
Ohio	" "	" "	City, or contiguous city or village or counties in which located	Consent and approval of Superintendent of banks.	Commercial, savings, and trust.	
Pennsylvania	" "	Agency 5	Corporation limits of same place where National Banks were operating agencies, branches, etc. as of March 1, 1927.	-	Commercial, savings, and trust.	
Tennessee	" "	Full branch	County wherein principal office is located and principal business done	-	-	
Wisconsin	" "	Stations in the county or branches in cities by merger	Same city at location of closed bank taken over, and "stations" with limited functions in places deprived of facilities in the same county.	Authority of Commissioner of Banking	-	In villages of less than 800 population may open not more than three "stations" all in same county for intervals of three years and renewable. Any bank taken over at failure, may be operated as a branch in the same city as absorbing bank. ~~Extra home city branches may be acquired only by consolidation in towns where a bank is already operating.~~

Group III - States having no Legislation regarding Branch Banking

Kentucky	Court Decision	Agency to receive deposits or pay checks	Home city.	
Michigan	Judicial Opinion; Statute provides for Industrial Banks within city.	Agency	" "	
New Hampshire	Branch banking prohibited by administrative practice.			
North Dakota	" "	"	" "	"
Oklahoma	" "	"	" "	"
South Dakota	" "	"	" "	"
Wyoming	-	-		

Group IV - States Prohibiting Branch Banking

Alabama	Idaho	Nebraska
Arkansas	Illinois	New Mexico
Colorado	Kansas	Texas
Connecticut	Minnesota	West Virginia
Florida	Missouri	

1. Nevada Banking Act of 1933, Sec. 1, P.10, Approved March 28, 1933.
2. Oregon Laws, 1933, Amending Chapter 150 of the Oregon Code, 1930, approved Feb. 28, 1933.
3. American Banker, Vol. XCVIII, No. 77, April 4. 1933, p. 1 and 8.
4. 1933 Amendments to the Laws of Washington relating to State Banks & Trust Co's., Division of Banking, Olympia, Wash.
5. Southworth, op. cit., p. 22.

Sources: Federal Reserve Bulletin, Vol. 16, April 1930, p. 258-266, and as revised from time to time to the issue of January 1932; Current issues of the American Banker, Vol. XCVIII; statutes and miscellaneous sources.

branches is found in the statutes while in South Carolina direct authority by implication can be found. Vermont provides for "agencies" although in practice these appear to be full branches.

Virginia permits banks in the same or adjoining county to merge and continue operation of the merged offices. In addition it permits de novo branches in cities of 50,000 population or more, but since the state has only three cities within this category, the provision is not broad.[1] The other eight states have no real geographical limitations.

In each state except Maryland and South Carolina (the states allowing branches by implication) provision is made for some regulation or control of branches by a state authority. In Arizona, California, Oregon, North Carolina, Vermont, and Virginia, the banking authorities are required to use their discretion in permitting branches. In the remaining states of this group banking authorities are given less complete discretionary power over branches.

Each of the states in this group except Rhode Island, Utah, Nevada, and Vermont require specific amounts of additional capital (and surplus in some cases) for branches.

The second group of states embraces those where the statutes provide for branches, but only within definitely circumscribed areas, or localities. There are fourteen states in this group, four having been added since 1930. These four are Iowa, Indiana, Wisconsin, and Montana.

In all of these states branches are permitted by specific statutory provision. Georgia, Indiana, Louisiana, Maine, Massachusetts, Montana, New Jersey, New York, Ohio, Tennessee, Washington, and under

1. United States Summary, Fifteenth Census of the United States, 1930; p. 34-47.

special condition Wisconsin, provide for operations of full branches. Iowa, Mississippi, Pennsylvania, and Wisconsin (with exceptions) allow establishment of agencies to perform routine duties such as provide cash, take deposits, cash checks, collections, and the like, but not loaning or rediscount operations.

Offices are restricted to city, town or parish in Georgia, Louisiana, Massachusetts, Mississippi, New York, and Pennsylvania. The remaining states of this group allow branches in the "county" or adjoining counties", but there are important exceptions. Thus Indiana permits branches within the county, but limits these to communities without banks. Iowa allows limited agencies in contiguous counties, but only in communities without banks, and the agency must be withdrawn if a local banks should desire to open. Montana permits branches by merger in adjoining counties, but does not authorize de novo branches. In Wisconsin full branches may be operated in the same city as the parent bank provided such branch is acquired by merger to prevent a bank failure or to operate in place of a closed bank. In addition not more than three limited stations or agencies may be operated within the county by a bank establishing such station in villages of less than 800 population which have been deprived of bank facilities.

In Indiana, Iowa, Maine, Massachusetts, Mississippi, New Jersey, New York, Ohio, and Wisconsin, the banking authorities are vested with discretionary and regulatory powers. In Louisiana and Montana the discretionary powers are either omitted or not very emphatic. The other three states make no provision for supervision or regulation.

Group III of Table XIV lists seven states whose statutes are silent regarding branches. In Kentucky the State Supreme Court has construed corporate powers of banks to permit operation of restricted

agencies. In Michigan agencies are operated in home cities under opinion of the Attorney General. Apparently in violation to the law, many Michigan offices perform full branch operations, with little attempt being made to prevent this.[1] In the remaining five states, except Wyoming, branch banking is prohibited by administrative practice.

It may avoid some confusion later to state here that the classification of states which is given in the immediately preceding table is accurate only for the given time. At various times the states have changed their legal provisions. Usually they have allowed branches formerly existing to continue in operation even though the law was changed to restrict them. Thus states prohibiting branch banking will be found to have banks with branches; states limiting branches territorially may have some state-wide branches.

The Federal Reserve Board has in the past compiled data which provide the basis for an analysis and appraisal of the extent of branch banking in the various states. Before proceeding to the presentation of such data a few paragraphs are first given over to a discussion of home city and extra city branches.

Most writers feel that local or home city branches are of a distinctly different order from those situated at a distance or away from the home city of the parent bank. Former Comptroller H. M. Dawes, a bitter opponent of branch banking, which he characterized as "absentee" control with monopolistic tendencies, favored local branches since they were not tainted, but represented " a type of local facility offered by certain city banks to their customers."[2]

1. Southworth, op. cit, p. 119.
2. Annual Report of the Comptroller of the Currency, 1924, p. 3,5.

If branch banking is monopolistic on a state wide basis, due to its ability to absorb banks throughout the state, is it likely to be any less monopolistic when confined to a city or even a county? In the banking difficulties in the city of Chicago during the years 1930 to 1932 it was occasionally pointed out in contrast to New York City and other large industrial centers in which branch banking was permitted. The contention was that the large banks through their branches, and their ability to take over weak outlying banks as branches, could prevent a serious crop of failures such as occurred in Chicago.[1] This contention is apparently valid. But it is a clear proof of the inadequacy of such opinions as that of former Comptroller Dawes. No clearer proof is needed than the great objections voiced by the Cook County Bankers when the McFadden bill was being considered. There is no reason to say that branch banking is monopolistic and fosters absentee control when extended over a state or county, and that it is not so when limited to a city.

There are other differences between local and extra city branches. It is rather interesting, however, as indicating no fundamental difference in operation, technique, and purpose between local and extra city branches, to look to the practice of branch banking in the other countries studied. In Canada, Scotland, and England there are <u>banks of branches</u> in which a home city branch even though located at the place of the head office is managed on the same general principles as the distant branches. In the United States there are <u>banks with branches</u>. Perhaps this aids in explaining the fallacy of the favorableness to local branches, but the unfavorableness of outside branches.

1. See for instance the Chicago Daily Tribune, April 21, 1933, article headed "Lamont Urges Branch Banking in Chicago Area", p. 30.

Fundamentally, local branch banking alone does not permit full achievement of many of the advantages of unrestricted branch development. The advantage of diversification cannot be fully gained. The problems of management and communication are not so important when closely situated by the parent bank. For these and other reasons, it must be granted that home city branches are less of a problem, and distinguishable from full fledged extra city branches. Without extra city branches, a full branch banking system cannot be achieved.

The figures presented in the next few pages form the basis for an appraisal of recent branch bank development. Based upon the last comprehensive data published in the Federal Reserve Bulletin, there were in June, 1930, 3,618 branches operated by 817 banks.[1] This represented an increase of 58 per cent in number of branches over those operating on the same data in 1924, but an increase of only 13 per cent in number of branch banks. The average branches per bank (with branches) was 3.2 in 1924 and 4.4 in 1930, indicating that the typical branch bank was very small from the point of view of number of branches. This last point is made clearer by observing the following tabulation.[2]

Number of Branches per Bank	Number of Banks 1930	1924
1	443	376
2	144	129
3 to 5	132	
6 to 10	38	
11 to 30	41	176
Over 30	19	
Unclassified (Mutual Saving & Private)	--	33
	817	714

Out of 817 banks in 1930 only 60 had more than 10 branches each.

1. Op. cit., Dec. 1930, p. 814.
2. Ibid, p. 813, Table 4.

Although not shown in the above table, the trend is for banks with few branches to decline and those with many branches to increase. Banks with more than 30 branches have increased from 14 to 19 in number from June, 1928 to June, 1930.[1]

A better picture of the extent of branch banking may be gained by comparing branch bank offices to all banking offices. On June 30, 1924, there were 31,289 offices of banks, branches, and agencies.[2] Six years later the total bank offices was 27,470, or a decline of 12 per cent. This is a sharp contrast to the increase of branches mentioned above. The total number of non branch bank offices declined from 28,282 to 23,035 or 19 per cent and at the same time the number of branches and head banks increased from 3,007 to 4,435 or 47 per cent. In 1924 the offices of branch banks constituted 9.6 per cent of all banking offices, in 1930 they constituted 16 per cent of the whole. As will be shown later, however, a very large percentage of all branch offices are in state limiting their scope of operations.

A somewhat less complete set of data is available relative to dollar values. On the basis of Loans and Investments, branch banks accounted for an even greater proportion of the total than they did numerically. Out of $58,108,000,000 in Loans and Investments as of June, 1930, branch banks had $25,161,000,000 or 43 per cent.[3] But this includes some of the great industrial states with limited branch banking such as New York, New Jersey, Pennsylvania, Michigan.

Data for 1924 comparable to loans and investments of branch banks for June 1930 is not available. Data as to resources, however, is available, and by stating this as percentage figures, some reasonable

1. Ibid, p. 813, Table 4.
2. Ibid, p. 812, Table 2.
3. Ibid, p. 816.

comparison may be made between 1924 and 1930. Branch banks as of June 30, 1930, owned resources of $15,973,000,000 whereas the total resources of all banks in the country was $49,377,000,000.[1] Thus 32.3 per cent of the total resources belonged to banks operating branches. As mentioned above, a comparable percentage as of June 30 1930, showed that branch banks possessed 43.0 per cent of the loans and investments. Even making due allowance for error in the two sets of figures, there is no doubt but what branch bankshave acquired a greatly increased proportion of the country's resources in the years since 1924.

Without contributing greatly to an understanding of the branch banking developments within the various states, there are a number of facts which do assist in the formulation of a more adequate view of the branch banking situation in the country as a whole. Some of these are presented and discussed in the following paragraphs. Following these, a more significant analysis and appraisal of the situation within groups of states is presented.

As shown at the top of Table XV which accompanies these pages, the 817 banks with branches as of June, 1930, were divided among 165 National banks, 169 State member banks, and 483 non-member banks. The 483 non-member banks consisted of 414 commercial banks, 66 mutual savings banks, and 3 private banks.[2] Thus the percentage distribution of the 817 branch banks was 20.2 for national banks, 20.7 for state member banks, and 59.1 for non-member banks.

1. Ibid, p. 940, Vol. 10, Table 14.
2. Ibid, p. 813, Table 4.

Table XV - Loans and Investments and Numbers of all Banks and Branch Banks in the United States, and Numbers of Branches and Locations of Branches, June 30, 1930.

State	Loans & Invest.		Number of Banks				Number of Branches				Location of Branches		
	All Banks (000,000	Branch Banks omitted)	Total U.S.	Operating Branches: National	State Member	Non-Member	Total	National	State Member	Non-Member	Home City	Home-office County	Outside Home County
Total U. S.	$58,108	$25,161	23852	165	169	483	3,618	1,041	1,308	1,269	2,470	428	720
Group I - State Wide Branches permitted.													
Total Group I	6,524	4,047	1959	35	19	164	1,308	512	186	610	461	226	621
Arizona	75	26	44	-	1	9	27	-	11	16	-	10	17
California	5,353	2,633	437	12	4	37	853	469	104	280	301	101	451
Delaware	166	106	48	-	2	5	13	-	2	11	3	4	6
Dist. of Col.	243	147	40	6	-	6	25	12	-	13	25	-	-
Maryland	847	318	226	3	2	26	129	8	24	97	70	38	21
North Carolina	354	148	391	2	2	52	84	3	7	74	12	26	46
Rhode Island	540	376	35	2	4	6	36	2	26	8	16	13	7
South Carolina	160	76	173	2	1	8	71	6	1	64	7	6	58
Vermont	246	27	103	-	-	7	10	-	-	10	-	8	2
Virginia	540	190	462	8	3	28	60	12	11	37	27	20	13
Group II - Branches Restricted as to Location													
Total Group II	36,843	20,613	7453	121	145	309	2,257	511	1,113	633	1,972	193	82
Georgia	329	163	390	4	4	8	42	24	7	11	19	10	13
Kentucky	529	157	549	4	2	4	31	12	15	4	28	2	1
Louisiana	396	246	222	1	6	36	108	8	35	65	51	52	5
Maine	435	152	131	-	1	24	66	-	3	63	7	38	21
Massachusetts	4,296	1,827	449	17	15	56	168	67	27	74	148	19	1
Michigan	1,982	1,163	731	12	28	22	434	72	302	60	434	-	-
Mississippi	211	30	293	1	-	10	25	1	-	24	1	7	17
New Jersey	2,405	1,088	560	19	19	19	106	33	41	32	96	8	2
New York	17,422	12,174	1122	31	35	37	750	210	467	73	750	0	-
Ohio	2,629	1,435	986	7	21	24	264	13	178	73	232	28	4
Pennsylvania	5,779	1,979	1541	16	14	46	194	45	38	111	185	9	-
Tennessee	430	199	479	9	-	23	69	26	-	43	31	20	18
Group III - Branches Prohibited; branches formerly in operation continued.													
Total GroupIII	13,774	498	12897	8	5	10	52	17	9	26	27	9	16
Alabama	262	8	321	-	1	2	17	-	1	16	-	3	14
Arkansas	194	2	396	-	-	2	3	-	-	3	-	3	-
Colorado	242		270										
Connecticut	1,355		237										
Florida	213		207										
Idaho	76		137										
Illinois	3,814		1683										
Indiana	811	48	915	1	1	2	9	2	5	2	8	-	1
Iowa	756		1216										
Kansas	376		1051										
Minnesota	877	181	1021	2	-		6	6	-	-	6	--	
Missouri	1,183		1235										
Montana	135		185										
Nebraska	334	8	773	2	-		2	2	-	-	2	-	
Nevada	37		35										
New Mexico	40		53										
Oregon	249	1	228	1	1		1	1	-	-	-	1	
Texas	966		1279										
Utah	159		102										
Washington	455	73	333	1	-	2	5	2	-	3	3	1	1
West Virginia	333		290										
Wisconsin	907	177	937	1	3	2	9	4	3	2	8	1	-
Group IV - No legal provisions for Branches.													
Total Group IV	968	1	1543	1	-	-	1	1	-	-	-	-	1
New Hampshire	300	1	121	1	-	-	1	1	-	-		-	1
North Dakota	101		366										

Table XV - Concluded

	Loans & Invest.		Number of Banks				
	All Banks	Branch Banks	Total U.S.	Operating Branches National	State	member,	etc.
Oklahoma	381		598				
South Dakota	131		374				
Wyoming	35		84				

Source: Federal Reserve Bulletin, Vol. 16, December 1930, Tables 2, 3, 6, and 8, pages 812, 814, and 816.

On the other hand, the 3,618 branches were divided as follows: National, 1,041; state member, 1,308; and non-member, 1,269. Thus the National banks constituted 20.2 per cent of the branch banks and operated 28.8 per cent of the branches, state member-banks constituted 20.7 per cent of the branch banks, but operated 36.1 per cent of the branches, whereas non-member banks accounted for 59.1 per cent of the banks, but operated only 35.1 per cent of the branch offices.

The average number of branches per national bank was 6.3, for state member banks it was 7.7, but for non-member banks the average was only 2.6 branches. Of the 1,269 non-member branches, 1,164 were operated by commercial banks, 101 by mutual savings banks, and 4 by private banks.[1]

The locations of banks and branches in various size of towns and cities (based on the rather inadequate data available) is given below.

Table XVI - Classification of Branch Banks and Branches by Size of Town, June 30, 1930.

Number of parent banks in cities with population of:		Number of "Extra-city branches in cities with population of:	
100,000 or more	344	10,000 or more	278
50,000 to 100,000	78	5,000 to 10,000	92
25,000 to 50,000	80	2,500 to 5,000	144
Less than 25,000	315	Less than 2,500	634
	817	Total extra-city br.	1,148
		Home City branches	2,470
		Total Branches	3,618

Source: Federal Reserve Bulletin, Vol. 16, Dec. 1930, p. 813, Table 4.

In general it can hardly be expected that the 315 banks with branches in cities of less than 25,000 population will provide an adequate

1. Ibid, p. 813, Table 5.

basis for a considerable branch development. It may safely be assumed that these banks and many of those in the larger cities have but one or two branches each. On the other hand, many of the 344 banks in the cities of 100,000 or more population are either national banks which must confine their operations to the home city , or else state banks in those states restricting branches to the home city. For the most part the numerical strength of branch banking in those states restricting branches to cities, is mainly in the larger cities.

Confirmation of the preceding statements is partially based on the following sentences. Of the 2,470 home city branches, 1,982 were in states restricting branches to counties or cities, and about 1,600 were located in states restricting branches to the home city. Sixty-eight per cent of the total of 2,432 home city branches reported in operation as of December 31, 1929, were found in ten principal cities as follows:[1]

New York	580	Philadelphia	133	Boston	66
San Francisco	97	Cleveland	85	Cincinnati	50
Los Angeles	201	Buffalo	73	Total	1,659
Detroit	309	Baltimore	65		

Some light on the problem of de novo branches as against the absorption of branches by conversion is given by the comparison available from February, 1927, to June 30, 1930.[2] On the former date 1996 branches were reported as de novo and on the latter date 2,410 were thus reported, or an increase of 20.1 per cent. Branches acquired by conversion of unit banks numbered 735 in 1927 and 1,060 in 1930, an increase of 44.2 per cent.

1. Federal Reserve Bulletin, Vol. 16, April, 1930, p. 145;
2. Ibid, December, 1930, p. 812, Table 4, and April, 1930, p. 145.

Although de novo branches are twice as numerous as those established by conversion, the actual increase was in the ratio of about 4 de novo branches to 3 converted branches. In a county with many thousands of unit banks, it would seem that branches by conversion would be relatively more common. However, since branch banking is limited to certain states, thousands of unit banks are removed from consideration. It is quite possible that the restrictive policy of the California bank authorities, sharply limiting de novo branches, tended to make branch acquisition by conversion more important in recent years than would otherwise have been the case.[1] Naturally, restriction of branches de novo is in favor of the protection and even perpetuation of the unit bank system since it prevents branch growth except through the unit bankers' acquiescence.

As shown in Table XV, page 174, there were nine states besides the District of Columbia in which branches were permitted on a state wide basis on June 30, 1930. This group of states has been substantially changed in the last few years, (these changes are not reflected here).[2] The nine states in the group permitting state wide branches as of June 30, 1930, were Arizona, California, Delaware, Maryland, North Carolina, Rhode Island, South Carolina, Vermont, and Virginia.

This group of states (including the District of Columbia) had 218 branch banks on June 30, 1930 which were 26.7 per cent of the branch banks on June 30, 1930 in the United States; they operated 1,308 branches or 36.2 per cent of all the branches in the United States. These banks were operating 847 branches outside of their home cities, and this constituted 73.8 per cent of all the non-home

1. Southworth, op. cit., p. 73 to 85.
2. See Table XIV, page 166 for complete statement of changes. These changes are not reflected here since they are very recent, and would not reflect the data correctly as of June 30, 1930.

city branches in the country.

Of the 847 branches which were located outside of the home city, the great majority were outside of the county in which the parent bank was situated.[1] As of June 30, 1930, these states had 621 branches located outside of the home-office county. These 621 branches were 47.5 per cent of the 1,308 branches in these states, and they constituted 86.2 per cent of the 720 branches in the United States which were further removed from their parent banks than the county border line.

Although these banks were operating 26.7 per cent of the banks with 36.2 per cent of the branches in the United States, they controlled but 16.1 per cent of the total amount of loans and investments of all branch banks, and but 7.0 per cent of the total loans and investments of all banks in the country.

On June 30, 1930 there were 35 National banks in this group which had 512 branches, an average of 14.6 branches per bank. The 19 state member banks operated 186 branches, or 9.8 branches per head office. B oth as head offices and number of branches, the non-member banks are more numerous, there being 164 non-member banks with 610 branches. But the average branches per non-member bank was only 3.7, well below the averages for state member banks and national banks.

The 218 banks in these nine states which operated branches were 11.1 per cent of all banks in these states. They controlled 46.7 per cent of all bank offices and loans and investments of all banks in these states. In contrast to these figures, similar data show the changes from 1924 to 1930. As of June 30, 1924, there were 231 banks operating branches. They constituted 9.0 per cent of the banks in

1. Federal Reserve Bulletin, Vol. 16, Dec. 1930, p. 812, Table 3.

these identical states, and were operating 30.9 per cent of the bank offices and had 50.4 per cent of all resources of all banks in these states.[1] Compared with the figures for 1930, it is evident that there has been a marked growth of branch banking, partially at the expense of unit banks, and partially because of the more rapid growth of branch banking.

A tabulation of certain snginficant data for each state, derived from the data in Table XV and from Tables 11, 13, and 14, pages 937-940 of the Federal Reserve Bulletin for December, 1924, is given below. It shows for each state (1) the percentage of bank offices in branch systems to all bank offices in 1924 and 1930, (2) the percentage of loans and investments in branch banks to all loans and investments in 1924 and 1930,[2] (3) the average amount of loans and investments per bank office in branch banking systems in 1930, and (4) the average amount of loans and investments per bank office of unit banks in 1930. These figures show from the point of view of numbers and loans and investments the relative importance of branch and non-branch banks.

Table XVII - Percentage of Branch Offices to all Bank Offices, Percentage of Loans and Investments in Branch Banks, and Average Loans and Investments in branch and unit office for States with State-Wide Branches, 1924 and 1930.

	Percent Of Bank Offices in branches		Percent of Loans and Investments in branch banks		Average amount of Loans & Investments-1930.	
	1930	1924	1930	1924	Branch Office	Unit Office
Arizona	52.1	31.3	34.7	27.5	$ 700,000	$1,400,000
California	70.2	52.5	78.5	65.3	2,900,000	1,900,000
Delaware	32.8	36.5	63.9	47.5	5,300,000	1,500,000
District of Columbia	56.9	46.2	60.5	46.3	3,970,000	3,400,000
Maryland	45.1	31.1	37.5	31.8	2,000,000	2,700,000
North Carolina	25.3	17.4	41.8	25.3	1,200,000	580,000
Rhode Island	67.6	52.0	69.6	74.0	7,800,000	7,100,000
South Carolina	33.6	6.7	47.5	11.7	930,000	520,000
Vermont	15.0	0.0	11.0	0.	1,600,000	2,300,000
Virginia	19.0	13.4	35.2	22.5	1,900,000	830,000
Total	46.7	30.9	62.0	50.4	$2,650,000	$1,420,000

1. Federal Reserve Bulletin, Vol. 10, December 1924, Tables 11 and 12, pp. 937-938.

2. See footnote 1, next page.

As shown in the preceding tabulation, there are some wide variation in the data from state to state, even within the groups. In 1930 banking offices operated by branch banks ranged from 70.2 per cent of all banking offices in California to 15.0 per cent in Vermont. There is a rather loose relationship between the percentage of banking offices controlled by branch banks and the percentage of loans and investments controlled by branch banks. Thus, California also has the highest percentage of loans and investments in branch banks, namely 78.5 and Vermont the lowest, namely 11.0 per cent.

Comparing data for June 30, 1924 and for June 30, 1930 enables one to judge roughly as to the relative growth of branch and unit banks within the various states. Thus the percentage of banking offices in branches for the state of Arizona increased from 31.3 in 1924 to 52.1 in 1930. Everyone of these states showed growth in this respect.

As to the percentages of loans and investments (resources are used for 1924 as previously explained) every state in this group except Rhode Island showed increases in the percentages controlled by branches. Rhode Island branch banks had 74.0 per cent of the total resources of the state in 1924 and 69.6 per cent of loans and investments in 1930. This decline was not of material significance, and may not be taken very seriously in view of the discrepancy in the data used in 1924 and 1930.

It may be safely said, that in each of these states (with perhaps one exception) there was increased concentration of banking offices and resources. In most of the states this movement was marked and significant.

The data for average loans and investments per branch bank office and per unit bank office also show interesting contrasts. For

this entire group of states, the average amount of loans and investments per branch bank office was $2,650,000 which was far greater than the amount of $1,420,000 per unit bank. It must be recalled, however, that the head offices of the branch banks are most likely to be found in the large cities, where it would be natural to find banks with far greater loans and investments than many of the unit banks frequently located in smaller communities.

California, which had the most extensive development on the basis of percentage of bank offices and loans and investments in branch banks, had 22.3 per cent of the banks which were to be found in these ten states (including District of Columbia) on June 30, 1930, 24.3 per cent of the branches, and 51.3 per cent of all their loans and investments. The dominant position of this state among those states providing for state-wide branches is thus apparent.

In this state there were only 53 banks operating branches, but they controlled 853 branches. Twelve of the 53 branch banks were national, operating 469 branches, or 39.1 branches per bank. Since one of these banks, the Bank of America N.T. & S. A. with its affiliate, Bank of America of California operated over 300 branches at that time, it is obvious that most of the banks with branches were smaller than the above average.[1] The four state member branch banks had 104 branches or 26 per bank, and the 37 non-member banks with branches had 280 for an average of 7.6 branches.

Other states in this group with relatively significant branch development as measured by size of branch systems were Maryland with 31

1. For a more complete treatment of branch banking in California see Southworth, op. cit., Chapters IV-IX

banks and 129 branches, North Carolina with 36 banks and 84 branches, South Carolina with 11 banks and 71 branches, and Virginia with 39 banks and 60 branches. In these last mentioned states, both national banks and state member banks play a smaller role than the non-member banks in the control and operation of branches. The last statement holds true for all the states in this group except California.

If California is taken out, the data for the other nine states (including the District of Columbia) show that on June 30, 1930, 23 national banks in all of them had but 43 branches, that 15 state member banks had 82 branches, and that 127 non-member banks had a total of 330 branches. The non-member banks had almost three times as many branches as the member banks. The average number of branches was greatest, however, for the state member banks.

The second group (See Table XV) consists of twelve states which restricted branch banks to definite geographical areas such as cities or counties.[1]

With respect to numbers, this group of states had 70.4 per cent of the branch banks and 62.4 per cent of the branches of the country on June 30, 1930. Eighty and two-tenths per cent of all the home city branches were located in these states in 1930, but less than one-fourth of all extra-home-city branches were in these states. Although some of these states permitted branches out of the home city, i.e., within the county or adjoining county, the development of branches outside of the home city but within adjoining counties has

1. Indiana, Iowa, Montana, and Wisconsin, which formerly specifically prohibited branch banking in any form, have within the last two or three years modified their laws. These changes are not reflected in the above discussion. For a statement of latest situation in these states, see Table XIV.

in most states not been of material importance when compared to the home branch growth. Of the 2,257 branches, 275 or 12.1 per cent were non-home city branches, and 82 or 3.6 per cent were outside of the county in which the parent bank was situated.[1]

On June 30, 1930, banks with branches were only 7.7 per cent of the total banks in these states; the amount of their loans and investments were equivalent to 55.9 per cent of the total loans and investments in this group of states. In contrast, six years earlier (June 30, 1924) 5.5 per cent of all the banks in these states were branch banks,[2] and 46.7 per cent of the total resources of all the banks belonged to branch banks.

The average number of branches per branch bank was 3.9 and the average amount of loans and investments was $35,800,000 per bank with branches and $7,300,000 per office of branch banks. These figures, of course, are far above those for non-branch banks in these same states since the average is less than $6,000,000 per bank for the states as a whole, including branch and non-branch banks. It is only necessary to notice that some of the great industrial states, including New York, are among this group. The great concentration of money and credit within the large cities of these states, wherein home-city branches are permitted, easily explains most of the above facts.

National banks in these states operated 511 branches, or 4.2 branches per head office. State member banks make by far the best

1. Ibid, December 1930, p. 812, Table 3.
2. Ibid, December 1924, Vol. 10, p. 937 and 978, Tables 11-12.

showing, in so far as their expansion through branches is concerned. The 145 state member banks operated 1,113 branches on June 30, 1930 which was equivalent to 7.8 branches per bank. The non-member banks are far in the ascendency in the number of banks with branches, but in the number of branches per bank they are behind both national banks and state member banks. There were 309 non-member banks with 633 branches, or slightly more than 2 branches per bank.

As indicating the relative importance of branch banks and unit banks within each of these states, the following tabulation is presented. These data are exactly comparable to those previously stated for the group of states providing state wide branch banking.

Table XVIII - Percentage of Branch Offices to all Bank Offices, Percentage of Loans and Investments in Branch Bank, and Average Loans and Investments in Branch and Unit Office for States with Branches Restricted Territorially, 1924-1930.

State	Percentage Of Bank Offices in branches		Percentage of Loans and Investments in branches		Average amount of Loans & Investments Per: (1930)	
	1930	1924	1930	1924*	Branch Office	Unit Office
Georgia	13.4	10.4	49.5	35.6	$2,800,000	$ 440,000
Kentucky	7.1	2.5	29.7	20.6	3,800,000	690,000
Louisiana	45.8	36.9	62.1	54.4	1,600,000	840,000
Maine	46.2	43.8	34.9	30.8	1,700,000	2,700,000
Massachusetts	41.5	36.2	42.5	62.7	7,100,000	6,800,000
Michigan	42.6	37.6	58.7	58.8	2,300,000	1,200,000
Mississippi	11.3	9.4	14.2	11.3	830,000	640,000
New Jersey	24.5	7.4	45.2	16.6	6,700,000	2,600,000
New York	45.6	32.5	69.9	65.6	14,300,000	5,200,000
Ohio	25.3	19.4	54.6	42.8	4,500,000	1,300,000
Pennsylvania	15.6	8.2	34.2	14.8	7,300,000	2,600,000
Tennessee	18.4	11.9	46.3	20.0	2,000,000	520,000
Total	29.2	19.6	55.9	46.7	$7,300,000	$2,360,000

* Total Resources for this year.

As was the situation in the group of states earlier discussed, there were widespread variations in this group from state to state. The percentage of bank offices which are owned by branch banks varies from a minimum of 7.1 in Kentucky to 46.2 per cent in Maine. Here again there is a rather loose relationship between bank offices and loans and investments. In general those states in which branch banks own a small percentage of bank offices, are also the states in which branch banks have a small percentage of the total loans and investments.

Kentucky which had 7.1 per cent of its banking offices owned by branch banks, had 29.7 per cent of its loans and investments in branch banks. Mississippi which had 11.3 per cent of bank offices in branches, had the lowest percentage of loans and investments in branches, namely 14.2. New York had 69.9 per cent of its total loans and investments in branch banks, the highest percentage for any of the states in this group.

Comparisons of the percentage of branch offices to all bank offices in each state for 1924 and 1930 show that the branch offices gained on the non-branch offices in each of the states. The indications of the dollar values for branch and non-branch banks were not so clear. The percentage of loans and investments in branch banks for 1930 compared with the percentage of total resources in branch banks for 1924 shows increases in all states except Massachusetts and Michigan.

Although these figures do not show near so marked a concentration as those for the first group of states, they indicate greater banking concentration within certain areas than might be apparent on first thought. Because branches are confined territorially in these

states, it must be inferred that there is a very high concentration of branch banking within these restricted areas. The increases of 1930 over 1924 are substantial to say the least.

In every state except Maine the average amount of loans and investments per bank office in branch banks was in excess of the amount per unit bank office. Because of the dominance of large city banks, it is not possible to draw conclusions as to the significance of the size of branch office vs. unit office.

Eight of the states in this group at present restrict branches to cities within which parent banks are located, but reference to the last columns of Table XV discloses that every state except New York and Michigan has branches outside of the home cities. In the states of Georgia, Louisiana, Maine, Mississippi, and Tennessee there were more extra-city branches on June 30, 1930 than there were home city branches, although Tennessee and Maine are the only two of these five states now providing for branches outside of the home city of the parent bank.

In only one state, namely Georgia, were there more branches of national banks than either or both of state member and non-member banks. In Kentucky, Michigan, New Jersey, New York, and Ohio branches of state member banks were the most common type.

A third group of 22 states (according to the status of their laws of June 30, 1930) prohibited branch banking. In eight of these states, however, an extremely limited amount of branch banking was to be found. In general, the laws of these states had at an earlier date been either silent or had definitely provided for branch banks, but due to subsequent changes, a few banks which operated branches previous to their prohibition have been allowed to retain them. A list of these 22 states follows; those states in which a limited

branch development was to be found are indicated by an asterisk.

*Alabama	*Indiana+	Nevada+	*Wisconsin+
*Arkansas	Iowa+	New Mexico	
Colorado	Kansas	*Oregon+	
Connecticut	*Minnesota	Texas	
Florida	Missouri	Utah+	
Idaho	Montana+	*Washington+	
Illinois	*Nebraska	West Virginia	

+ See Table XIV for present status of these eight states.

There were only 23 banks operating branches in these states, eight being national, 5 state member, and 10 non-member banks. The typical number of branches appears to be between 2 and 3 banks. Of the 53 branches, 27 were located in the same city as the parent bank.

The 23 banks with branches in these states comprised less than 3 per cent of the total branch banks in the United States, and the 52 branches comprised less than 1½ per cent of the total branches in the country. A further picture of the general development within these states may be drawn from the statement that less than 2 per cent of all banking offices are operated by branches in the eight states indicated above by the asterisk, although these banking offices accounted for 12.2 per cent of the loans and investments of all banks within these same states.

Although the minor development of branches within these states at present does not justify a detailed discussion, the following tabulation is presented for the sake of completeness, continuing the same information as presented for the states which provided for state wide branches, and for those which provided for or permitted limited branch bank operation.

Table XIX - Percentage of Branch Offices to all Bank Offices, Percentage of Loans and Investments in Branch Banks, and Average Loans and Investments in Branch and Unit Offices, for States Prohibiting Branch Banking on June 30, 1930.

State	Percentage Of Bank Offices in branches		Percentage Of Loans and Investments in branches		Average Amount of Loans & Investments Per: (1930)	
	1930	1924	1930	1924*	Branch Office	Unit Office
Alabama	5.9	6.3	3.1	2.3	$ 400,000	$ 800,000
Arkansas	1.3	1.0	1.0	.4	400,000	490,000
Indiana	1.4	1.1	5.9	5.6	3,700,000	840,000
Minnesota	.8	1.0	20.6	15.7	22,600,000	690,000
Nebraska	.5	.5	2.4	1.7	2,000,000	420,000
Oregon	.9	.7	.4	.2	500,000	1,100,000
Washington	2.4	3.1	16.0	9.3	9,100,000	1,200,000
Wisconsin	1.6	1.6	19.5	9.3	11,800,000	780,000
Total	1.5	1.4	12.2	7.7	$ 6,600,000	$ 730,000

As may be seen from the above tabulation, the extent to which offices of branch banks have taken their place side by side with the unit banks was small in every one of the states. Branch offices were most common in Alabama where they were 5.9 per cent of the 338 banking offices as of June 30, 1930. In three states, however, namely Minnesota, Washington, and Wisconsin the percentage of loans and investments in banks with branches was relatively high, being 20.6, 16.0, and 19.5 per cent of the total loans and investments respectively.

A fourth and final group of states included New Hampshire, North Dakota, Oklahoma, South Dakota, and Wyoming. No provision regarding branch banking was to be found in their laws on June 30, 1930. Surprisingly, however, only an insignificant branch development was to be found. New Hampshire was the only state in this group in which evidence of branch banking was to be found. One national bank was operating one extra-city branch.

Data of a satisfactorily complete nature are not available for recent years showing the distribution of branches within and among the large cities of the country, although as already mentioned two-thirds of home-city branches were in ten large cities.[1] The following table, however, although based on old data, for June 30, 1924, does give a definite classification of branches and branch banks by various size groups of towns and cities.

Table XX - Distribution of Branch Banks and Branches by Population of Town in Which Located, June 1924.

Population of Town or city in which bank or branch is located	Branch Banks			Branches		
	Total	Operating Branches in home city only	Operating Branches Outside Home City	Total	In Home City	Outside Home City
Total	681	371	310	2,233	1,463	770
Under 2,500	134	5	129	496	6	490
2,500 to 25,000 . . .	155	45	110	225	50	175
25,000 to 100,000. .	108	80	28	178	123	55
100,000 to 1,000,000	197	154	43	926	904	22
1,000,000 and over .	87	87	--	381	380	1
No report	-	-	-	27	-	27

Source: Federal Reserve Bulletin, Vol. 10, Dec. 1924, Table 8, p. 935.

Among other things, this table aids in the formulation of an opinion as to the validity of one criticism which is so frequently leveled against branch banking--that the agitation and desire for branches comes from large city bankers.[2] In many respects this is doubtless true, but as a generally valid argument it does not appear tenable.

Even in this country, where branch banking has in many states been very definitely restricted to the large cities, the table shows

1. See page 176
2. For example see Commercial & Financial Chronicle, Vol.

that in June 1924, 289 banks with branches, i.e., head offices out of a total of 681 were located in cities of less than 25,000 population. What is more, only 50 of these 289 banks were operating home city branches exclusively, whereas 139 were operating either extra-city branches exclusively or both home- and extra-city branches. It may be safely stated that banks operating outside branches are in a great many cases located in the smaller communities.[1]

Quoting from the Federal Reserve Bulletin, the interpretation of the preceding table follows:[2]

"..... a large proportion of the 1,463 home-city branches are in the larger cities. Table XX shows that 1,284, or 87.8 per cent of them, are in cities of 100,000 or more population. It shows also that of the 770 outside branches, the greater proportion are in the smaller communities--630, or 81.8 per cent of them, being in cities of 10,000 or less.

"A further analysis of the data, not covered in the present tabulations, shows that 27 banks operating 33 outside branches were located in towns of less than 500 population, 9 of the branches being in towns larger than that of the parent bank; that 107 banks located in towns of 500 to 2,500 population were operating 151 branches, of which 6 were home-city and 145 outside branches, and that 107 banks located in towns of 2,500 to 10,000 were operating 205 branches, of which 23 were home-city and 183 were outside branches. The 284 parent banks located in cities of 100,000 or more population were operating a total of 1,570 branches, of which 1,284 were home-city and only 286 outside branches."

It may be well to emphasize that one is well justified in concluding that not only are a great percentage of the branch banks coming from parent banks in small communities, but that a very large percentage of the extra-city branches are in small communities. Branch banking is thus providing facilities in small communities, where the presumption is that there is the greatest need for sound bank facilities. Where the small town branch is owned by another small town bank, however, there may be an element of weakness.

1. Federal Reserve Bulletin, Vol. 10, Dec. 1924, p. 934.
2. Ibid, p. 934-35.

During the past few years the banking situation in the United States has been further highly complicated by the growth and rapid extension of chain and group banking. These forms of banking deserve consideration in connection with branch banking because in certain important respects they seek to achieve the same objectives which are sought by branch banking, and because chain and group banking have, in numerous instances, absorbed branch banks within their folds. The opinions of certain writers that chain and group banking are but temporary expedients seeking to attain the advantages of branch banks in those states where the laws are unfavorable to branch banking, provides further justification for a consideration of the subjects.[1] If these opinions should be warranted, there are great potentialities for further branch banking extension stored up in these chain and group bank systems.

The movement to various forms of chains and group banks may be traced back to the last quarter of the 19th century, and even earlier than that for chain banking.[2] It was not, however, until after 1925 that a new aspect and new impetus were given to these types of banking,[3] although the actual resources and numbers of banks already controlled were considerable.

Some idea of the rapidity of growth may be gleaned from the following. H. P. Willis estimated that in 1925 there were 134 chains or groups with 933 banks under their control.[4] A survey made in May 1930 reported 269 chains or groups operating 1,922 banks.[5]

1. See Cartinhour, op. cit., p. 120 to 121, and "Branch Banking: The First Step", Fortune, December 1932.
2. Cartinhour, op. cit., p. 82 to 98.
3. Ibid, pp. 92-98.
4. Ibid, p. 94.
5. A Survey of Recent Developments in Group, Chain, and Branch Banking, etc., Report of the Economic Policy Commission, American Bankers Association, May 1930, p. 7-8.

Table No. XXI classifies the banks in the United States and their loans and investments as of June 30, 1930 so as to show the relative status of chain and group banking. It shows the extent to which chain and groups have absorbed within their folds single (i.e., unit) banks and branch banks. A picture is readily obtained of the banking situation with respect to (1) banks in chains and groups divided according to unit or branch banks, (2) banks having branches but not in chains or groups, and (3) independent unit banks. This furnishes a view of banking concentration in the country, aside from the looser forms of intercorporate relations which tie many banks together through loose community of interests, interlocking directorates, etc.

Chains and groups controlled 13.7 per cent of the banking offices and 20.7 of the loans and investments of the country. In those states permitting state wide branches, the percentage of banking offices controlled by chains anf groups was 24.2 and they controlled 33.6 per cent of the loans and investments of all banks of these states. In the states restricting branches territorially, i.e., to cities, counties, etc., chains and groups controlled 14.6 per cent of the offices and 16.6 per cent of loans and investments. In states prohibiting branches and in those without any branch banking provisions, chains and groups controlled 9.8 and 18.0 per cent of offices and 25.2 and 24.2 per cent of loans and investments respectively.

Although it may not appear feasible to draw broad conclusions as to the relationships of chain and group banking and branch banking, yet a few interesting relationships may be noted in Table XXI. It will be noted that banks with branches which are controlled by

Table XXI - Percentages of Banking Offices and Loans and Investments in Chain or Group Banks, in Branch Banks outside of Chain or Group Banks, and in Unit (independent) Banks as of June 30, 1930.

Status of Branch Banking by groups of States.	Percentage of Bank Offices					Percentage of Loans and Investments				
	In Chains or Groups			Independent Branch Banks	Independent Unit Banks	In Chains or Groups			Independent Branch Banks	Independent Unit Banks
	Total	Branch Banks	Unit Banks			Total	Branch Banks	Unit Banks		
All banks in the United States	13.7	6.4	7.3	9.8	76.5	20.7	11.9	8.8	31.4	47.9
State-wide Branch Banking	24.2	22.0	2.2	24.7	51.1	33.6	30.0	3.6	32.0	34.4
Branches restricted	14.6	10.3	4.3	18.9	66.5	16.6	12.3	4.3	43.7	39.7
Branches prohibited	9.8	0.1	9.7	0.4	89.8	25.2	3.0	22.2	0.6	74.2
No provisions for Branches	18.0	-	18.0	0.1	81.9	24.2	-	24.2	0.1	75.7

Source: Federal Reserve Bulletin, Vol. 16, December 1930, p. 811 and 816, Tables 1 and 8.

chains and groups accounted for almost half (6.4 per cent out of 13.7 per cent) of the banking offices in the country which belong to chains and groups. Slightly more than half of the loans and investments of chains and groups are derived from their controlled branch banks.

B ut the more interesting aspects of this situation are to be found within the various groups of states. Thus in those states providing for state wide branch banking, it is found that 24.2 per cent of all the banking offices were in chains and groups, but that 22.0 per cent of this 24.2 were contributed by branch bank offices, and only 2.2 were contributed by unit offices. Similarly, of the total of 33.6 per cent of the loans and investments in these states which were controlled by chains and groups, 30.0 were those of branch banks and 3.6 were those of unit banks. A very similar, although not quite so pronounced a situation is found in those states restricting branches territorially.

Of course, in those states where branches are prohibited, and in those where there is no provision for branches, and in which the branch development is relatively meager, almost the entire banking offices and loans and investments of chains and groups are contributed by unit banks.

From the figures in the table as discussed in the three preceding paragraphs, it seems reasonable to conclude that the development of chain and group banking in states with unrestricted branches and in those states with restricted branches is largely idential with branch banking. In other words, in these two groups of states, the chain and group movement has derived most of its banking offices as well as most of its loans and investments from branch banks, unit

banks being relatively unimportant. On the contrary, in states prohibiting branches and without branch provision, chain and group banking is largely identified with unit banks as the source of the banking offices and loans and investments.

If the situation in the first two groups of states, those with unrestricted branches and those with restricted branches, should continue, it would appear that the future of chain and group banking in these states would be in substantial harmony with the future of branch banking. That was the situation on June 30, 1930. This would lead one to conclude that chain and group banking, more particularly the latter, have a definite place in the acquisition and control of branch banks. Whether this would be the situation in a freer and fuller development of branch banking is open to surmise. If the history of banking in other foreign countries is of any significance, there does not appear to be a place for chain and group banking in a fully developed nation-wide branch banking system.

Since the time when this comprehensive survey of banking was prepared by the Federal Reserve Board as of June 30, 1930, some momentous events have occurred in the banking experiences of the United States. First and foremost, for the purpose of this study, there have been important changes in branch banking. Second, there has been a continued decline, both relative and absolute in unit banking as compared with branch banking. And third, the series of banking failures which have been in progress since 1920 and which received a greatly accelerated momentum in the years 1929 to 1933, finally ended in a momentous and complete suspension of banking operations, from which a reduced number of banks have been able to reopen.

The continued growth of branch banking has been marked in cer-

tain states. Among these, and outstanding in their rapid growth of offices and resources, were the states of California and South Carolina. Unfortunately, the data available for this later growth is meager and not coordinated. Furthermore, the results have not been altogether favorable to branch banking.

Although the total number of banks in the country has been constantly declining since 1921,[1] the number of banks operating branches and their branches increased steadily until about June 30, 1930 when they too began to reflect declines. However, even though branch banks were likewise feeling the effects of bank failures, consolidations, etc., they apparently were holding their own better than unit banks.

Table XXII - Number of Banks and Branches in the United States, June 1930 to October 31, 1932.

Date	Total Number Of Banks	Branch Banks				Branches of Banks			
		Total	National	State Member	Non-Member	Total	National	State Member	Non-Member
June 30,1930	23,852	817	165	169	483	3,618	1,041	1,308	1,269
June 30,1931	21,903	796	164	155	477	3,577	1,110	1,287	1,180
Oct. 31,1932							1,314		
Dec. 31,1932	18,390								

Sources: Federal Reserve Bulletin (Vol. 18, February 1932, p. 104
(Vol. 19, May 1932, p.

Annual Report of the Comptroller of the Currency, 1932, p. 23.

As shown in the preceding table branch banks and their branches were declining in number after June 30, 1930 along with unit banks. From June 1930 to 1931 all banks declined by 8.2 per cent, branch banks by 2.6 per cent, and branches by 1.1 per cent.

1. Annual Report of Comptroller of the Currency, 1931, p. 3.

Some very important shiftings in branches are indicated in the data. Although the total number of banks with branches declined from 817 in 1930 to 796 in 1931, it is to be noticed that national banks made a better showing than either state member or non-member banks. From the point of view of branches operated, national bank branches made an even more favorable showing. State member banks lost 21 branches and non-member banks lost 89 branches as contrasted to a gain of 71 branches for national banks. Figures which were available for national bank branches as late as October 31, 1932 show a continuation of the trend towards increased branches. On the other hand, there is no reason to believe that the trend towards declining numbers of branches for state member and non-member banks is different from that just indicated, that is towards decline.

The changes in numbers of unit banks, branch banks, and branches cannot all be attributed to failures. Important changes have occurred through consolidations, voluntary closings, transfers from national to state banks and vice versa, etc. This has been particularly so among state member and national banks, and especially among their branches. Comprehensive data are not available to prove this contention, but reference to facts published by the Comptroller of the Currency are sufficient to support the statement.

Since the passage of the McFadden Act in 1927, no national bank branches have been closed because of insolvency except in the years since 1931. A tabulation for the causes of closing of national bank branches follows:

Table XXIII - Reasons for Closing Branches of National Banks, 1931-32.

Year Ending: December 31	Branches of national banks closed in 1931-1932 Closed by or because of:				
	Shareholders	Directors	Lapsed	Insolvent	Voluntary Liquidation.
1931	2	28	-	15	2
1932	-	27	3	17	87

Source: Annual Report of the Comptroller of the Currency, 1931, p. 15, and 1932, p. 24.

Of the 15 branches closed because of insolvency in 1931, seven were branches of seven different banks, mostly of small capital and located in small cities. The remaining 8 branches belonged to one bank in Los Angeles.[1] Of the 17 insolvent branches for 1932, four belonged to one-branch bank in small cities; the other 13 belonged to 3 banks in large eastern cities.[2]

The great majority of branches which were lost to the national banking system were due to closings by directors and voluntary liquidation of the banks, usually to become state banks or to withdraw from business. Losses did not fall upon the depositors when branches were closed for such causes. In fact, the ability of branch banks to voluntarily close their branches where there is no need for the service of the branch in a particular community, or for other reasons, is one of the advantages of flexibility which branch banks enjoy over unit banks. The unit bank in such a situation must liquidate or ultimately fail, whereas the branch, even though it has suffered losses does not necessarily imperil the entire bank, and depositors are not endangered.

1. Ibid, 1931, p. 17.
2. Ibid, 1932, p. 25.

On the other hand, the extent to which additions to national bank branches were derived from state banks and their branches is shown in this tabulation.

Table XXIV - Manner of Acquisition of Branches of National Banks.

Date	Conversions Of State Banks	Consolidations Of State Banks	Local City Branches
On February 25, 1927	165	-	207
Period ended Oct. 31, 1927	296	104	127
Year ended Oct. 31, 1928	8	62	103
" " " " 1929	2	82	89
" " " " 1930	1	5	86
" " " " 1931	-	95	50
" " " " 1932	-	162	102
Total	472	510	764

Source: Annual Report Comptroller of Currency, 1932, p. 23.

In the last two years alone, a total of 257 branches were added through the consolidation of state banks with national banks. In the same period 152 de novo branches were opened in cities where the parent bank was situated.

In certain other states, notably California, there were great absorptions of unit banks as well as small non-member branch banks into the folds of the larger state member branch banks.[1]

At the Hearings on Chain, Group, and Branch Banking in 1929, a fairly complete list of branch banks which have suspended operations from 1921 to 1929 was published. This follows:

1. See pages 207-209 of the Twenty-Second Annual Report of the Superintendent of Banks of the State of California, and pages 156-158 of report for 1930.

Table XXV - Failures of Branch Bank Systems, 1921-1929.

Year	Number of Branch Bank Systems Suspended	Total Deposits (000 Omitted)	Number of Branches In Operation	
			In Head Office City	Outside Head Office City
1921	5	$10,917	-	5
1922	1	1,151	-	1
1923	1	28	-	1
1924	4	1,365	-	5
1925	2	2,209	1	1
1926	11	7,448	-	33
1927	3	2,851	-	7
1928	4	2,895	1	7
1929	10	19,995	7	11
Total	41	48,819	9	71

Source: Hearings on Chain, Group, and Branch Banking, p. 462.

During the period surveyed by this table 41 branch banks with 80 branches and total deposits of $48,819,000 suspended. This is an average of about two branches per bank and slightly over $1,000,000 in deposits per bank.

These 41 branch banks were divided as follows by the number of branches.[1]

29	banks	operated	1	branch each
6	"	"	2	" "
2	"	"	3	" "
2	"	"	4	" "
1	"	"	5	" "
1	"	"	20	" "

Ten of these banks with 18 branches and deposits of $20,000,000 suspended in 1929.

It is obvious that these were practically all small banks both for branches and deposits. These branch banks constitute less than 5 per cent of the estimated average number of branch banks in operation during the similar period, less than 1 per cent of the total

1. Federal Reserve Bulletin, Vol. 16, April 1930, p. 146.

banking offices of the country, and less than one per cent of the estimated average deposits of branch banks.

It is only necessary to contrast these figures with similar data of bank suspensions in the country as a whole in these same years to obtain a clearer idea as to how less satisfactory the failures of unit banks were compared to branch banks.

From 1921 to 1929, 5642 banks suspended operations of which 763 were national and 4,879 were state. Their combined deposits amounted to $1,721,673,000 of which $355,780,000 belonged to national banks and $1,365,893,000 belonged to state banks. Approximately 19 per cent of the average number of banks in operation during the period suspended, the percentage being 10 for national and 23 for state banks. The deposits of suspended banks were 3.4 per cent of the average deposits of all banks in the years 1921-1929. The percentage was 1.8 for national banks and 4.4 for state banks.[1]

By comparing these figures for all banks, state and national, with those for branch banks, the favorableness of the figures to branch banking is apparent. These figures are not, however, an adequate test of branch banking.

In 1930 and 1931, bank failures and suspensions increased much more rapidly than in the preceding ten years. The failures were no longer confined to the small banks in certain states, but took on a nation wide aspect and even undermined large banks. Remedial measures were provided such as in the Reconstruction Finance Corporation, but it only partially aided the situation. In fact, the help of the

1. Data as to all banks taken from Annual Report of the Comptroller of the Currency, 1932, p. 559-561.

Reconstruction Finance Corporation to banks was in many instances worse than no help, since the depositors frequently became more alarmed when they found out their bank had borrowed money from the Corporation.

Due to the increased momentum of bank failures, depositors lost faith in banks in general, and many sound institutions fell because of the hysteria towards and fear of poor banks. Although the situation became clearer in later 1932, a serious collapse of banking in Detroit and Michigan, precipitated a renewal of the banking difficulties. In this city and state there was a close tie up of limited branch banking and group banking. Their suspension forced suspensions of many correspondent banks throughout the state. Apprehension quickly spread throughout the country.

As has been the case in previous bank crises, the outlying banks of the country feared for their metropolitan balances. Many of them also felt renewed pressure of withdrawals. Heavy and unprecedented calls for balances and accomodation fell upon New York and Chicago banks. In one week alone over $400,000,000 was taken out of New York Banks by domestic banks.[1] Tremendous demands were made for currency as hoarding mounted. In the final collapse the Federal Reserve Banks refused to stand by and see the difficulties tested against its own facilities, thus failing to achieve one of its original objectives, i.e., prevent and ameliorate crises.[2]

Consequently in the first week of March, 1933, banking moratoria were declared in every state in the union and finally on a na-

1. Chicago Daily Tribune, March 3, 1933.
2. Willis, H. P., American Banker, Vol. XCVIII, No. 63, March 18, 1933, p. 4.

tion-wide scale. Under emergency powers conferred upon the executive of the United States, plans were made to reopen sound institutions.

Upon first thought it would appear that the weak banks would be those to fail and likewise be those which did not reopen after bank moratoria. This, however, is only partially true. In the late stages of bank failures, sound as well as insolvent banks were being pulled down. Even after the moratoria it is not possible to say that sound banks have reopened and unsound institutions remained closed.

Col. Leonard Ayres of the Cleveland Trust Company wrote:

"It is a regrettable fact that the very violence of the recent banking crisis greatly diminishes its value as a source of reliable evidence concerning several important questions in our banking practice. It cannot truly be claimed that the recent bank difficulties afforded any valuable criteria concerning the relative virtues or shortcomings of branch, group, or chain banking as compared with unit banking, for all banks alike were forced to close. Somewhat similar comments might be made about national banks as compared with state banks, and about member banks as contrasted with nonmember banks. Nevertheless it does seem clear that the important reduction that has taken place in the number of banks open constitutes an added reason for favoring the extension of branch banking to provide needed facilities in places not otherwise adequately served."[1]

Nevertheless the following paragraphs provide some interesting and even significant comparisons as to branch vs. unit banks. In December, 1930, the Bank of United States with 59 branches and about $250,000,000 resources in the New York City closed. Other branch banks which failed at this time or in the ensuing year were the Peoples State Bank of South Carolina with 44 branches, The Bankers Trust Company in Philadelphia with 20 branches, Security Home Trust Company of Toledo with 20 branches, and the United States National Bank with eight branches in Los Angeles.[2]

1. Cleveland Trust Company Business Bulletin, Vol. 14, No. 4, April 15, 1933, p. 1.
2. "Branch Banking--The First Step", Fortune, December 1932.

With respect to these failures some criticism and comment may be offered. Only one of them, the Peoples State Bank of South Carolina can be considered to have been operating branches over any considerable area. The others were all confined to single communities. It is well recognized that branch banking in its true sense and its advantages cannot be achieved when operations are confined to so small an area.

It may be true, of course, that large banks are usually safer than small banks, but they are not infallible. Dishonesty and fraud were present in the management of the Bank of the United States.[1] The bank had been aggressive and expanded rapidly. Between 1925 and 1930 it increased branches from 5 to 66. It was a too rapid and unhealthy growth. The bank was not a member of the New York Clearing House although it was a member of the Federal Reserve System.

The Peoples Bank of South Carolina had about $28,000,000 resources and $2,400,000 capital and surplus shortly before its failure.[2] It pursued an aggressive and rapid extension of branches throughout the state. Most of its branches were located in small communities. From the first the bank was inadequately capitalized.[3] The bank was not a member of the Federal Reserve System. The state evidently provided for no supervision over branches and their extension, and made no provisions as to capital requirements.[4]

Branch banking, however, was to receive some even harsher blows

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1. Ibid
2. American Bank Reporter, January 1931.
3. Collins, C. W., Questions and Answers on Branch Banking, p. 11, edited by E. G. Bennett, Ogden, Utah.
4. In 1930 the state laws were modified to require each new branch to have the same capital as an independent bank and giving supervision to the banking department. It was too late to help this bank. See Federal Reserve Bulletin, Vol. 18, July, 1932, p. 455.

in the ensuing months. The following list of banks with branches which failed to receive licenses to reopen by April 15, 1933 under the national banking holiday, is taken from the American Banker.[1] It gives not only the number of the bank branches, and amount of deposits, but also indicates the number of affiliated banks and their total affiliated deposits where they belonged to chains or groups.

First National Bank of Detroit, Mich.
Deposits: $423,357,000
Branches: 148
Affiliated with 9 other banks operating 17 bank offices, making a total of 174 offices owned or controlled by the Detroit Bankers Company, and having a total of $484,733,000 deposits.

Union Trust Company, Cleveland, Ohio
Deposits: $194,925,000
Branches: 22

Guardian National Bank of Commerce, Detroit, Mich.

Deposits: $138,385,000
Branches 37
Affiliated with 21 other banks through the Guardian Detroit Union Group, Inc., having a total of 58 offices and estimated deposits of $300,000,000

Guardian Trust Company, Cleveland, Ohio
Deposits: $109,750,000
Branches: 19

Canal Bank & Trust Company, New Orleans, La.
Deposits; $58,243,000
Branches: 20

Hibernia Bank & Trust Company, New Orleans, La.
Deposits: $ 52,863,000
Branches: 9

Baltimore Trust Company, Baltimore, Md.
Deposits: $ 49,000,000
Branches: 19

Union Trust Company of Maryland, Baltimore, Md.
Deposits: $ 45,333,000
Branches: 30

1. Vol. XCVIII, No. 87, April 15, 1933, p. 1. "Branch Banking May be Credited with Greatest Failures in Banking History."

First Central Trust Company, Akron, Ohio
Deposits: $ 41,845,000
Branches: 7

Fidelity Trust Company, Portland, Me.
Deposits: $ 25,604,000
Branches: 11
Affiliated with Financial Institutions, Inc., group of which four other members also remained closed.

North Carolina Bank & Trust Co., Greensboro, N. C.
Deposits: $ 19,337,000
Branches: 15
Affiliated with Industrial Bank with 9 branches.

American Bank & Trust Company, Richmond, Va.
Deposits: $ 15,017,000
Branches: 9

Tennessee Valley Bank, Decatur, Ala.
Deposits: $ 2,988,000
Branches: 15

Casco Mercantile Trust Company, Portland, Me.
Deposits: $ 16,290,000
Branches 9

Page Trust Co., Raleigh, N. C.
Deposits: $ 5,676,000
Branches 13

Union Trust Company, Shelby, N. C.
Deposits: $ 796,000
Branches: 5

South Carolina National Bank, Charleston, S. C.
Deposits: $ 16,814,000
Branches: 5

Central Union Bank of South Carolina, Columbia, S. C.
Deposits: $ 7,364,000
Branches: 4

East Shore Trust Company, Cambridge, Md.
Deposits: $ 12,528,000
Branches: 20

The nineteen banks listed above, with the banks affiliated with them, operated 494 branches which failed to reopen after the bank holiday. They controlled deposits of close to $1,300,000,000. The number of branches directly operated by the banks listed above numbered 417 and their deposits about $1,200,900,000.

It is rather difficult to arrive at a common basis of comparison, since data as to number of banks, branches, etc., preceding and following the bank holiday are lacking. Furthermore, the differences in bank laws and types of banks operating in various states should be considered for an adequate comparison. This is not possible at this time. Nor is information available to appraise fully the causes of the suspension of these branch banks.

A few pertinent inferences and statements may be made, however. Considerably over half of the branches (282) and the vast majority of the deposits ($1,061,262,000) in these branch banks were in states restricting such banks to cities or counties. While a few of those 282 branches were situated outside of the home-city or -county most of them were not. Very few writers would say that banks with local branches were branch banks in the full sense. In fact the opponents of branch banking frequently concede that such offices do not carry the "taints" and advantages of branch banking.

In the city of Detroit were two banks with 185 branches and $562,000,000 deposits which failed. This city was one in which the intensest kind of rivalry and competition was to be found. Branch banking had had a very rapid and intensive growth. In 1929 the city had more banking offices per population than any other branch banking center in the country.[1] In this rapid competition for branches, and largely because of the offices for branches, the banks had greatly burdened themselves with investments in land and buildings, so that they showed the highest percentage of funds so invested of all large cities in the country.[2]

1. Woodworth, G. W., "The Detroit Money Market", Bureau of Business Research, University of Michigan, Ann Arbor, 1932, p. 48.
2. Ibid, p. 54.

Of the 120 branches and $171,865,000 deposits involved in bank suspension in states permitting state wide branch banking, it should be noted that a large percentage of them were in South Carolina and North Carolina. Branch expansion had been unusually keen and unwholesome in these states in the years 1929 to 1931, as was indicated for the Peoples Bank of South Carolina which failed in 1931. The failure of this large bank had produced serious difficulties for the other banks. Evidently this, as well as other causes, contributed to their suspension.

Taking the figure of 494 branches closed with 55 affiliated banking offices, or a total of 549 with bank deposits of $1,300,000,000 as a basis for branch failures or suspensions, comparisons are here made with non-branch and all banks, including branch banks.[1]

There were 17,678 banks operating on March 3, 1933 and 12,666 had reopened by March 17, 1933.[2] For purposes of comparison, it may be safely assumed that there were 750 banks (or more) operating 3,450 branches (or more) or a total of 4,200 branch offices, making a total of 21,128 banking offices at about the time of the banking moratoria. The 549 branch offices (and affiliated branch banks, etc.) which suspended after or during the banking holiday amount to 2.6 per cent of these banking offices. These 549 banks and branches constituted 13.1 per cent of the estimated 4,200 branch bank offices operating prior to the holiday. Contrasted to these figures, there were

1. Obviously, there are wide discrepancies in the figures which follow. The lists of all banks reopened after the banking holiday were prepared on March 17 by the Associated Press (See American Banker, op. cit., p. 1) whereas those for branch bank suspensions were evidently prepared about the end of March or first of April. In the interim branch banks may have reopened. However, all figures are so construed as to favor unit banks. Thus, it has been necessary to estimate the branch banks and their branches in operation. This has been set at 4,200 branch banking offices, which is probably too low, but in the comparisons redounds to the disadvantage of the branch banks.

2. Ibid, Vol. XCVIII, No. 63, March 18, 1933, p. 1.

28 per cent less banks after the holiday than before it, since the number of banks open on March 3 was 17,678, and the number reopened by March 17 was 12,666 or 5,012 closed.

It was estimated that all bank deposits on March 3 were $43,000,000,000 and that all but $5,000,000,000 were free on March 17. The $1,300,000,000 tied up in the branch banks suspended amounted to 26 per cent of the $5,000,000,000 tied up in all banks. On the other hand branch banks had controlled 43 per cent of the country's banking loans and deposits as of June 30, 1930.[1] There is no reason to assume that this proportion had materially changed in the meantime, except in favor of branch banks, nor is there any reason to assume that this proportion had changed materially from what the similar proportions would have been based on deposits instead of loans and investments. In other words, although branch banks accounted for 43 per cent of the loans and investments, the deposits tied up in those suspended amounted to only 3.0 per cent of the total banking deposits.

One may well question the accuracy of these figures, yet unless one is willing to impute a tremendous percentage of error to them, the figures would in all probability still be favorable to branch banks on the basis of such comparisons. It is true, however, that the above figures are not such as one would boast about as indicating soundness for either unit or branch banks. But it must be remembered as pointed out above, that many of these branch banks which suspended were not truly branch systems. Furthermore, as will be pointed out in a later chapter, even these branch banks which operated on state wide bases, would hardly be expected to have achieved the necessary

1. See page 172.

degree of stability and soundness to justify comparison of them with the soundly established and well seasoned banks of the three foreign countries studied. These branch banks of the United States may more justifiably be compared with those of England in the decade of 1835 to 1845 when they were facing problems and conditions similar in many respects to those of our own banks.

Before leaving this chapter on development of branch banking in the United States, some comment deserves to be made regarding changes which have been made in the banking laws of some of the states. Since 1930 there has been a very definite trend in the banking laws of the states towards branch banking which perhaps justifies a belief that these changes are the beginning of a definite and favorable modification of the laws to gradually extend the scope and sphere of branch operations.

Since the beginning of 1930 important changes for the authorization or extension of branch banking have been enacted into the laws of Nevada, Oregon, Utah, Indiana, Iowa, Montana, Wisconsin, and Washington. In addition, modifications have been made in branch banking laws of some of the other states, notably New Jersey, Ohio, South Carolina, and Tennessee.

Certain of these states had made no provisions in their laws either for or against branch banking in the early part of the decade from 1920 to 1930, but with the increased agitation against branch banking, they had passed prohibitory laws. Such states were Iowa, Indiana, and Montana. Yet these states have now seen fit to reverse their stand against branches and to rescind their prohibitory provisions. All the other of this first group of states, with the exception of Wyoming have had legal provisions forbidding branches

for some time, but they have now seen fit to reverse their position, and enact legislation favorable to branches. Wyoming, which had formerly provided for branch banking by implication of its bank laws, and had no express statute, and which as recently as June 30, 1930, had no branches in operation, has more recently placed a specific statute into effect providing for and regulating branch banking.[1]

As indicating a significant explanation for this trend towards branch banking, is the frequency with which these recent laws have carried provisions making them take effect immediately as emergency acts. This in itself, is an indication of the pressure which has been brought to force this legislation. In most cases, both from specific expressions in the laws, and from the manner in which branch banking is permitted, it is obvious that branch banking is expected to fill a gap which the unit banking system has left in these states. In other words, it may be said that for the most part, these changes in laws which have been forced upon the legislatures by economic conditions, which apparently made them brush aside scruples which had formerly restrained them from authorizing branches. A discussion of specific provisions in some of these states will make this clearer.[2]

The laws of Indiana, as amended on March 11, 1931, are illustrative of some of these tendencies towards branch banking liberalization. Apparently the purpose of the laws enacted in this state and some of the others of this group has been to protect the already existing unit bankers who are solvent, and at the same time permit

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1. Federal Reserve Bulletin, Vol. 10, December 1924, p. 930, and Vol. 16, December 1930, p. 817.
2. For a complete tabulation of the provisions and present status of the branch banking laws in these and other states see Table XIV, page 166.

branch banking where it is needed most, and where it will provide service to communities now without adequate facilities, or where unit bankers are weak and might welcome acquisition by other banks.

In Indiana any bank, trust company, or safe deposit company may now establish branches in any city or town in the same county in which the parent bank is located, provided no other bank or trust company is functioning in the community.[1] The law furthermore provides that any bank in a county seat of 50,000 population may open branches in the same city, having not more than one branch per each $225,000 of its capital and surplus. A separate charter is required for each branch opened. The State Charter Board was given substantial discretionary authority. In county seats the board is required to give due consideration of the needs of the community in which the branch is to be established, as well as to the welfare of any other banks already in the community.

Iowa, on March 18, 1931, also provided for branches, but in a form less permanent than Indiana or most of the other states. Subject to the jurisdiction and supervision of the banking department, a bank may establish an office to receive deposits, pay checks, and other routine services in any community in the same or adjoining counties as the parent bank is situated in, provided that no other bank is operating in the community.[2] Should any unit bank be opened in such a community, the branch office must be withdrawn.

Wisconsin is another state in which the emergency nature of the act is apparent, and in which the same desire to protect already existing unit banks is noticeable. Under authority of law passed on

1. Federal Reserve Bulletin, Vol. 18, July 1932, p. 456.
2. Ibid, p. 456.

January 23, 1932, "---- a bank may be authorized by the commissioner of banking----to establish a receiving and disbursing station in a small community which has been deprived of necessary banking facilities through the closing of or cessation of business by a bank located in the community."[1] Branches of this kind must be confined to the county in which the parent is situated, nor may any bank have more than three such branches. These branches are strictly held to routine banking operations. Other detailed regulations are prescribed by the law. Branches of this character may be established for not more than three years at a time, subject to renewal upon approval of the state banking authorities. Nor may such a branch be authorized within three miles of an already existing bank.

The law of this state goes further, however, and provides for permanent branches within cities. Upon the failure of any bank, said bank may be operated as a branch with unrestricted power by any bank in the same city which is willing to purchase the failed bank, subject to the supervision of the banking authorities.

State wide branch operation was authorized by law in Oregon on March 3, 1933. Banks with $1,000,000 capital may now enter upon state-wide branch banking. Smaller banks may also operate branches, but these must be confined to "trade areas". No branches can be set up in towns of 50,000 population or less where banks are already operating except that they first be taken over by the bank as a branch. One of the immediate results of this change in banking law was the creation of two branch banks from some of the banks formerly in group

1. Federal Reserve Bulletin, Vol. 18, July 1932, p. 458.
2. American Banker, Vol. XCVIII, No. 50, March 3, 1933, p. 1.

systems. Two national banks took advantage of the law on April 1, 1933, to convert nine of their former affiliated banks which were situated in the home cities into direct branches.[1]

A most interesting aspect of this conversion of group banks into branch banks was the effect upon their management and personnel. Referring to one of the banks and its former affiliates, the American Banker stated, "Another feature of the branch bank will be that instead of each institution having a president, vice-president, cashier and other officers and a board of directors, all these will be done away with. There will be no board of directors except that of the parent bank, and a manager will direct the affairs of the branch instead of a president or cashier, as heretofore. For example (Mr. __) will be manager----instead of vice-president and cashier as he now is. A dozen or two officials of parent banks who now are officers of group banks, will be relieved of those titles and duties."[2]

1. American Banker, Vol. XCVIII, No. 80, April 7, 1933, p. 1
2. American Banker, Vol. XCVIII, No. 50, March 3, 1933, pp. 1 and 4.

Chapter VI

THE SITUATION IN THE UNITED STATES COMPARED WITH THE FOREIGN COUNTRIES STUDIED

The preceding chapters have presented brief historical sketches of the growth of branch banking in Scotland, England, Canada, and the United States. Some of the material presented in these preceding pages was new; a substantial portion of it was abstracted from earlier treatises on the subject. But by presenting the material in the fashion in which it has been given, a coordinate treatment is provided for all four countries, which facilitates the comparisons and contrasts of the historical development and experiences of each with those of the United States.

In the following pages the material contained in these earlier chapters provide the background for interpretation and historical appraisal of later events, with particular emphasis being given to the situation in this country.

A few pages, however, are first devoted to a limited account of some rather general material which has not as yet been presented. A few facts are presented to show the similarity or dissimilarity of conditions under which branch banking has operated and succeeded. It is only reasonable to see whether conditions in the foreign countries are similar enough to those in the United States to justify conclusions, or whether they are so far different as to obviate their comparative value.

It must be clear from the outset that many factors are not readily measurable. Among these are the characteristics of the people. The Scotch people are traditionally (and doubtless with justification) considered a moderate, thrifty, conservative, and intelligent race. These are characteristics which are desirable for sound banking. On

the other hand, the people of the United States are frequently characterized as uneconomical, easily excited, and speculatively inclined. To the writer these do not appear to be fundamental issues in determining whether the one should have a sound system of banking, and the other not. There are other races, such as the French, the German, and the like, having other and peculiar traits, but it cannot be said that these have greatly fostered or hindered the soundness of banking development in those countries.

Considerations, however, which do appear more important and definite are those of population, area, wealth, and the like, since the profitability and problems of banking will be dependent upon these. The number and types of banks in relation to these factors are significant in view of their success or failure to meet conditions. For this reason a few simple facts are presented.

Table XXVI-Facts on Population, Area, and Trade for Scotland, England, Canada, and the United States

Item	Scotland	England	Canada	United States
Area in square miles	30,405	58,636	3,690,000	2,973,776
Population (000 omitted) (1930 or 1931)	4,842	39,947	1,935	122,775
Population at time of early branch banking (000 omitted)	(1801) 1,608	(1841) 15,914	(1824) 750*	(1840) 17,067
Population per square mile (1930-1931)	159	682	3	41
Exports for 1930-31 (000 omitted)	$3,287,665		$905,370	$3,843,181
Imports for 1930-31 " "	$5,244,200		1008,479	3,060,131

Sources: Statistical Abstract of the United States, 1931
Canada Yearbook, 1930
Dictionary of Statistics,
*Estimated: see Canada Yearbook, 1930, p. 95.

Wide and sharply contrasting variations are to be found in this table. Thus in area, Scotland and England are only a fraction of the size of the United States or Canada. In recent population data the United States far outstrips the others, although on a basis of density of population England or Scotland exceed this country. It may be said that in certain areas the United States displays the density of

population comparable with England and in others the similarity is with Canada.

Going back to earlier times, and selecting a date at or near the early development of branch banking in each of these countries, shows that branch banking was able to function under equally or more divergent conditions in earlier times. Less was known about banking operations and practices at those dates, yet under far less favorable conditions, branches functioned and prospered.

It is true that one cannot say that economic and social conditions in these three foreign countries are similar enough to assume without hesitation that if branches succeeded there that they are equally desirable and will succeed in the United States. Yet on the other hand these three countries present extremes--among the three can be found population density, both greater and less than in the United States, area both larger and smaller, and other extremes in imports and exports.

The very fact that branch banking is found operating under such diverse conditions, certainly no more diverse than are to be found in the United States, may well lead one to conclude that these conditions are not fundamentally different from those that have been and will be encountered here. This last statement is more apparent when one analyzes this country state by state. When one considers the great diversity of conditions, economic, social, and political under which branch banking operates in the several states--even though this statement should be limited to states with state-wide branch banking--an attempt to say that branches may succeed in one locality and not in another does not appear tenable.

The banking growth of the four countries studied presents bases for some interesting comparisons and contrasts. Chronologically, the

branches of the Bank of Scotland, which were established in 1774, far ante-dated the development in the other countries studied. Branch banking in Scotland began its real growth before the unit banks had had an opportunity to become imbedded in the institutions. As pointed out in Chapter II, economic and legal developments were such that they virtually gave the existing banks a monopoly of banking, and restricted growth in later years to the branches of already operating banks. This early supremacy of the branch banks before a great development occurred among unit banks avoided many of the bitter struggles which occurred in England at a later date and are to be found in the United States now. In this respect the history of banking in Canada is similar to that of Scotland. The very earliest banks operated agencies and branches. A number of banks operated as unit banks; but these were few and offered no serious opposition to branch extension.

On several occasions there have been concerted and serious attempts by certain bankers and government officials in Canada to revise or modify the branch banking system. One of these resulted in the act of 1850 which provided for unit banks issuing bond secured currencies. The branch banks on the other hand issued an asset currency subject to limitation of their capital. The experiment was unsatisfactory, if not disastrous, for the unit banks. While it had certain beneficial effects upon the branch banks, in that it forced them into a more willing attitude to serve the public convenience and needs, it did not seriously threaten them. The unit banks, handicapped among other things by the limitations of a bond secured currency, could not compete with the more flexible and advantageously constituted branch banks.

The banking structure of England from 1806 to 1840 and the

United States in the years 1900 to 1933 have much in common, and the experiences of England would appear to be profitable in providing inferences in the analysis of our own present and future banking.

In the first quarter of the 19th century England was witnessing the continuation and culmination of the growth of a unit bank system. Banking instability was repeated aggravated by wide fluctuations in agrarian prices. Laws enacted in the self interest of the Bank of England hindered sound banking progress. The unit banks were private banks which engendered many if not most of the weaknesses of small state and national incorporated banks in this country. Furthermore, the Bank of England had not fully realized or performed the function of a central bank. Effective banking reform was hindered by the self interest of the various groups. Frequently the country bankers were influential, wealthy, landed gentry who were able to exert considerable influence.

Banking in the United States and Canada commenced along similar trends. Both were under the close supervision of England, the mother country. That this influence became more beneficial as time passed is well illustrated in some of the early restraints placed on Canadian banking by England. With the independence of the United States, this beneficial, albeit restraining, regulation was cast off. However, the early plans for banks in the United States were sound, and some of these were copied or modified by the Canadians for their own use. Both Canada and the United States early had branch banks.

Our different political organization, however, with a number of partially autonomous states paved the way for state banks and weakened the efforts in behalf of centralization of banking. Branch banking was to be found to a greater or less extent among the states until the time of the Civil War; it was generally in competition with unit

banks and frequently used as a tool of the state. In those states where banks were properly safeguarded, branch banks were solvent, sound, and satisfactory. In others, branch banks as well as unit banks were discredited.

Canada, on the other hand, although divided into separate provinces and analogous to the United States to this extent, fared far better. The English regulation and advice fostered a system of banking within each province which had many substantial features in common in each of the provinces. These similar features pertained not only to functions of banking and details relating to loaning powers, note issues and other essentials, but also to nature of operations, branches, etc. Thus there never grew up a diversity of interests and conflicting of systems. When the provinces were united into the Dominion in 1867, at which time power over banking was given to the Dominion Government, it was not difficult to mold all the banks into a fundamentally common pattern.

In both England and Scotland, as in Canada, a simplicity of banking operation evolved relatively early in their banking experience. In each of these countries the centralization of government did away with conflicts of state (or provincial) power versus national powers. Instead, especially in England, the conflict of types of banking was engendered by special privileges given to the Bank of England, and later to restrictive legislation aimed to aid private banks and curb joint stock banks with their branches. However, in both Scotland and England, particularly the latter, the restrictive laws against joint stock branch banking were not prohibitive, and branch banks were able to grow around these restrictions and to adapt themselves to them, while at the same time overcoming the rival banking types. The final outcome has been a substantially uniform banking system in

Scotland, in England, and in Canada, each operating under uniform and country-wide laws.

For a while, shortly after the Civil War, the United States did have a relatively uniform and common system of national banks. This was the result of the National Banking Act which did reform the banking and currency as well as provided a market for government bonds. Branch banking at this time did not enter as a serious plan for bank or currency reform.

Towards the end of the 19th century state banking revived, and in the first quarter of the 20th century branch banking revived to a limited extent. In the meantime a great system of unit banks had grown up. That this system of banking was unstable became apparent on several occasions, notably 1873, 1893, 1908 and 1920 to 1933. On each of these occasions a material contributing factor to financial difficulties was the uncoordinated unit banks--particularly the country banks.

On these occasions reforms were discussed, branch banking being one of them. Yet on each occasion it was relegated to the side in favor of some plan less distasteful to unit bankers.[1] On each occasion the plan as finally adopted was adapted to the already existing unit banking system which in itself was apparently in many respects unsound as conducted under the competing and conflicting laws of the 48 states and the national government.

After several years of study, a thorough reform of unit banking was supposed to have been provided by the creation of the Federal Reserve System. Among other things this was to provide an elastic currency, free interflow of capital over the country, and perform the functions of a central bank. Here the fear of a of a central bank with branches was manifest, resulting in the twelve district reserve

1. Eckhardt, op. cit., p. 3.

banks instead of one bank with branches.[1] But the point which needs emphasis is that the Federal Reserve System is itself based upon the premise that the unit bank is the fundamental and sound banking structure.[2] The Federal Reserve System perpetuates, and is itself largely dependent for its existence upon unit banks.

It has been superimposed upon an already too complicated structure of 48 states and a national banking system which latter is permitted to vary to the tastes of each state. Some of these states provide for trust companies conducting commercial and savings bank business also. Others provide for commercial and savings banks. Some banks confine themselves mainly to commercial banking, others to savings business, and still others to fiduciary operations. In recent years some banks have added investment banking functions. Not only is there thus a great heterogeneity of banks performing different functions, but many banks of the so-called "department store" type perform all these operations under one roof.[3]

Here again there is a sharp difference between banking in the United States and in the three foreign countries studied. In Canada and England, the postal savings systems have forced the banks in the past to confine themselves largely to commercial banking.[4] Trust functions are performed by separate groups of institutions. A uniform system of banks with branches, performing essentially identical and primarily commercial banking services is found throughout each of these countries.

Perhaps it should be said in fairness to the Federal Reserve Banks that they might have been more successful with a uniform single system of banking. But the policies of the Federal Reserve Banks do not appear to have been fully conducive to the best interests of banking. The policies have been such as to induce unit banks to employ

1. Nevertheless, the Federal Reserve system is a modified type of branch system.
2. Eckhardt, op. cit., p. 3.
3. The Banking Situation in the U.S. p.6.
4. (next page)

Reserve credit, not only for seasonal or emergency needs, but also for a perpetual fountain of credit. Perhaps in this manner the Reserve System expects to fulfill a two-fold service. Perhaps it feels called upon to provide the kind of facilities which are provided by branch bank systems in taking funds from some sections and feeding them to others, and at the same time be prepared to provide for any seasonal or emergency needs. In the English system of banking one of these services is provided by the branch banks themselves, the other by the Bank of England.

The Reserve system does not remedy many of the weaknesses of a unit system, it perpetuates them and obscures them. The Federal Reserve system, however, is one of the coordinating factors in an otherwise loose and conflicting banking organization.[1] There are, of course, other coordinating factors in the banking system of this country which normally tend to produce harmony of operations. Some of these are to be found in a unit banking system, and do not appear, or at least are minimized in the branch systems of other countries. Among these are the correspondent accounts.

Although the Reserve System was expected to greatly minimize the importance of correspondent relationships, and even though it has relieved them of most of the check clearings, and such routine matters, it has failed fully to accomplish this purpose. Inter bank accounts, inter bank loans, rediscounts are still of prime importance, not only for the non-member bank but also for the member banks. These correspondent relations and inter bank balances have provided the avenue

4. Beckhart, op. cit., p. 318; Butson, H. E., The Banking System of the United Kingdom, edited by Willis, H. P. and Beckhart, B. H. Foreign Banking Systems, Henry Holt & Co., N. Y. 1929, p. 1236.

1. A fairly complete discussion of these coordinating forces is to be found in Chapter I of the Banking Situation in the United States, p. 6-27

for several business services.[1]

Although these business arrangements operate quite well in normal times, in times of difficulty the responsibility of the city bank for its small country customer is secondary to the safety of the city bank. The reverse is also true. The obligations and responsibilities of the city bank are of a purely business character. The metropolitan bank is responsible for a lawful deposit, but each bank has complete freedom of action in giving and accepting advice. The relationship may readily be terminated. Furthermore, as pointed out, correspondent accounts and bankers' balances in the larger cities have been important contributory weaknesses in the late stages of banking difficulties in this country just as they were in England a century ago. Under a branch bank system such as is found in other countries, this is practically negligible.

A third important coordinating force in our unit banking system is the movement so noticeable a few years ago towards concentration through chain and group banking, i. e., ownership of bank stocks by another bank or a holding corporation, or else by a group of individuals.[2] Although this movement was not new to the last ten years, it was greatly stimulated in recent years. This movement towards concentration of banking through various forms of intercorporate relations had a phenomenal growth in the years 1928 to 1930.[3]

There has been and is great diversity of opinion as to the merits and disadvantages of chain and group banking. One writer who made a very exhaustive study of the subject a few years ago came to ~~the~~ con-

1. They are (1) the clearing of a large part of the intersectional checks; (2) the banking of the reserves of non-member banks; (3) the loaning of excess funds through city correspondents; (4) provision for seasonal or extraordinary needs of small banks; (5) giving of investment advice as well as providing an avenue for marketing of investment securities; and (6) providing advice as to bank management and bank policy. (See The Banking Situation in the United States, p. 25)
2. Report of the Comptroller of the Currency, 1929, p. 4.
3. See page 191 and following for brief discussion of chain and group banks.

clusions that were very favorable to the whole movement, particularly of group banking.[1] And yet events that have transpired since then have cast a decided doubt about such conclusions.

In Chicago and Cook County there had been a very marked development of chain banking, group banking, and other intercorporate relationships. A study of the situation there reveals an almost complete breakdown of such relationships with the bankruptcy of bank chains and holding corporations.[2] This study also indicates that independent banks not connected by such relationships have done as well as, or better, than those tied to one another. Other instances may be found in which chain and group banking have proven a bulwark of strength.

A more recent example, and one of more far reaching consequences has been the failure of banking holding companies in Michigan and particularly in Detroit. In this state a great development of chain and group banking had been superimposed on limited branch banking. There has been a virtual collapse of such banking organizations in this state.

Obviously, one cannot draw conclusions from isolated instances. As yet comprehensive data are not available for final decision. There are, of course, many chain and group banks solvently operating today. As in most instances the character of the management is paramount.

That there is, however, some serious doubt arising in the minds of former advocates of chain and group banking, as to its value contrasted with branch banking, is readily surmised from statements such as that made by L. E. Wakefield, President of the First National Bank of Minneapolis and Vice-president of the First Bank Stock Cor-

1. Cartinhour, op. cit., p.
2. Thomas, R. G., "Concentration in Banking Control Through Interlocking Directorates as Typified by Chicago Banks", Journal of Business of the University of Chicago, Vol. VI (January 1933)p.1-14.

poration. Testifying before the Senate sub-committee on Banking and Currency, he stated that, "We have learned by our experiences of the last three years how much more effective branch banking would be than group banking."[1] He further stated that in his opinion the people of the Northwest are now favorable to branches and would like to see them instituted without delay. Such statements coming from people who until recently had a sincere feeling that group banking for their purpose was superior to branch banking, lead one to seriously doubt the value of group banking as a permanent institution.

Comparing the development in the United States with the three foreign countries studied shows no parallel situation in them. For one thing, the small number of banking establishments precludes it. Second, the laws of these countries do not prevent banking concentration through direct ownership.

The whole idea of chain and group banking is not new. Clear instances of banking holding companies were suggested in England 100 years ago.[2] The Bank of Montreal acquired a subsidiary bank in this manner in 1852.[3] It has been used in England in recent years to control Scottish banks and foreign subsidiaries, but in the main simplicity of banking structures are to be found in these countries where branch banking prevails.

Although the Federal Reserve System was intended to provide a greater degree of stability in the banking structure of this country, one may well doubt if this has been accomplished.[4] During the years since its organization and more particularly since 1920 the country has witnessed a period of widespread bank failures, which have gone

1. Commercial and Financial Chronicle, Vol. 134, March 29, 1932, p. 2447.
2. Joplin, T., An Essay on the General Principles and Present Practice of Banking in England and Scotland, sixth edition, 1827, Appendix, p. 156-158.
3. Supra, p.
4. "Reserve System Weakness", editorial, New York Journal of Commerce March 21, 1933.

through the states in waves, moving from west to east. This period of failures and suspensions has finally led to wholesale bank moratoria. Nor is this the first time such a situation has arisen in this country.

A brief scrutiny of some of these failures will aid in obtaining a picture of where some of the weaknesses appear in the banking system. This will furnish some basis for comparison and appraisal in contrast with branch banking.

Facts as to the relative stability of national and state banking institutions are given in the table which follows:

Table XXVII - Average Yearly Percentages of Bank Failures and Suspensions, 1914-1930.

Class of Banks	Average Yearly Percentages of Failures	Average Yearly Percentages Suspended*	Average Yearly Percentage of Liabilities of failed Banks to Total Liab.
State Private Commercial	2.88		3.01
State Commercial Banks	.91	3.60	.46
Loan and Trust Companies	.67		.15
National Banks	.63	1.15	.13
Savings Banks	.52		.05
Aver. for all state banks	1.49	2.99	.30
Aver. for all banks	1.24	2.43	.23

*For years 1921-31 only.
Source: Spahr, Walter E., "Bank Failures in the United States", American Economic Review, Vol. XXII, No. 1, Supp. March 1932, p. 210.

The average yearly percentages of failures or suspensions are far greater for state banks than for national banks. Liabilities of failed banks show the same story. A substantially similar picture is portrayed for a different classification of banks. The results of this second classification of data are again favorable to national banks.

Table XXVIII -Number and Deposits of All Banks in the United States* at the end of June 1920, and Number and Deposits of Banks that Suspended from January 1, 1921 to December 31, 1930.

	Total of all Banks	Member banks		Nonmember Bank
		National	State	
Percentage of the number of banks that suspended during 1921-1930 to Total Banks in Operation in June 1920.....	23.2%	11.5%	18.6%	28.1%
Percentage of deposits of Banks that suspended during 1921-1930 to Deposits of all Banks in Operation in June 1920.....	6.2%	3.1%	4.2%	10.6%

*Exclusive of Alaska and island possessions.

Source: Hearings on Group, Chain, and Branch Banking, Vol. I, Part I, p. 80; Cf. Spahr, op. cit., p. 211.

The relationships existing between bank suspensions and the size of banks as measured by capital, and size of towns in which suspended banks are located, are indicated in the table below.

Table XXIX- Bank Suspensions by Size of Bank and Size of Town, 1921-31.

Banks with Capital of:	Percentage of Total Number of Bank Suspensions			Banks Located in Places of Population	Percentage of Total Number of Bank Suspensions		
	1931	1930	1921-29		1931	1930	1921-29
Less than 25,000	24.5	35.4	31.0	Less than 1,000	46.5	53.6	60.5
25,000 - 50,000	31.9	32.4	17.5	1,000 - 5,000	27.9	28.5	26.9
50,000 -100,000	19.9	16.4	31.8	5,000 - 10,000	6.1	4.5	4.2
100,000 & over	23.7	15.8	9.7	10,000 - 25,000	5.8	4.2	3.2
				25,000 and over	13.7	9.2	5.2
Total	100.	100.	100.	Total	100.	100.	100.

Source: Annual Report of the Federal Reserve Board, 1931, p. 20.

From data such as the above, the conclusion may well be drawn that the greatest percentage of bank suspensions has been among banks with small capital and among banks located in small communities. In 1930 35.4 per cent of banks suspended had capital of less than $25,000; in 1931 this corresponding percentage was 24.5. In general about half of the suspensions had capital of less than $50,000. These figures also show that between 80 and 90 per cent of the banks which have suspended were located in towns with less than 10,000 population.

Furthermore, it should be noticed that the trends of these figures indicate an increasing percentage of suspensions among larger

banks and those in larger communities. Thus 23.7 per cent of the suspensions in 1931 were among banks with capital of $100,000 and over compared witha percentage of 9.7 for the years 1921-29. A similar trend is evident for suspensions in towns above 10,000 population, and especially among towns of over 25,000 population.

From figures such as the above, one is prone to conclude that the small banks in the small towns are the weak parts of the banking system. Evidently this is true as a whole. To enable one to make this statement in a definite manner, it would be necessary to make comparisons among banks of various sizes. Thus, there are many more small banks than large banks; naturally, a larger percentage of bank suspensions are likely to be found among small banks which are generally located in small communities. Although accepting the statement that small banks in small communities are the weak links in the banking structure, it should be pointed out that some studies which have been made throw a certain amount of discredit upon this general premise. When direct comparisons are made between the size of bank suspensions and the number of comparable sized banks in operation, the showing is not nearly so unfavorable for the small banks as the above data would lead one to assume.[1]

A previous table has given facts as to the percentage of bank suspensions to banks in operation. The table below gives actual figures as to the numbers of banks suspending over a period of several years, and provides an insight into the much greater impetus which has come to bank suspensions in recent years. The figures below also indicate that the average size of banks suspending in 1930 and 1931

[1] Pickett, Ralph, "Bank Failures in Iowa", Journal of Business, (Jan. 1929), Vol. II, No. 1, p. 65-81; Winakor, Arthur H., "Bank Failures and Banking Reform", Mid-Continent Banker, Vol. 28, May 1932, No. 5. p. 10-12 and 40-41.

was larger than those suspending from 1921 to 1929 when measured by capital or deposits.

Table XXX - Number of Banks, Capital, and Deposits of Suspended Banks, 1921 to 1931.

Year	Number of Banks	Capital (000 omitted)	Deposits (000 omitted)
1921 to 1929	5,642	$220,823	$1,721,673
1930	1,345	111,643	864,715
1931	2,298	208,120	1,691,510

Source: Report of the Federal Reserve Board, 1931, p. 21.

From data such as these Spahr arrived at the conclusion that "...(1) The heaviest failures, absolutely and relatively, are among the state banks; (2) the failures are greatest among banks with small capitalization; (3) they are heaviest in small towns and villages; (4) they are heaviest among banks outside the Federal Reserve System; (5) they have been uniformly heavier than failures of commercial enterprises since 1920 but not during the period 1892 to 1920; (6) they accompany very closely the rise and fall in commercial failures usually reaching the peak at the same time; (7) they are not only caused by business recessions, but contribute to unsound business conditions; and (8) they are more pronounced than in any other country in the world even in fairly normal and prosperous times, which would seem to indicate that there are some fundamental and organic defects in our banking structure that require correction."[1]

It is not enough to recognize that certain kinds and sizes of banks are the weak links in the banking structure. In order to properly appraise branch banking against unit banking, it is essential to know something about the causes of banking weaknesses. If a branch banking system can hope to remedy some of the weaknesses of unit banks, and does not entail too many drawbacks itself, then it may be considered as a successor to the unit banking systems.

1. Op. Cit., p. 215.

There are, of course, many explanations forthcoming as to the fundamental causes of bank failures. Probably it would be impossible to determine upon a few causes and ascribe all failures to them. Certain causes have been operative at certain times and in certain localities; some causes may have been operative in all communities. It is possible to arrive at a list which will be reasonably acceptable causes of bank failures in general, and which will explain the weaknesses in the banking structure as a whole, although omitting many special conditions and circumstances. The immediately following paragraphs classify causes of banking failures under three broad heads.[1] These are:

(1) Defects inherent in the organic structure of our commercial banks and banking system.

(a) The division of commercial banks into 49 state and national systems is unwise and unnecessary.

(b) There are too many small banks both in large and small towns, but especially the latter.

(c) Too great a percentage of the banks and banking resources do not have access to the facilities of the Federal Reserve system and cannot or will not take advantage of its assistance.

(d) The small unit bank has found it increasingly difficult to obtain adequate diversification of its loans and discounts. In many cases this is due to the fact that the bank is situated in a one-crop community, or a one-industry town, and in other instances it has been due to the quickening of transportation and communication facilities which have enabled profitable business to go to larger cities.

(e) The proportion of paper eligible for rediscount with the Federal Reserve Banks has been too small for safety of commercial banks.

(f) An increasing proportion of the resources of commercial banks has been placed in investments instead of loans and discounts. Furthermore, an increasing percentage of loans and investments has taken the form of loans made on securities. This trend has been of particular significance to the small banks which invest a relatively larger proportion of their resources in local mortgages. In the large degree, these changes have been beyond the direct control of the banks, since there have been fundamental changes in forms of corporate financing

1. The classification of causes of bank failures is largely based upon that used by Spahr (op. cit., p. 215.).

which has driven banks to these changes in distribution of their resources.

(g) The increased number of investment and non-commercial bank affiliates has involved many commercial banks in activities which may well be considered as without the field of operations of commercial banks.

(h) The relatively greater increase of time deposits than demand deposits, without full recognition of the responsibilities, and differences in the two, has introduced weakening forces in the banking structure. Although keeping the minimum reserve of 3% for time deposits, banks have nevertheless allowed depositors to take them out at demand. On the other hand, banks have in many cases made loans on the basis of such deposits which were not appropriate for savings deposits, and they have been able to extend loans and discounts further than would otherwise have been possible.

(i) The costs of operation in a great proportion of the banks have been too high to permit them to earn a reasonable return on the capital employed. This condition has been apparent since 1920 and subsequent years. That it is not ascribable to general business conditions is evident from the fact that thousands of small banks were unable to operate profitably in the period of prosperity from 1925 to 1928.

(j) Poor management generally is associated with small banks. Although the men directing and managing these small banks are hard headed businessmen, they are not bankers in training or aptitude.

(k) Inadequate bank examinations and supervisions are provided by the state and national banking authorities.

(2) Inadequate control of credit by Federal Reserve authorities.

(3) Causes lying outside the banking field.

(a) Maladjustment in production of certain basic products, such as wheat, with consequent disruption of prices. In a large measure, such difficulties may be traced back to the war, which stimulated demand and prices, and created facilities for production far in excess of those able to sustain high prices.

(b) Disturbance of prices and production by various governmental and private price fixing schemes.

(c) Distortion of world trade and world gold supply distribution.

(d) An unusual emphasis upon installment purchasing placed an unusual strain upon credit and production of goods.

(e) The broad shiftings of population and business from small to large communities, related with the automobile hard roads, chain store, holding company, etc. The whole movement towards centralization and concentration of wealth has tended to leave the small bank out of the picture.

Branch banking, of course, cannot hope to overcome all of these difficulties. Some of them involve important changes in banking laws

aside from the authorization of branches. Others are due to broad economic changes to which banking must perhaps adjust itself. But branch banking can overcome many of these weaknesses; a discussion of these is undertaken in a subsequent chapter (No. VIII) on the advantages and disadvantages of branch banking. At this point attention is given to the close analogy between the banking difficulties in England of a century ago and those of this country in recent years.

England from 1810 to 1827 encountered banking difficulties which in many respects were similar to those of this country. Of course, no close comparison may be made as to the numbers of banks, resources, territorial extent, governmental complexities, and the like which exist in the United States with those of England of a century ago.

The difficulties among the English banks may be attributed to some of the same causes which are now to be found in the United States. With the increasing agricultural and industrial needs of the non-metropolitan communities in the last quarter of the 18th century and part of the first quarter ~~of the first quarter~~ of the nineteenth century, there was a real need for banking facilities, and especially for notes for circulation. Because of the alleged monopoly of the Bank of England, and because the Bank refused to cater to the needs of the provincial communities by establishing branches, there was a rapid growth of weak and small banks--private banks.

These conditions may be contrasted to the banking situation in the United States in the fourth quarter of the nineteenth century, when there was considerable demand for banks and note circulation in the western and southern states of this country. Restrictions and prohibitions of branch banking, and the almost complete nationalization of the banking structure during and after the Civil War paved the way for a tremendous growth of small unit banks through the country com-

munities. In the case of the United States, however, most of these banks were corporate banks, although many private banks were organized in the various states, filling the needs of banking facilities in country and small industrial towns. This growth of small banks continued unabated until well into the first quarter of the twentieth century.

In both England and the United States this multiplication of small banks was accompanied by and introduced many weaknesses in the banking structure. A review of the repeated bank failures which occurred in both countries shows that they were either caused by or at least accompanied and aggravated by similar conditions. Some of these are enumerated below by way of example.

Provincial banks developed later than metropolitan banks and under less favorable circumstances. In the United States as well as England, many of these banks were speculatively promoted. The large city banks encouraged the provincial banks, since increases in their numbers and business redounded to the city banks which acted as agents for provincial banks, and in other ways profited from them. There was little direct competition between them. Lack of control over the numbers of banks which could be organized led to creation of excessive numbers.[1] Keen competition led bankers to pay interest and give services beyond their ability to earn. Lowered profits, deficient reserves, and the like resulted. The close relationships of the country banks with agriculture led to frequent loans which had their ultimate security upon real estate. The rapid changes in agrarian prices due to war and due to crop failures produced wide and rapid fluctuations in prices, further aggravating operations which were too

1. State Government, American Legislators' Association, November 1932, p. 11.

intimately related to agriculture. Speculation in commodities with consequent reactions upon prices were not conducive to the solvency of small banks. The discrediting of country bankers due to frequent suspensions, resulted in withdrawals of deposits and runs. The country bankers under such circumstances called upon their correspondents for assistance, which on several occasions set up demands for specie in excess of the immediately available supply.

Although it is not meant to infer that private banks in England were similar to small corporate banks in this country of present and recent years, yet there are some grounds for doing so. A frequent criticism of private banking in England was that it afforded too intimate a relationship between banking and mercantile pursuits by untrained merchants, inkeepers, and the like. And yet a very similar criticism of small banks in this country was recently made by Senator Carter Glass when he said, "Little banks? Little corner grocerymen who run banks that get together $10,000 or $15,000, as it may be, and then invite the deposits of their community, and at the very first gust of disaster, topple over and ruin their depositors. ...."[1]

Naturally, such repeated financial crises called forth widespread criticism and suggestions for reforms. If one is willing to omit many unusual proposals and those of special applicability, it is surprising how many of the proposals of a century ago are similar to those which have been and are now being made for reform of banking here.

Proposals were made in England which placed great emphasis upon currency, since that was the most important public banking function. They involved bond secured currency, guaranteed notes, branch banking for joint stock banks, reform of the Bank of England monopoly on joint

1. American Banker, Vol. XCVIII, No. 59, March 14, 1933, p. 1 and 3.

stock banking which would permit banks with large capital, plans for what is now known as group banking, and the like.

In this country in recent years the emphasis has not been upon currency issues, since deposit banking is more important. But chain and group banks have actively taken their place in the banking structure. Among the plans for bank reform are those raising the minimum capital for new banks to a substantial sum, say $100,000 or even $500,000. Guarantee of bank deposits evidently takes the place of the earlier pleas for guarantee of note issues.

Chapter VII

CHANGES IN THE NATURE OF BRANCH BANKING

Branch banking has been able to adapt itself to changing times and changing conditions. It has shown itself to be just as flexible and pliable, if not more so, than independent or unit banking institutions. It has shown itself to be flexible by its ability to operate under widely varying conditions as to manner of operations, type of banking functions performed, and services offered depositors and note holders.

The opening of the early branches of banks seldom followed any carefully planned program, but were opportunist and chance adventures. It was only as needs for banking facilities in other communities grew, coupled with the desire of the early banks for larger profits, that the venture of opening branches was generally undertaken. Early offices were almost invariably established near the parent bank. Evidently this was due to the feeling that branches nearby could be watched more closely or supervised better, and because there appeared to be a natural evolutionary growth, which at first confined branches to the closer territories such as neighboring towns.

It was not until most of the banks had established several branches, which because of their lack of coordination--territorially --indicated a need for planning, that conscious programs were mapped out.[2] Most frequently such plans took the shape of placing branches at strategic trade and industrial towns within nearby territory. Except in the case of a few of the unusually aggressive banks, the local territories were exploited first, and the gains thus derived

1. Report from the Secret Committee, etc., 1836, p. 107.
2. Sykes, op. cit., p. 29.

provided the stimulus for further expansion. Generally, this wider growth had some predetermined purpose in view.

In spite of the fact that most of the early branches were closely confined to their parent banks, the slowness of post travel and communication was such that the branch managers were required to exercise a far greater degree of independent judgment than would be permitted to such a worker at later times when communication was far better, and when branch control had been more fully developed. Because of changes in economic development, because of changes in banking itself, and because of many other adjustments, the offices which have been opened as branches have varied in scope of operations and local autonomy, and what might be considered a branch at one time would not necessarily qualify as one at another time.

The early Scotch branches although close territorially were far from point of time. The practice developed early of requiring branch officers and clerks to post bonds for substantial sums to protect the banks from errors in violation of the rules laid down by the parent banks, and to protect the banks from defalcations and the like. The very fact that the officials of the parent banks could not keep vigilant supervision over their agents forced them to create local boards at the place of their branches, which would advise and exercise some control over the branch officials.

In England, the Parliamentary investigations of 1836 to 1838 brought out rather forcefully that one of the serious mistakes of the English bankers in opening branches was their failure to choose responsible men and to require bonds of their employees.[1] There too, the need was shown for local supervisory boards, because of the inability of officials of parent banks to visit and supervise

1. Report from the Secret Committee, etc., 1836, q. 252, 258, and 1903-1910.

branches. When the banks later expanded through branches on a planned basis, they made it a point to retain and interest the officials of the banks which they took over in the affairs of the branch.

The experiences of the First and Second Banks of the United States also demonstrate this point. These banks had a limited number of widely scattered branches. They were dispersed over a greater area than the branches of English, Scottish, or Canadian banks of those times. Apparently this widespread scattering of branches did not cause the First Bank any difficulty. But the Second Bank found some of its greatest difficulties and most serious troubles to arise from its branches.

Since they covered most of the states of the Union, it was virtually impossible to keep close contact with them by visit or by communication. Although each branch had a local advisory and loaning committee, these local boards of directors failed to perform their functions in a sincere and sound manner. Because of the great distances separating home office and branches, heavy reliance was placed upon the branch cashiers and local officials. For all practical purposes they were independent banks, except as they received broad instructions of policy and of operations. Under rather loose parent bank management these branches got into difficulties. It was only when strict and close supervision and close curbing of some of the branches' activities were ordered that the Bank was able to extricate itself from its embarrassments.[1]

Somewhat further along this line of thought may be mentioned the Bank of Indiana, the Bank of Ohio, and the Bank of Iowa. These systems recognized the necessity for considerable local autonomy and

1. Dewey, op. cit., p. 172.

a certain amount of centralized supervision and control. Each "branch" was practically an autonomous bank except as to certain functions over which central boards had autocratic powers. This ability of a central board to enforce essential policies, coordinate the strength of the "branches" and keep a check on their management, solvency, etc., combined with a large degree of local authority for the far distant offices, appears to have provided an unusually satisfactory system of banking for those times and conditions.

In contrast to these earlier banks in which substantial discretionary powers were granted to distant offices, are the modern banks in which there is a far greater systematization of banking operations and functions. The ability to systematize much of the work, the ability of parent bank officials to keep in close contact with branch operations by frequent and quick reports, the ability to train men in the policies of the bank managers, and the like, have made it possible to utilize branch managers who are largely confined in their duties to routine operations within the confines of close supervision as set forth by the head office. This has also made unnecessary, or at least less necessary, the use of local advisory boards of directors for branches.[1]

One of the most profitable functions of banking to the branch systems has been the ability to issue notes. The early branches were able to issue notes, which were the type of credit most desired by the business and agricultural communities in the earlier periods, which would frequently remain out in circulation for long periods at a time. Since the notes would be issued for loans and discounts, the bank derived profit in direct proportion to its note issues and the length of time which they remained outstanding.

1. The banks in California still make considerable use of local boards. See Southworth, op. cit., p.

Early attempts to restrict note issues of the banks in Scotland met with serious opposition. Except for the Act of 1845, no heavy restriction has been placed on the note issues of the Scottish banks.

The early English banks, private and joint stock, were also largely interested in note issues. The modification of the Bank of England charter in 1826 whereby joint stock banks were permitted to operate and issue notes outside a radius of 65 miles from London, provided the incentive to the formation of such banks. The opening of branches created another avenue through which these joint stock banks were enabled to increase their notes in circulation. It was only with great reluctance and only after the costs of agency accounts in the London market became exceedingly high that the joint stock banks gradually relinquished their provincial note issue privilege in order to open offices in London.[1]

The Act of 1844 acted as a check on note issues, and as a consequence had a direct effect in curbing branch banking extension. It was only as deposit banking began to supersede note issues that the branch banks of England were able to again resume their normal growth. This was not until the second half of the 19th century. About 1860 they again began to expand through the opening of new branches and the taking over of private banks. Since the private banks were still able to issue notes as fixed by the act of 1844, and since most of the joint stock banks with branches were unable to do so, it is obvious that the large banks were no longer interested primarily in note issues as the motive for acquiring branch offices through absorption of private banks. The efficiencies and advantages of branch banking from the point of view of organization, di-

1. Sykes, op. cit., p. 37.

versification, ability to provide funds where needed and draw them away from localities where they were not needed, and the like had become the dominant cause of absorption of banks as branches.

The early Canadian banks also placed great reliance upon notes as their source of profits, and even now this provides a source of income in the less densely populated provinces and agricultural communities where such medium of exchange are largely used. The situation in Canada represents a compromise in note issues, the banks being permitted considerable leeway in the issue of their own notes, but having been required to forego a large portion of such privileges by the requirements that 40 per cent of their reserves be maintained in the form of Dominion Notes which are issues of the government.

In the United States prior to the Civil War the branch banks also placed great reliance upon note issues. In fact a situation developed in certain states that was similar to that in England. Small banks opened branches whose sole objective was to issue notes, and which did everything possible to avoid payment even where they were solvent.

Although these abuses of note issues had some similarity to those in England, the remedies provided did not have so much in common. In this country, unfortunately, the reform frequently struck at branches. In England it took the form of permitting large strong banks to issue notes, and later of restricting issues of all banks with the ultimate purpose of placing these in the hands of the Bank of England.

The revival of branches in this country must be entirely dissociated from note issues as a motive. The rapid growth of this form of banking must be attributed not so much to its ability to obtain funds, as to its ability to utilize them and to other operating advantages inherent in such institutions.

Although the note issue privilege in this country is a minor factor, it may be well to point out in this connection the advantages of such issues to Canada and Scotland. The same advantages of note issues were also to be found in this country during the operation of the First and Second banks of the United States, as evidenced by the extracts from Catterall's work.[1]

The ability to issue notes in Scotland and Canada has been an important factor in the economy and efficiency of their banking systems. These issues, which are based on the general assets of the banks, provide unusually flexible and readily convertible instruments of credit.

Although the notes are not essential in most business transactions as formerly, they have retained a great importance as a medium of exchange in agricultural and thinly populated communities which are not close to bank facilities. It is in their ability to serve agricultural areas and small towns that banks with branches which also have note issue privileges are able to provide a service which would otherwise be impossible in many cases. A branch of such a bank may be opened in a small community whereas a unit bank or even a branch without note issue privileges could not operate profitably. That is, the combination of branches with "asset secured" flexible note issues enables a bank to maintain an office in agricultural communities with a minimum of expense and profits; such offices are especially suitable for agricultural communities in countries like the United States and Canada. For the cities it matters less whether there are restrictions on note issues, since a much greater percentage of business transactions are conducted now by checks.

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1. Supra, p. 132.

From the point of view of supervision and regulation, the banks of the countries studied may be listed as Scotland having the least, England second, Canada third, and the United States with the largest degree of governmental control.

No important restrictions have been placed upon the banking operations of banks in Scotland at any time, except that already mentioned in regard to restriction of note issues in 1845. No laws provide what reserves shall be kept by the banks. No provisions are made by law as to the amounts of capital. The banks have, however, taken advantage of the limited companies acts, and have relieved their stockholders of the unlimited liability which attached to joint stock company shares. Until recent years, however, these joint stock banks did provide that their subscribed capital would be large enough to equal the ordinary double liability of paid in capital. But in the last decade this has been relegated to the past, and the margin of difference between subscribed shares and paid up shares is nil.

The situation is similar in England, Instead, however, of the banks having restricted note issues, they have none. English banks, too, have taken advantage of the limited liabilities acts; they likewise formerly recognized a kind of double liability for shareholders by having subscribed capital about twice paid in capital, but this has also passed away, in most cases. As in Scotland, no requirements are set forth as to reserves, capital, limits of loaning ability to certain customers, industries, agriculture, on real estate, or the like. All these matters involving policies of management and operation are left to the banks themselves to determine as they see fit, or as provided by their stockholders in the bylaws, by the directors, or by managers. They are required, however, to have made annually an

examination of the accounts by independent auditors whose duty is to report to the stockholders.

In the first quarter of the twentieth century the activities of the banks in absorbing one another became so intensive as to incite the anxiety of the English people. As a result, a certain amount of control over such amalgamations was vested in the government.

Although the degree of regulation and supervision of banking in Canada cannot be said to have gone as far as it has in this country, yet it has been carried to an extent far greater than is to be found in Scotland or England. In fact, it would appear that the situation in Canada is more like that of the United States than of these other two countries.

The laws regulating banking in Canada are voluminous and detailed. Among some of the important provisions may be mentioned those requiring a minimum capital for establishment of a bank, protection to note holders of banks by giving them a preferred claim on bank assets, creation of a common fund for redemption of bank notes, requirement that 40 per cent of the bank reserves be in the form of Dominion notes, prohibition of loans on real estate, detailed statements as to what functions may be performed by the banks, and the like. The Minister of Finance is also given a considerable degree of authority over the banks, especially in matters involving mergers. Periodical detailed reports are required of the banks. Regular inspection of bank records and operations is made by governmental bank examiners. In addition the law requires that two independent auditors shall examine the records and accounts of each bank and report to the stockholders on their findings. The banking laws also give the Canadian banks unusual protection in their loans on certain commodities and manufactured

goods. Certain other important provisions are to be found in the statutes. Stockholders have a contingent liability upon their stock equal to the amount of subscriptions in case of insolvency of the bank. In the matter of reserves the law does not specify what amounts of reserves shall be kept, but requires that 40 per cent of the bank reserves shall be in the form of Dominion notes.

Evidently Canada has a system of governmental supervision and regulation which is in many respects similar to or copied from the practices in the United States, although retaining all the advantages of large banks with branches.

Banking in the United States is characterized by an entirely different basis from that found in Scotland and England, and to a lesser extent from that found in Canada. With the gradual growth of unit banks, a rigid and close supervision and regulation of banking was enacted into the laws of most of the states and of the United States. It would seem that the intent of these laws was to keep banks within reasonable sound principles of banking. Under a branch banking system of few banks with many branches, such broad policies may perhaps best be determined by a few capable men who can set policies for all offices and to meet varying conditions. In the unit banks under governmental supervision, only inflexible, not universally desirable rules and regulations have been incorporated into the law. Perhaps this may imply that great numbers of small independent bankers cannot be relied upon to adhere to sound banking principles and practices.

Ignoring such speculation of thought, and returning to the actual situations, it is well known, of course, that unit banks in this country are almost universally required by law to keep certain

minimum reserves, minimum amounts of capital per bank according to population of the city in which they are located, certain percentages of capital and surplus or the like beyond which they may not loan to certain classes of borrowers, limitations on certain kinds of loans, such as real estate, restriction as to the types of securities which may be purchased for investment of funds, and a great many similar detailed regulations of what may be termed banking practice.

To a limited degree these find their counterpart in laws of Canadian banks, but almost in their entirety such provisions are lacking in Scotland or England.

One may say that this difference is well justified by the difference in banking systems--the systems of these foreign countries which have been studied are branch systems while that of the United States is essentially a unit system. Even admitting this statement which is open to some question, it is surprising to find that a great deal, if not all of this detailed legal and administrative control of banking in this country as applied to unit banks is being directly applied to branch banks. In some states this is being modified in certain respects to meet the requirements and new problems of branch banking, but for the most part such changes are incidental, and do not indicate any change in policies as to regulation and supervision. In other words, a practice of banking regulation and supervision which has been developed to meet the needs of unit banks is being carried over onto the systems of branch banking.

In general, the provisions of the law regulating branches and branch banks are the same as those for unit banks. Reference to Table XIV, page 166 shows some of the variations or special requirements for branch banks as to capital. Although a few states have absolutely

no specific provision, it is to be noticed that the great majority of them specify either definite amounts of capital per branch, or that the parent bank plus branches shall have a specified minimum capital. Many states provide sliding amounts of capital per branch depending upon the population of the community in which it is located. One of the advantages of branch banks is that they shall have a large capital sum which shall be available for the protection of creditors at all offices, and not that certain parts of this capital shall be assigned to each office.

It is true, that one of the common criticisms leveled at the branch banking systems of Scotland, England, and Canada, and even of some of the branch banks in this country, is that they have operated with a minimum, and what at times appears too small, amount of capital funds obtained from stockholders. This is particularly true of Scotland and England where the banks have for some time now failed to make provision for additional liability on the part of the stockholders beyond their paid in stock. Canada by law, in an effort to obviate this difficulty, has made the stocks of banks carry double liability.

In view of such dangers of operating on too small a capital, it would seem that branch banks, as well as unit banks, might be required to maintain capital having some relation to the numbers of offices, or the volume of business, or the amounts of liabilities normally outstanding; but to seek to segregate the capital, and make a definite relationship between branches and capital, and especially between each branch and capital, would appear to be a mistake.

As mentioned, there have been criticisms of branch banking operating with too little capital, and especially since some of the

foreign banks do not provide for double liability of stockholders. In this respect, it is interesting to notice the great divergence in this provision in banking among the states. Some of the states with branch banking, namely, Louisiana, Virginia, Rhode Island, and Washington relieve stockholders of double liability, that is, the stockholder merely suffers the loss of his investment in case the bank proves insolvent.[1] The remainder of the states which have various types of branch banking impose some form of double liability upon their bank stockholders.[2] Nor does a comparison of the single liability in some states and the double liability in other states with the amounts of capital required for banks to operate, either as unit banks or as branch banks, reveal anything in the way of compensatory provisions. One does not find that those states requiring only single liability for stockholders, are any stricter in the amounts of capital required for bank or branches than in those states where there is double liability. In other words, no consideration is given to the fact that double liability may be some justification for a bank operating with a smaller capital sum than banks with single liability for stockholders.

The following quotation from C. W. Collins, although specifically applying to national banks with branches prior to the passage of the McFadden Act, shows the impotence of laws assigning capital to branches,

"....The fiction of the assignment of capital is still complied with, but it is nothing more than a bookkeeping entry. The branch

1. Chapman, Theodore, Counsel for the Investment Banker's Association of America, "Uneasy Lies the Head", State Government, November 1932, p. 14.
2. Ibid, p. 15; it is interesting to note that one state, although not permitting branches, imposed a triple liability upon its bank stockholders in case of insolvency of the bank.
3. The Branch Banking Question, p. 44.

is not limited in its loans to an amount which the capital assigned to it would require upon the theory that it was operating upon such capital alone, but the parent bank may make loans at such a branch up to its own full lending power. These branches now have no independent status and have no national bank notes outstanding but have become by force of custom and usage simply instrumentalities of the parent bank through which it can carry on its ordinary banking business at more than one location ...."

From the foregoing discussions, it is possible to draw several inferences. It is obvious from a comparison of the operation of branch banks in Canada and Scotland, in comparison with those of England and the United States that branch banks may operate with asset secured currency, with a bond secured currency, or with no currency whatever. In other words, although this function of banking may at one time have been essential to banking, especially branch banking in small communities, this is no longer so, although the privilege of a currency based on general assets contributes to the flexibility and profitableness of banking, as well as the ability to maintain some branches.

Branch banking has also changed its mode and systems of operation to suit varying conditions and times. As means of communication and transportation have developed, it has become possible for bank managers to exercise a closer and more adequate control and supervision over the branch managers. Under conditions of slow communication, it would not have been possible for a bank to effectively operate hundreds of branches, because there would have been no effective way of keeping the operations of these branches coordinated and within bounds of sound banking practice. To give each branch manager considerable independence would have been impossible with many branches; and it would have been impossible to keep close and minute, up to date checks upon branch operations. B ut the development of transportation and communication have made it possible to have frequent reports

from each branch by mail, or if need be by telegraph or telephone. Under present conditions, the time and distance elements have been practically relegated to a minor role; the problem now is one of getting capable management, keeping adequate records, setting wise policies, and providing a machine which will coordinate all the numerous and rapidly moving details of the bank's operations.

In a similar manner, many restrictions which have been placed on branch banks in this country have been circumvented or nullified by the development of banking itself and by the flexibility of banks and credit. Thus restrictions in certain states limiting the branches in their functions, or requiring definite capital sums per branch, and the like do not appear to accomplish any important purpose. Although the law may prevent a branch from making loans, there is no doubt that such an office will bring much business of this kind to the parent banks. Perhaps the limited office cannot make or pass on loans, but it can be a powerful factor in diverting such business to the parent bank, since the passing on loans may be reduced to a routine if they are approved by the branch manager and simply forwarded to the head office for approval. Likewise, the operations and practices of banking may easily nullify any attempt to set a definite capital sum at each office as a guide to its loaning power.

Originally the banks of Scotland and England for the most part had shares with unlimited liability. In the last quarter of the 19th century this commonly gave way to limited liability, with provision usually being made for double liability or its equivalent. In recent years double liability has largely been done away with. In Canada double liability is imposed by law. In the United States, the practice varies from state to state, although double liability is still

the most common feature. There appears, however, to be a tendency to relieve shareholders of this additional liability. If this is done, it would appear that there should be some compensating features to provide safety and sufficient stockholders' capital.

Chapter VIII

ADVANTAGES AND DISADVANTAGES OF BRANCH BANKING.

A survey of the arguments which have been advanced at various times and by various interests both in favor and in opposition to branch banking, at once leads to the conclusion that there is a great deal of selfish motive behind many of these. Many of the statements which have been made in regard to branch banking advantages and disadvantages do not even smack of economics, but rest for their effectiveness on their sentimental appeal, political appeal, or their appeal to special groups who stand to gain or lose by the enactment of laws prohibiting or authorizing branch banking.

It should not be thought, however, that these non-economic motives are not entitled to some consideration, or that they do not have significance. Since banking reform involves the public, the bankers, and the business man, it is immediately obvious that it is of universal interest. The thousands of unit bankers who have in many instances well served their communities in a sincere and honest fashion, see in branch banking an instrument which means their doom, it if is given free reign, and ultimately it may mean their doom, even though it is not given free reign.[1]

The state officials who are in charge of banking departments in many instances have their interests and sympathies with the unit bankers. These state officials in many cases are sympathetic to the state's interests, and desire to see the perpetuation of state bank-

1. Eckhardt, op. cit., pp. 2, 4, and 121; "Branch Banking: The First Step", Fortune, December 1932.

ing systems, in opposition to national systems.[1] Their duties of supervision. are largely dependent upon the unit banking system. They are believers in the states rights doctrine. They fear and are in opposition to centralization of banking, especially such centralization as would be forced upon them by a national system of branch banks.

Large banks in large cities, which would be expected to be leaders in agitation for branch banking, frequently fear to commit themselves in its favor, even though they may sincerely believe such a system preferable. To come out openly in favor of branch banking, may involve the loss of hundreds or even thousands of correspondent accounts from the country bankers who are opposed to branch banking.[2]

Although the interest of the public at large is paramount to those of all other groups, as a matter of fact, it has not been given prime consideration. Former Comptroller of the Currency Pole, well stated this problem when he emphasized the fact that a great deal more attention should be given to the depositor, who does not ordinarily borrow from the bank, but whose funds constitute a large proportion of its funds, and who so often when a bank fails is the heaviest loser.[3]

Along this line may be mentioned the statement recently made by Senator Carter Glass relative to the interests involved in agitation for branch banking reform. His statement follows:

"... I have been now for nearly 32 years a member of the Banking and Currency Committees of the other branch of Congress and of the

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1. Ibid, loc. cit.
2. Collins, Rural Banking Reform, p. 163.
3. Report of the Comprtoller of the Currency, 1930, p.2.

Senate. I have been an intent listener and observer to all measures of importance that have been considered; and I assert here that never in the whole period has any merchant or business man having relationship with banks ever protested against branch banking. No man who has wanted credit, no man who wanted to borrow funds with which to conduct his business has ever in that whole period raised his voice against branch banking. It has only been done by the bank which wanted a monopoly of credit in its community. ....."[1]

Still another group which have an interest, and a very powerful influence, in the country's banking, are the banking newspapers and journals.[2] Most of these see their interests identified with the unit banks; they stand to lose subscriptions and advertising; the field for their usefulness and operations would be greatly curtailed. Most of these journals are bitter opponents of branch banking.

All these various and conflicting proponents and opponents of branch banking, from the point of view of their own interests may have valid reasons for opposing or favoring branch banking. The following pages, however, are not devoted to their varying causes, except incidentally. The purpose is to show what the advantages of branch banking are and what its disadvantages are. Naturally, some of the arguments for branch banking may be just the opposite of those for unit banking, and vice versa. In consequence, a certain amount of discussion involves the merits of unit versus branch banks.

In addition to the advantages of branch banking there are other reasons for its growth. Although these are not discussed in the following pages, it seems that recognition should be given to them. Branch banking is a type of enterprise which lends itself to large units. Personal desire for power, which may much more easily be

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1. Congressional Record, May 10, 1932.
2. "Branch Banking: The First Step," Fortune, December 1932.

satisfied by branch banks than unit banks is a powerful factor in expansion of branch banks. Competition with other banks for size, and the prestige which accompanies it have influenced some branch growth. Many other similar influences have been and are present.

Naturally, in a capitalistic society, the profit motive should not be ignored. It has undoubtedly been an important factor contributing to the growth of branch banking. For the most part, the advantages which are discussed in the following pages, indicate the superior ability of branch banks to serve their customers, to obtain funds, to invest them, to safeguard them, and the like. Thus the advantages are to a certain extent reasons for greater profits. The profit motive has without any doubt been the prime motive in this country as well as in foreign countries.[1]

In the discussion of the advantages and disadvantages, these have been stated as developed and operative in the foreign banking systems. Naturally, because of the limited development of this type of banking in this country, these arguments are not fully applicable to branch banks here. Where it appears pertinent, space is devoted to an appraisal of these advantages and disadvantages in the light of the status of branch banking here.

Advantages

Economy of Money Reserves

A bank with a system of branches is able to effect a more efficient employment of funds since it needs a smaller sum available for till purposes and ordinary demands. If the branches of a bank are spread among districts having different seasonal demands for cash, it is possible to allow reserve to fall in offices with little de-

1. Southworth, op. cit., p. 59.

mand and to shift them to those where there is a likelihood of demand.[1]

The banks of Canada and Scotland are able to achieve a greater economy of reserves than those of England or United States which do not have asset secured note issues. The banks of these two former countries employ their own notes as part of their till funds. As long as the public has confidence in the bank, such "reserves" are very economical.[2] They do entail danger, however, since the banks offer to pay their debts with their own promissory note. In Canada this danger has been lessened by the legal requirement that 40 per cent of the "reserves" shall be Dominion Notes, and by the increase of notes protected by securities and gold deposited with the government.

This advantage, in so far as it depends upon the ability of the banks to employ their own notes, is not available to the branch banks of this country or of England. It is still possible, however, to achieve a certain economy in the use of till reserves, due to the ability of the banks to anticipate demands from time to time at various offices, and to provide funds where needed, and to withdraw them from those places where not needed.[3] This aspect of the problem is treated more fully in connection with the ability of branch banks to transfer funds and to equalize the demand and supply for capital.

Equalization of supply and demand of funds.

It is possible under a branch banking system to achieve a far better distribution of capital and credits throughout the country

1. Johnson, op. cit., p. 89, footnote; Breckenridge, The Canadian Banking System, p. 424.
2. Beckhart, op. cit., p. 379; Eckhardt, op. cit., p. 184; Johnson, op. cit., p. 129.
3. Southworth, op. cit., p. 105.

than with a unit banking system. Old and well established communities generally have savings and accumulations of capital in excess of their needs; on the other hand new and rapidly growing communities frequently have a demand for new capital out of all proportion to their ability to supply the same. Although the supply of capital in each of these two types of communities will adjust itself to the demand through adjustments in interests rates, it would nevertheless contribute to the best welfare of both if the excess of capital funds of one could be used to supply the deficiency of the other.

This is accomplished readily and economically by a bank with branches, since some of the branches may be of the kind which have an excess of deposits over demands for loans, while other branches may have greater needs for borrowing funds than their ability to create deposits.

This ability of branch banks to draw funds from certain localities and to supply them to others is one of the motives which have accounted for many branch bank mergers. It was especially potent in driving many of the early English banks with headquarters in London and the commercial centers to seek offices in country and provincial areas.[1] Likewise, the mergers of some of the Canadian banks were attributed largely to the fact that some of the banks in the East had more funds than they could profitably invest at remunerative rates and were faced with the need of accepting lower earnings and consequently lower dividends, or else of taking questionable or risky loans and investments.[2] Just the opposite situation was found in some of the

1. Sykes, op. cit., pp. 71-72.
2. Supra, p. 109-110.

other banks with most of their offices in western provinces. By merging such institutions, a better balanced banking system resulted.

Because of the limitation of branch banking to state lines or even smaller areas in this country, this advantage has not been so freely operative in the branch banks here. Probably, it is in California that the clearest example of this may be found. In this state one of the important arguments for branches has been the ability of such banks to use funds in various localities at various times.

Closely related to, and a part of the equalization of funds, is the provision for seasonal needs. The advantage already discussed indicates the ability to equalize funds from localities capable of accumulating capital to those unable to satisfy their full needs. The second advantage of this kind pertains to the ability of a branch bank to shift from one industry to another, or from one locality to another as seasonal peaks and slack demands occur in first one and then another. By keeping these funds in continuous employment the most efficient use is made of them.

That there is some merit to this contention is indicated by the far smaller amount of borrowing of funds on the part of branch than by unit banks. In the foreign countries studied, banks rarely rediscount paper or borrow except for emergencies. Even in this country, there is some presumption that branch banks borrow less than unit banks.

The accompanying table shows the extent to which branch and non-branch banks have borrowed in California and South Carolina. Although a meager sample, it shows that branch banks borrow distinctly less than non-branch banks.

Table XXXI.

Percentage of Bills Payable and Rediscounts to Total Resources of Branch and Non-Branch Banks in California and South Carolina.

	Large State-wide Branch Banks (Over 25 branches)	City Branch Banks	Small State-wide Branch Banks (Less than 25 Branches)	Non-Branch Banks
California State Banks[1]	.0%	.0%	3.3%	1.5%
California National Banks[2]	1.2	.3	.8	4.3
South Carolina[3] (State Banks)	.5	--	2.6	4.6

The foregoing paragraphs should not be interpreted as meaning that similar equalization of funds may not be accomplished under a unit banking system. The same thing is accomplished, but less completely and economically, and with certain undesirable results.[4]

Through the use of correspondent relationships, that is, by borrowing from city correspondents, the banks where there is a need of capital may borrow to take care of temporary demands. The Federal Reserve system, in its very essence accomplishes this same objective. It permits member banks to tap the large reservoir of the Reserve Banks which has been accumulated from all sections of the country.

1. Twenty-first Annual Report of Supt. of Banks of State of California, June 30, 1930.
2. Individual Statement of Condition of National Banks, Dec. 31,1931, Comptroller of the Currency and letter from Comptroller of the Currency.
3. Twenty-Fifth Annual Report of State Bank Examiner, of South Carolina, Sept.,1930, Albert S. Fant.
4. Beckhart, op. cit., p. 412.

But there are certain important weaknesses in this equalization of funds as performed by a unit banking system. All too often, the unit bank is a small bank, and finds itself unable to borrow the full amounts needed for seasonal requirements. Frequently, these small banks do not have access to the Federal Reserve system, and in many cases where they are members, they may lack the eligible paper.[1] Even granting that they are not small banks, or that they do not lack the ability to borrow or rediscount, there is still, however, another weakness. When the bank in need of funds goes to its correspondent or to the Federal Reserve bank and rediscounts its paper, all too often the best assets are thus hypothecated. If the bank finds itself in danger, or if the needs of the bank are thus not satisfied, the borrowing bank will either have to refuse to make desirable business loans, or else will have to overreach itself unduly in borrowing to accomodate customers. By thus borrowing funds, the bank endangers itself, and the depositors in many banks have found that they had little left for their own claims after banks had pledged away their best assets.

In a branch bank system, a common stockholders' capital and a common fund of capital are permitted to flow from place to place, and from industry to industry. When funds are not needed at one place, they are shifted elsewhere; the community or branch office is not endangered thereby.

Equalization and Lowering of Interest Rates

From the preceding discussion of equalization of loanable capital, it follows naturally that there should be an equalization of in-

1. Spahr, op. cit., p. 216-217.

terest rates. By providing loanable funds freely at all its offices a branch bank system can maintain relatively uniform rates throughout the territory.[1]

This does not mean that there will be uniform rates--but rates which will be determined largely by the risk involved, length of maturity, security offered, and the like. In other words, certain kinds of business loans will command one rate, certain kinds of agricultural loans, another rate. But throughout the country with widely distributed branches, rates will tend to be uniform for given kinds of loans.[2] An equalization of capital will take place according to demand and supply for capital involving all these various elements of investment quality.

As mentioned in the pages immediately preceding these, the motive of certain bank amalgamations has been the desire to employ funds most profitably. Banks with relatively large loanable funds and restricted markets for their use except at low rates have combined with those facing the opposite condition. A result is to lower interest charges in some sections and raise them in others.

The argument for the equalization of rates may be approached from another point. Since the banks are anxious to earn the highest profit compatible with safety, they will distribute their loans in such a manner as to provide the maximum profit and still follow sound investment principles. This will mean the making of a certain percentage of their loans and discounts in the non-metropolitan areas where rates are likely to be higher. Such loans may not be prime commercial paper, but a large branch bank, with well diversified business, probably would find its self-interest best served by making

1. Johnson, op. cit., pp. 101 to 103; Sykes, op. cit., p. 148.
2. Ibid, p. 148.

some loans of this kind, that is, loans to agriculture and small traders and manufacturers.

On the other hand, a unit bank located in a small or average size community, as are the great majority of banks in this country, would be in an entirely different position. Under our unit bank system, coordinated by the Federal Reserve System, the small bank does not quickly feel the changes in interest rates in other localities. Small banks tend to have "customary" charges which are generally not quickly changed.

Furthermore, even though there should be more than one unit bank in a community, and thus competition tend to keep rates low, it is doubtful if such small banks can afford to make loans at rates as low as a large bank with branches. The small bank in an agricultural community might be unable to adequately diversify its loans and discounts if it confined too large a portion of its resources at home. To safely offset this it would need to place an unusual percentage of its resources in high grade securities, with correspondents, or in the call market. Since these latter investments would probably earn low rates of interest, the bank would be forced to charge high rates in its domestic market in order to earn a reasonable profit.

Banks with many branches serving overlapping territories, further contribute to competition, tending to lower interest charges. If branches of more than one bank serve the same or nearby communities, competition among them will tend to drive down charges. These same statements do not apply with equal force to competition of unit banks. In communities with more than one bank, the high cost of operation, and consequent inability to operate profitably, tends to keep such banks from lowering rates in any definite relationship

with important changes in money rates at the money centers.

Although there does not appear to be any doubt but that the preceding argument is valid, and is accomplished to a certain extent, it must be qualified. The fact that rates charged for loans and discounts in provincial communities were generally higher, and were more easily maintained at a constant level than the rates charged in the money centers, was an important inducement to several of the London banks to engage in a branch extension among provincial territories.[1] In other words, although money rates for prime kinds of loans and investments might vary widely from time to time in London, first class paper of small traders and merchants and farmers did not fluctuate so quickly or so widely, but tended to remain more constant. For this reason, periods of low money rates drove those banks which did not have provincial branches to acquire them, because their competitors with outlying offices were able to operate more profitably under such circumstances.

Further evidence that money rates charged by branch banks have not always been as low as consistent with safety and a reasonable return on the investment may be found in the Canadian banks in recent years.[2] There is some evidence that in some of the western communities rates have been high, perhaps higher than need be. Some of these instances occurred in communities where only one branch was in operation, and where it was faced with little competition from branches of other banks. In other words, such a branch might have a territorial monopoly, and the evidence indicated that under such cir-

1. Ibid, p. 71.
2. Beckhart, op. cit., p. 461.

cumstances, the branch did not hesitate to charge what the traffic would bear, or at least more than usual at similarly situated offices where there was competition.

Another factor contributing to this tendency to charge high rates, might be ascribed to the branch banking systems themselves. Unless there is cooperation, or collusion, there is little doubt that competition among branch banks with overlapping territory may be keen and severe. Under such circumstances, the banks will compete in the extension and opening of new branches. This competition results in many unprofitable and high cost offices, the costs of which must be borne by more profitable offices.[1] Consequently, profitable offices must bear the costs of unprofitable offices in order to enable the banks to earn its usual profit. It is reasonable to assume that the full cost of such competition does not fall upon the stockholder, but the depositor or borrower probably bear a portion of this cost.

In spite of these limitations, interest rates do appear to be equalized better and kept lower under a system of branch banks than under a system of unit banks. In the state of California, the increasing concentration of banking offices and banking resources has resulted in a lowering of rates in many communities, due to the competition of branch banks, and due to the ability to equalize the demands for capital as among various communities, various seasonal industries, and the like.[2]

For the most part the discussion in the preceding pages has been based on the assumption that branch banks operated over an extensive area. The matter of area is not so important as diversification of

1. Breckenridge, History of Banking in Canada, p. 160-161.
2. Report of the Federal Reserve Board, 1929, p. 29

industry, agriculture, and trade, which are the basis for some of the fundamental advantages of branch banking. Since branch banking in many of the states of this country is limited either to state lines, to county lines, or even smaller geographical units such as cities, some of these advantages may not be achieved. In some of the states permitting state-wide branch operation, such as Arizona, North Carolina, South Carolina, and Washington, it may well be doubted that the necessary diversity of enterprise is available to provide adequate and most efficient employment of funds. It is all too probable that branch banks in such states will be too limited in the opportunities for diversification and utilization of their funds to enable them to employ them as economically as might be possible under a country-wide branch system. California is frequently pointed out as a state in which the branch banks have the desired economic background to operate under adequate diversification of business.

Although it may not be possible to obtain the full benefits of equalization of capital, because of territorial limitations on branch operations and in some cases the consequent lack of adequate diversification, it is possible that branches, even though confined to relatively small areas might still be in a position to effect lowered interest charges. To the extent that branch banks are able to operate more economically, it may be possible for them to force competing unit bankers to lower interest charges, since the branch may be able to offer lower interest rates to borrowers, and still operate at a profit equal to or in excess of the unit bank.

State-wide branch banking, county branch banking, and even branches limited to a single city may aid in providing lower interest rates. Although it is less likely in the single city, still by

large banks opening offices in outlying districts, small merchants and traders, who would otherwise have patronized the small unit banks, may be enabled to receive the benefit of lowered charges. In certain cities in Ohio and Michigan, there is reason to suspect that the competition for bank offices has been carried beyond reasonable needs of the public.[1] Under such conditions, service or charges to the public cannot be all that may be desired.

Economical use of stockholders' capital.

This advantage of branch banking is not an unmixed one. It entails drawbacks also. By tracing the growth of the large branch bank in foreign countries studied, it is readily apparent that as these systems grew in size there was a noticeable tendency to do an increasing volume of business on a relatively declining stockholders capital. Thus the amount of capital and surplus of English banks declined from 14.5 per cent of total resources in 1890 to 6.4 per cent in 1930. The Scottish banks in recent years have operated with capital sums of about 8 to 10 per cent of their resources, and the Canadian banks currently operate on a capital sum of about 8 to 9 per cent of their resources.[2]

Evidently this rapid dimunition of capital contribution is made possible by the economical methods of branch banking. Probably the careful diversification of loans, the balancing of demands in one office with those of others, and the like contribute to the ability of these banks to operate with such small capital.

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1. Woodworth, op. cit., p.
2. See Table VII, p. 87; Table I , p. 49; and Table IX, p. 120.

There are, however, other reasons. One of these is the keen competition which the branch banking system engenders. In the case of the English and Canadian banks, it is possible to pick out clear instances of amalgamations which were made in order to enable the banks to reduce their capital relative to resources. In fact, it is possible to cite instances in which banks with large capitals were unable to find other banks with which to merge because their capitals were excessive.[1]

An important motive behind this desire to operate on a small capital is to be found in the desire to pay high dividends relative to capital.[2] In the case of the Canadian banks, a contributing factor is the double liability attaching to shares. By keeping capital small, especially capital stock, smaller double liability attaches to the stockholders' investment, since some of the capital comes from surplus and undivided profits.

In the case of the branch banks in this country, tendencies of the same nature may be noticed. Thus an analysis of branch banks in comparison with unit banks reveals that the former operate on smaller capital sums. To a certain extent this may be due to the state laws which permit large banks to operate on less capital.[3]

The accompanying table shows the percentage of stockholders' capital to total resources for branch and non-branch banks in a number of states. With but one important exception it shows that the percentage of capital funds is smaller for large branch banks than for small branch banks, and in turn the branch banks employ relatively less capital than the non-branch banks.

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1. Sykes, op. cit., p. 72.
2. Johnson, op.cit., p. 131.
3. Wernette, John Philip, "Branch Banking in California", Quarterly Journal of Economics, Vol. 46, February 1932, p. 375.

Table XXXII.

Percentage of Stockholders' Capital to Total Resources of Branch and Non-branch Banks in Selected States*

State	Large Branch Banks (over 25 branches)	Small Branch Banks (less than 25 branch	Non-branch banks
Arizona	-	12.7	13.6
California (State banks)[1]	8.2	11.3	12.8
California (National ")[2]	11.3	13.9	10.9
Delaware	-	23.3	22.5
Washington, D. C.	-	14.5	17.0
Georgia	-	14.6	21.4
Kentucky	-	10.6	16.3
Louisiana	-	11.5	13.9
Maine	-	7.8	11.3
Maryland	-	12.5	12.5
Massachusetts	-	12.5	10.6
Michigan	9.4	13.1	12.0
Mississippi	-	11.5	14.1
New Jersey	-	12.5	13.2
New York (Excluding N.Y. City)	10.6	13.3	{
New York (New York City)	13.9	14.4	{14.5
North Carolina	-	12.8	18.1
Ohio	-	11.9	13.9
Pennsylvania	-	18.3	18.2
Rhode Island	-	11.6	11.9
South Carolina	12.0[3]	10.1	16.6
Tennessee	-	14.7	16.6
Vermont	-	10.0	10.6
Virginia	-	15.5	17.4

1. Twenty-first Annual Report, Superintendent of Banks of California, June 1930.
2. Individual Statement of Condition of National Banks (data for December 1931), Comptroller of the Currency, 1932.
3. Less than 25 branches, but with state-wide operations.

*Source: Bankers' Blue Book, Rand McNally & Co., January 1932. Data are for December 31, 1931 except where indicated otherwise by footnote references.

The legal provisions in the banking statutes of this country operate to defeat the workings of this tendency to reduce capital relative to resources.[1] The laws generally require certain minimum capital sums for organization of banks in cities of various sizes, according to population. In many of the states, as already pointed out, similar regulations apply to branch banks, Not infrequently the requirement is made that branch banks shall have capital equal to what would be required of unit banks in each place where a branch is located, or some similar provision. Clearly, these provisions impose a certain capital sum on the bank, and unless the volume of business which may be obtained is large, the bank may be unable to trade on its stockholders' equity as freely as it might desire or be able to do, if capital was not specified.[2]

As already suggested, this tendency to reduce capital, or to state it more accurately, to increase liabilities without a commensurate increase of capital and surplus, has been subject to criticism.[3] Although the tendency is also noticeable in branch banks in this country, it is doubtful if it has proceeded to the place where it may be very objectionable. When considered with the double liability feature which attaches to shares in most of the states, and in the national banking system, it would appear that our banks are a long way from the situation in which these foreign banks find themselves.

There is some merit in allowing a bank to reduce its capital to

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1. Eckhart, op. cit., p. 193.
2. Ibid, loc. cit.
3. Johnson, op. cit., p. 131; Beckhart, op. cit., p. 353; Sykes, op. cit, p. 143.

a point commensurate with safety, the economies of the banking system, and the needs of the communities in which it operates.

Advantages of Large Scale Operations and Division of Labor.

Just as an industrial or manufacturing company may obtain the advantages which flow from large scale enterprise and division of labor, so likewise may a bank. Although large banks need not necessarily be branch banks, branch banking leads to large banks if not too greatly restricted in freedom.[1] On the other hand a banking system such as is now found in this country, fosters many small banks, which usually are high cost operators due to the inability to share in these advantages as well as other handicaps inherent in their environment.

If large banks, either with or without branches derive any advantage from size, it should be reflected in their profits.[2] Of course, large banks in this country are found in large cities where banking conditions and banking opportunities are probably more favorable than for the small banks in small communities. Although one might argue that the large banks in this country are located in large cities, which in itself provides better earning opportunity, the same argument cannot be applied to the foreign countries, where large banks (with branches) operate both in small and large towns.

The figures below compare earnings for several years for large and small banks in certain areas in this country with the banks with branches in England, Scotland, and Canada. It is at once evident

1. Breckenridge, The Canadian Banking System, p. 365.
2. There is considerable evidence indicating the greater earning power of large banks. See for example, Cartinhour, op. cit., Chapter III, "The Earning Power of Small Banking Institutions."

Table XXXIII.

Ratios of Profits (or Earnings) to Capital Funds of Banks in Scotland, England, and Canada, and Sample States in the United States, 1926 to 1930

A. Ratios of Earnings to Capital Funds of Member Banks in the New York Federal Reserve District.[1]

Amount of Loans & Investments (000 omitted)	1926	1927	1928	1929
Under $500	11.2	11.2	10.6	11.8
$ 500 to $ 1,000	13.6	13.9	12.8	12.2
1,000 to 2,000	14.8	14.5	13.8	12.8
2,000 to 5,000	14.3	13.5	13.7	13.9
5,000 to 10,000	14.2	14.1	14.0	15.5
Over $10,000 outside N. Y. City	14.4	13.2	14.4	15.9
In New York City	13.8	12.5	13.3	14.7

B. Ratios of Earnings to Capital Funds of Chicago Federal Reserve District (excluding Banks in Chicago.[2]
(Earnings are after Losses)

Less than $250	0.7	0.3
$ 250 to $ 500	1.9	2.4
750 to 1,000	5.4	5.5
1,500 to 2,000	7.8	6.8
3,000 to 4,000	8.2	8.1
5,000 to 6,000	8.7	6.7
6,000 to 10,000	9.8	8.2
10,000 to 15,000	10.1	8.2
Over $15,000	9.8	7.7

C. Ratios of Average Net Earnings to Invested Capital after Losses, for all Banks in the State of Iowa.[3]

Under $75	-7.6	-9.5	-6.6	-0.6
$ 100 to $ 150	-5.9	-5.9	-1.8	-1.2
250 to 500	-2.2	-4.1	0.1	1.9
750 to 1,000	2.7	1.0	3.9	5.0
1,000 to 1,750	4.3	1.4	3.2	4.4
Over 1,750	6.2	4.4	3.5	4.7

D. Net Profits to Capital Funds of Foreign Branch Banks.

Canada[4]		9.1	9.7	9.8
England[5]	10.0	9.6	9.7	9.9
Scotland[5]	11.0	10.9	10.8	10.1

1. Cartinhour, op. cit., p. 41
2. Hearings on Chain, Group, and Branch Banking, p. 617.
3. Reports of the Committees of the Iowa Bankers Association, June 16, 17, 18, 1930, p. 30-31; Cf. Cartinhour, op. cit., p. 44
4. Canada Yearbook, 1930, p. 861.
5. Banking Supplement, Economist, Vol. 112, May 9, 1931.

that large banks are more profitable than small banks. Furthermore, the foreign branch banks which combine large city and small city banking are consistently profitable enterprises.

It may be well to mention and discuss some of the advantages which accrue to a bank from large scale operations and division of labor.

One of these advantages will be the specialization of functions in the bank. It is possible in a large organization to divorce the problems of policy formulation from those of execution and administration. The higher officials may occupy themselves entirely with the policies to guide the bank, keeping in touch with the broad economic trends, international gold and price movements, central money rates, securities markets, and the state of trade and commerce. All these may be considered in relation to the problems of the bank and policies formulated accordingly. On the other hand, those who are capable administrators, those who are able to devote their attention to the execution of policies formulated, can be chosen for these purposes.

Certain officials can be given the responsibility for problems in investment of securities, and can do this for the entire bank, irrespective of how many branches it may have. In this manner, the branch manager is relieved of this important function which must be performed by the small unit banks, and which is ~~is~~ seldom as well qualified to perform as the large bank specialist.[1]

As a corollary of the above, it follows that it will be possible for the bank to hire as branch managers, at least in the

1. Wernette, op. cit., p. 371.

smaller branches, men who need not be trained in problems of investment finance, security market problems, and the like. In other words, younger men, who can follow routine duties laid down in the large bank headquarters, can perform most of the branch duties.[1]

Through thus hiring specialists in various banking functions, such as operation of trust departments, foreign exchange financing, and the like, the branch bank can offer more adequate services than a unit banker probably could, and still find it possible to keep the routine duties simple enough so that they could be performed by lower salaried clerks.

Among other economies which may thus be obtained, may be listed volume purchases of supplies, machinery, and equipment, better bargaining power in the matter of purchases, centralized advertising for all the branches, and the like.

It is only fair to mention, however, that these advantages of large scale operations also have their limitations in banking as well as in other industries. Thus Sykes, points out that one of the reasons for the failure of the large English banks to achieve many of the presumed advantages of large scale operations was due to the limitations of management and the necessity for many coordinating and supervising adjuncts.[2] Similarly Beckhart points out that in the Canadian banks, it is doubtful that very large

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1. Johnson, op. cit., p. 36.
2. Op. cit., pp. 135-140.

size has been accompanied with increased or even equal efficiency as was possible in the smaller institutions.[1] On the other hand, Sykes points out that some of the branch banks which expanded only slowly and gradually, and did not seek too great a number of branches, were able to show increases of earnings which were probably attributable to their economies of operations.[2]

It would seem that in banking, there is a size of bank with branches (or even without branches) which is able to secure most of the advantages of large scale operations and economies of division of labor. Either smaller banks, or larger banks will prove less profitable and also less able to provide all the desirable banking services in the most economical manner. It is, of course, impossible to state what this point of size is. Number of branches is not the sole criterion for measuring size, but it is one which may be used. Without attempting to say what the desired size would be under all circumstances, it does appear from the experiences of these foreign countries, that when the number of branches per bank approaches 1,000 there may be room for serious doubts as to the advantages of large scale operation. On the other hand, a branch bank with less than 50 offices can hardly obtain enough of the economies to compete with banks of larger size. If these generalizations have any merit, it is at once obvious that the

1. Op. cit., pp. 342-3.
2. Op. cit., pp. 136-37.

branch banks in this country, especially those operating state wide systems, have quite a way to go before they encounter diminishing returns.[1]

Closely related to the problems of size mentioned above, are others relating to the loaning power of banks. The rapid growth of corporations in this country in the past decade has created a demand for large banks to provide accommodation. Due to the limitations placed upon the loaning power of banks in this country, whereby they are generally not permitted to loan over a certain percentage of their funds to certain industries, single firms, and the like, many banks have found themselves unable to care for their large customers. This difficulty has generally been surmounted by dividing the business among more than one bank, or by the small bank sending the business to its correspondent for a commission, or by the loss of business entirely for the bank. Even among the large city banks of this country, a frequent motive for consolidation has been to increase their lending power to single enterprises.[2] Branch banks, either at their smallest branches, or at their parent bank could accommodate large enterprises.[3]

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1. Southworth, op. cit., p. 109.
2. Cartinhour, op. cit., p. 265.
3. Southworth, op. cit., p. 49, 105.

One of the arguments frequently made in this country in favor of branch banking on an extensive scale is that it will decentralize the vast accumulations of funds in the money centers, particularly New York City, Such an advantage has been strongly stated by former Comptroller Pole.[1] That there has been a great accumulation of funds in New York and to a lesser extent in Chicago cannot be doubted, but that branch banking would decentralize this command over wealth is another problem.[2] Accepting for sake of argument, the type of branch banking which Pole has advocated, namely "trade area" branch banking, it is possible to make some generalizations as to the probable effects of such a development on the financial centers.

As already stated, one of the advantages of branch banking is that it will provide a more equitable equalization of capital and interest rates. In so far as a branch bank can do this, it will result in a reduction in the prominence of money centers. Since branch systems, on broad scales act as self-contained reserve systems, funds are shifted from source to place of need with a minimum of friction.

The unit bank with excess funds places these on deposit in New York or Chicago with a correspondent, or less likely with a Federal Reserve Bank. Another unit,bank, in need of funds may then borrow them from the New York or Chicago bank (or the Reserve Bank). There is, however, not a complete freedom in this equalization of funds through the intermediary of a third bank in the financial center. This friction may be due to interest rates charged, distrust of small banks borrowing too freely, feeling that banks borrowing are weak, and

1. This same argument has been turned around and used as one against branch banks in England and Canada. See Sykes, op. cit., p. 164; see also Eckhardt, op. cit., p. 136 and 157 for similar arguments.
2. Collins, Rural Banking Reform, p. 163.

the desire of large city banks to keep their funds in liquid loans in the money centers. These difficulties would not so likely arise in an adequate branch banking system, since the intermediary bank is eliminated.

If branch banks should be confined to "trade areas", or state lines, only part of the above advantages would be obtained. Since many of the states or trade areas are not adequately diversified, certain of the branch banks would still very likely find it necessary to place seasonally idle capital on deposit in the money centers where it could then be available for branch banks in other states or trade areas. It is true, however, that the sums so deposited and borrowed might be less than are now thus employed. Collins believes that although the large city banks might loose many small accounts, they would gain a few large accounts of about equal amounts.[1]

There is one important respect, however, in which it does not appear probable that branch banking, no matter how extensive, will reduce the concentration of money and credit in large centers. The banks naturally must keep large sums in addition to legal reserves in liquid loans. In this country these frequently take the form of demand loans in the stock and speculative markets. The loans in these markets provide a readily convertible secondary reserve. It is unlikely that these markets will be destroyed. Money will naturally flow to them as long as some return can be earned.

The experiences of England show that London was the focus of all important financial deals for branch banks, both in the early days when many of them confined themselves to the provinces, and in later years when country-wide institutions were developing. In fact, the importance of an office in the financial center was a frequent cause

1. Rural Banking Reform, p. 163.

for mergers, and the opening of offices by provincial banks.

Nor is the experience in Canada far different. The surplus funds and liquid secondary reserves of the Canadian banks find a large part of their employment in the New York money market, since Canada has no comparable market of its own.[1]

It would seem to follow, that if this country should permit nation wide branches, most of the banks would ultimately open offices in New York, there to employ their own excess funds. If branches continue to be restricted territorially, this step would be impossible, but the correspondent relationships would probably fill the gap. As a point in instance, mention may be made of the acquisition of the Bank of America in New York City by the Trans-America Corporation in 1929. Undoubtedly this was a wedge into the New York money market in the extension of a nation-wide system of branches, and in anticipation of broadening of branch operations.[2]

In summary, it may be stated that the evidence and arguments indicate that the money markets would be decentralized in this country to only a limited extent if at all. Probably, more important, however, branch banking on an extensive scale might result in lessening the occasional strains which fall upon the financial center with unit banking. This last point is discussed in subsequent pages.

More Adequate Control of Money and Credit.

Among the many weaknesses of our banking system which have been frequently mentioned is the lack of coordination and the consequent inability of the Reserve System to effect any complete and adequate control over money and credit. In this connection, the suggestion has frequently been made that all banks should be required to become

1. Johnson, op. cit., p. 72-73; Beckhart, op. cit., p. 432-433; Interviews on the Banking and Currency Systems of Canada, p. 127.
2. Wernette, op. cit., p. 363, footnote citation.

members of the Federal Reserve System, or else some other means provided for bringing all the banks into a uniform system, such as permitting only national banks to conduct commercial banking business.[1] It appears, however, that the same thing might be better and more easily accomplished by nation wide branch banking, or even branch banking confined to trade areas or state lines.

With thousands of small banks over the country, significant changes in money rates at the financial centers, reflecting changes in international trade and prices, or even domestic trade and prices, do not quickly or readily impress themselves upon the independent bank. Thus, supposing that there was a need for raising the Reserve discount rate from 3 to 5 per cent, this change might not be felt by banks in communities outside of the large cities for quite a while, that is not until they were forced to rediscount or borrow from the Federal Reserve Banks, or else until they were in need of borrowing from their city correspondents. Although it might be of great assistance to become member banks, there would still be difficulty of making rates effective over the entire country as long as the basic unit was the small bank.

Under a branch system, however, a far greater control over banking--money and credit--could be effected. If widespread branches were permitted to take the place of unit banks, there would doubtless be not more than a couple of hundred banks with branches. Such banks could easily institute changes over extensive areas simultaneously with important changes in central bank and money market rates.

In addition, with a few large banks, a far higher degree of cooperation might be obtained among the banks, and many undesirable

1. "Single National Banking System is Predicted", Chicago Daily Tribune, March 5, 1933; "Reserve Bares a Plan for One System", Chicago Daily Tribune, March 30, 1933.

banking practices eliminated. Many "free" services could be made to pay their own costs. In times of emergency it would be far easier for banking authorities of the country to seek and obtain the cooperation of a small group of banks in important national policies, than would be possible through a system of unit banks.

Branch banks may provide a medium for more facile control of money rates and indirectly of credit and possibly of prices than can hoped for from many small independent banks, each operating in its own narrow field, and striving for the fullfillment of its own destiny irrespective of its competitor, and not having sufficient foresight to recognize important national and international financial problems. Thus, it has been stated that one of the reasons why the panic of 1907 had little repercussion in Canada, was because the banks in that country had sufficient foresight and judgment to anticipate some of the consequences which were coming in 1907 and 1908, and in view of this began to curtail credits wherever possible to borrowers long before similar steps were taken in this country.[1]

If the type of management in large banks with branches should have sufficient foresight to do this when speculative fever rose too high, it might indeed be an important stabilizing force in business cycles. It should be stated, however, that some of the largest banks in this country failed to foresee the financial collapse which was impending in 1929; it is doubtful that a far more capable type of management would be in charge of branch banks in this country. If these managers, particularly of banks with many branches, should have the training in fundamental economics and finance, then the systems of banking would provide a powerful implement through which they

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1. Johnson, op. cit., p. 110-118.

could curtail the unwise use of credit, whether with or without the cooperation of the central banks.

In another way, branch banking is able to provide a more stable banking structure. As pointed out in both the chapters on English and United States banking development, on several occasions one of the serious weaknesses of the unit banking systems centered around the correspondent accounts.[1] In periods of apprehension as to banking soundness, this frequently spreads from the small to the large banks. Any unexpected event may precipitate a banking collapse. Just as the public may "run" on a bank, so, too, the small outlying banks may make "runs" on their large correspondents. And all too frequently the country banker, if he fears for the future of his balances, withdraws them from the money centers, irrespective of his local needs. In other words, each wishes to obtain his funds in order to be prepared for the worst, and desires to "get his money" before the other fellow.

This weakness of unit banking has been well summed up by Breckenridge in the following quotation.[2]

"The branch system, moreover, prevents to a great degree the antagonism of interests in a panic or time of contraction between a great number of establishments, each selfishly intent on self-preservation, and anxious to store away all possible cash against the threatened day of trial. The reserves of branches are the reserves of parent banks; the country offices have the same interest as the city establishments; the branches, further are subject to orders from the head offices at the centers. There may be hoarding, but reserves are not scattered through the country; they are kept at the centers where the heaviest payments are eventually set off against each other. There is no parallel in Canadian experience to the American crisis of 1893, and so far as that action at cross purposes by city and country banks which preceded the culmination of the difficulty is concerned, a parallel would be impossible."

1. Supra, p. ; Commercial and Financial Chronicle, editorial "Country Banks and the Panics", Vol. 86, p.138-146, Jan. 1908; Vol. 17, p. 767, Dec. 6, 1873; Breckenridge, The Canadian Banking System pp. 1 and 427; Eckhardt, op. cit., pp. 1 and 45-54; Chicago Daily Tribune, March 3, 1933, p. 25, article by Howard Wood.
2. Breckenridge, The Canadian Banking System, pp. 382-3.

One might well add that there is no parallel in Canada or Scotland ~~or England~~ to the disorganization of banking in this country in 1873 1893, 1908, and 1933.

One may well wonder what would happen if country-wide runs were made under a fully developed branch banking system. Such instances have occurred in Scotland, and in a lesser degree in Canada on those occasions when there were serious bank failures. But the solvent banks were able to wear out the storm, paying on demand, and satisfying their clients as to their solvency. Under such circumstances, they have come out stronger than before.

Diversification of Loans and Discounts.

One of the weaknesses of our small unit banks is that they are unable to provide an adequate diversification of their resources. Limited as they are in their territorial scope, they are forced to over-burden themselves with local loans or to purchase bonds. All too frequently the small bank manager is not able to judge such securities, and relies on his correspondent's advice. In the past, the correspondent has all too frequently had some interest in the securities suggested. The small bank, because of these reasons, and many others has not had a desirable distribution of resources in accordance with sound investment principles.

This weakness of small banks, is one which branch banking on an extensive scale is well suited to remedy. And it follows naturally from this statement that the broader the territory over which the branches operate, the better will the bank be able to satisfy sound investment principles.

It also follows that "trade area" banking, or state wide banking has inherent limitations. Although branch banking under such limitations may achieve many of the advantages of that system, still it

would appear that country wide operation is the desideratum. It is, of course, possible that certain trade areas and certain states may be able to provide adequate diversification. The matter is relative; country wide branch banking would be the logical conclusion of the full achievement of diversification of loans, discounts, and investments.

A branch banking system might be able to place a greater percentage of its funds in business investments. The branch bank might obtain the needed diversification in such loans, and retain only a minimum amount of funds in high class bonds and securities of the like calibre. On the other hand, a small bank, because of its limitations, must look to the bond market or call market for the investment of a large portion of its funds. That is, not only must it look to the bonds for purposes of balancing the limited types of loans in its local market, but it must also invest funds for its secondary reserves.

Adjustment of Branch Offices to Economic Demand

Banks with branches provide a very convenient and flexible means of providing banking facilities where and when they are most needed. If demand for banking offices grows in new communities or in growing towns, it is an easy matter for a bank operating branches in that locality to open an additional office. On the other hand, it is almost as easy for a bank to withdraw a branch when it becomes unprofitable, and without loss to depositors.

In times of rapid economic change, and especially under circumstances which have been in evidence in this country during the past decade, resulting in the dwindling of many small towns and agricultural communities, this ability to open offices where needed, and especially the ability to close those no longer needed without heavy

losses, is particularly desirable.

That economic changes of the kind mentioned have played an important part in the policies of some of the branch banks of California, is confirmed by evidence submitted in the various Congressional Hearings. Similar evidence is to be found in other sources.[1]

Similar evidence is available for the banks in Canada, where unprofitable offices are constantly being weeded out and more promising locations provided with banking facilities.[2] In older countries such as England and Scotland, where the shifting of population and trade is probably less pronounced, such frequent changes in offices is not evident, although there have been important changes during the last ten to fifteen years. Of course, the element of competition among the banks for branch offices, probably induces them to maintain many offices which for the time being do not earn their keep. But when such offices are closed losses do not fall heavily on the local community.

The inability of unit banks to adjust themselves readily to fundamental economic changes, such as mentioned above, has been an important contributing element in many bank failures. Business in some small communities has gone elsewhere or dwindled away along with shifts in population. The unit banks is not able to liquidate without heavy losses.

One significant illustration of where a branch bank failed to recognize fundamental economic changes, and adjust its branches accordingly, is to be found in the failure of the then relatively

1. Report of the Comptroller of the Currency, 1931, pp. 15-18. Annual Report of the Superintendent of Banks of California, 1931, pp. 207-209.
2. Canada Yearbook, 1930, p. 858; Beckhart, op. cit., p. 373; Johnson, op. cit., p. 89.

large Bank of Upper Canada in 1866.[1] In general, however, the branch banks appear to have a distinct superiority over unit banks in adjusting themselves to changes in demand and supply of banking offices.

Impersonal business relations.

Branch banking tends to be less personal in its business transactions and relationships.[2] The owners of such a large bank can seldom be identified with any small group of men or any single man, as so frequently is the case in the small town bank. In a similar manner, the men who determine policies of the branch are far removed from it, and only have indirect contacts with it. In consequence of this situation, the actual manager of a branch bank is forced to give far less recognition to the personal element in making loans than would a banker of a unit bank in a similar community.

Although this arrangement for the branch bank and the community has its disadvantages, it has compensating advantages. Banking, especially, the granting of credit, is placed upon a firmer business basis. The ability of the borrower to provide collateral assumes more importance; the personal acquaintanceship of banker and borrower assumes a lesser role.

This does not mean than an individual of good character and little capital or collateral may be unable to borrow, but it does mean that if such an individual is unable to provide collateral or employ the money in self liquidating business, he will probably have to obtain some indorser of his note, or elsewise establish sufficient security to assure the bank that it will not suffer loss.[3]

1. Breckenridge, The Canadian Banking System, p. 169.
2. Sykes, op. cit., p. 151.
3. Ibid, p. 154.

Under the operation of unit banks, acquaintance of the banker and his clients is an important factor in enabling him to judge their character and soundness as borrowers. Since this is of lesser importance in branch banking, it is natural to find greater stress being laid upon impersonal measures for credit rating. It is in this respect that branch banks have been able to place banking on a sounder basis. The financial statements of business men become of prime importance to the banks in making loans.[1] Since the branch manager in a small office is usually not an expert in credit analysis, the recommendations of the manager plus the financial statements of the applicant are forwarded to the head office in order to have a line of credit established. In this respect the branch banks of California, through their insistence that their borrowers furnish credit statements, have played an important part in raising the standards of banking among the smaller banks--their competitors.[2]

In summing up the loaning practices of California Branch banks one writer states,

"The branch banks in California have led the way in requiring borrowers' statements, which is undoubtedly a safeguard against unwise loans to particular individuals. They have been criticized for being 'cold blooded' in their loan policy, but generally speaking the result is sounder banking than the easy going methods of many country banks. Each branch manager has lending limits; below them he may make new loans without head office consultation, but all loans thus made are subsequently reviewed by the head office credit department. Larger loans must be referred to the head office before being made. This is careful banking."[3]

Systematic Selection and Training of Employees

The organization of branch banking, provides a training school

1. Sykes, op. cit., 154.
2. Werhette, op. cit., p. 370.
3. Ibid, p. 370.

for its own future managers.[1] By employing young men when they are still flexible in their ideas, and gradually shifting them through the entire process of banking operations, they may be trained for their work. Furthermore, in large organizations, it is possible to select those with the most aptitude for the business and promote them until they finally find the work most suited to their ability.

By thus shifting men about, they can be trained in routine duties of banking, and if their aptitude is keen, they may be promoted to managerial positions. Through the gradual process of training and selection, capable junior and senior officers may be retained in the bank's employ.

Under a system of small banks, opportunities of this kind do not exist. If capable men do develop in small banks, it is not often that they are content to remain in a bank which can probably never hope to pay more than a meager salary. Such men finally gravitate to larger banks. All too often in this country the men who are chosen to head the small banks are not chosen because they are prepared for the business, but because their family has the controlling stock interest. The officers are not selected because they are competent to manage the bank, but because they "own" the bank.

It is situations like this which result in the justification of statements such as this:[2] "There are not enough capable, experienced bankers in the country to man such a multitude of banks, and so we have been letting anyone run them."

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1. Johnson, op. cit., pp. 36-38; Eckhart, op. cit., p. 66-80.
2. Vanderlip, Frank A., "What About the Banks?" Saturday Evening Post, Vol. 205, No. 19, November 5, 1932, p. 64.

A careful selection and training of bankers would be possible under branch banking. This would tend to place banking upon a more businesslike and scientific basis. It would obviate the repetition of conditions wherein 90 per cent of the managements of small banks which failed had repeatedly been criticized for their policies by the state and national banking examiners.[1]

Convenient and adequate banking service to customers

Branch banking is able to provide a convenient service to its customers by placing offices where they are most accessible to the customer as well as profitable to the bank. But branch banks are able to cater to the needs of the public in certain ways which unit banks, especially the smaller banks, could not hope to do well, if at all. The branch bank can provide a diversified type of banking operations. It may be what is occasionally referred to as "department store" bank. Such a bank seeks to offer all types of banking service for the customers' convenience.

This may include commercial accounts, savings accounts, foreign exchange departments, securities department, trust department, safety deposit department, and the like. Although the branch manager cannot hope to be an expert in each or any of these lines, he is able to perform the routine duties necessary for such departments under the guidance of experts at a larger office. It is of course, quite likely that not all these diversified services will be offered at each branch, but the larger branches will probably have them.[2]

As an illustration of the weakness of this type of banking, mention may be made of the securities departments. A bank with many branches, naturally provides a convenient marketing organization for

1. Ibid, p. 64.
2. Commercial and Financial Chronicle, Vol.

for the securities which the bank may desire to sell. Furthermore, if the bank should have an investment affiliate engaged in the underwriting of such securities, it might find itself selling securities to its customers which it might not sell were it divorced from the underwriting business. Furthermore, the bank itself may purchase for its own portfolio certain of the securities underwritten by its investment affiliate, and might be prejudiced to accept them even though they were not of the very highest calibre. An additional opening is made for unsound banking practice in the close operations of trust departments and securities affiliates and securities selling departments. Securities which may have been underwritten in one department may be sold to the other for investment in trusts, estates, and the like. One of the purposes of the Banking Act of 1933 is to prevent such practices.

Economy of operations

As previously pointed out, branch banking, because it frequently means large banking, is able to secure the advantages which accrue to large scale operations and also of division of labor. It also is able to operate with a smaller capital and to employ its funds more economically. In addition to these and other advantages, however, it is able to operate more economically than other systems of banking, even though they should have the advantages of size and the like.

In this respect it may be contrasted with unit banking or with chain or group banking. In these systems of banking, it is necessary to have a complete set of corporate officials at each office. It is necessary to comply with banking laws as to reserves, diversification of investment portfolio, legal name, capital stock and all other corporate taxes, and the like.

The branch bank is able to avoid many of these, or at least to

minimize their importance and operate with lower overhead. A few capable officials in a head office may administer the operations of several hundred branches just as effectively as one or two offices.

But it is in the matter of personnel that one of the important economies may be effected.[1] The ordinary country office of a branch bank may be operated with two people. But branch banking can economize even further in the matter of employees. It is possible to divide the time of two or three employees among several branch offices or as they are frequently called, agencies or sub-branches. Such employees may visit four or five small communities, remaining in each a half day or more. In this manner unusually small communities may be provided with the essential banking services, namely, cashing of checks, receipt of deposits, and even receipt of loan applications by the agents from townspeople.

The greater economy of branch banking over unit banking is indicated by the following quotation.

"Another feature of the branch bank will be that instead of each institution having a president, vice-president, cashier and other officers, and a board of directors, all these will be done away with. There will be no board of directors except that of the parent bank, and a manager will direct the affairs of the branch instead of a president, or cashier, as heretofore. For example, the Live Stock branch of First National will be under C. C. Clarkson, manager, instead of vice-president and cashier, as he now is. A dozen or more officials of parent banks, who now are officers of group banks, will be relieved of those titles and duties."[2]

Large banks with branches are able to effect savings in the small offices. A soundly established bank with a well known name can open offices in modest quarters.[3] They do not need to establish elaborate banking buildings which have so frequently been a cause of

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1. Southworth, op. cit., p. 107.
2. American Banker, Vol. XCVIII, No. 50 (March 3, 1933) p. 1 and 4; also No. 109 (May 11, 1933) p. 1.
3. Beckhart, op. cit., p. 430.

embarrassment to banks in this country, particularly those in small and medium sized towns.

Because the important securities and documents of the bank are generally kept in strong vaults in the larger cities or at the head office, the branches do not need expensive safes and vaults. The amounts of cash and securities of the day to day business are all that will be found in the small branches.

Another of the economies of branch banking may be secured through acquiring small banks as branches. Since a large part of the advertising of the large city banks is spent in efforts to keep and obtain correspondent accounts, this may be eliminated if the banks are acquired as branches. As a matter of fact, this was one of the reasons for the growth of branch banking in California.[1]

Greater Safety and Fewer Failures

A comparison of bank failures and suspensions in this country with those which have occurred in the other countries studied is at once unfavorable to the former. Canada has not had a bank failure since that of the Home Bank of Canada in 1923.[2] England has not had an important failure in considerably more than a decade.[3] And Scotland may boast of a record which does not have a bank failure for more than half a century. A comparison of the failures in these four countries either from the point of view of numbers of sums involved shows without question the inferiority of the system of this country. Furthermore in almost every important instance which has come to the writer's notice, failures have originated at or were attributable to

1. Southworth, op. cit., p. 107.
2. Canada Yearbook, 1930, p. 862.
3. "Branch Banking; The First Step", Fortune, December, 1932; Cartinhour, op. cit., p. 305.

operations and policies at the head offices, and not at the branches.[1]

Although recognizing the inherent difficulties in any comparison of "failures" as among various countries, Beckhart has nevertheless made such a comparison for the United States and Canada covering the years 1900 to 1926. He found that the arithmetic mean liabilities per capita of population amounted to $0.6925 in this country and only $0.2829 in Canada.[2] Should such a computation be brought down to more recent time, there is no doubt that this would be far more favorable to the Canadian banking system, even though one should argue that some of the large Canadian banks which got into difficulties in recent years should be considered as failures. Nor does it appear worth while to attempt any statistical comparison of banking in this country with banking in Scotland or England, since the records in these last two countries are so much more favorable than even that of Canada.

In the large cities of this country, it is possible for the banks to cooperate through the clearing houses in protecting the creditors of weak institutions and maintaining public confidence by the strong taking over the weak. But this is not possible in the small communities, unless branch banking can step into the breach.

In small towns where there is only one bank, it is self-evident that failure of such an institution cannot be averted since no other bank can ordinarily render assistance unless as a branch or a member of a group or chain system. In those towns where there are two or more small banks, it is not often possible to avert failure of one of them if it is weak, because the others are generally small and exposed to the same hazards as the weaker banks.

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1. Beckhart, op. cit., p. 479.
2. Ibid, p. 483.

With branch banks, however, the public stands to lose less than under unit banks. If there is more than one branch, banking services will not be suspended by the failure of one of them, as the remaining bank will not be weakened; just the contrary. The history of branch banking is replete with instances in which the strong banks have gained when the weak went under or were taken over by them. Frequently the strong banks have taken over the business and branches of competing weak banks. Because of the overlapping of certain branches, some of them are closed, but usually those not overlapping are retained. Although this may result in fewer banks and much fewer branches, the depositors do not suffer additionally through the loss of banking services.

That this advantage of branch banking has been clearly recognized in this country in the last few years is evident from the number of states which have made provision in their laws permitting banks to open branches where unit banks fail, or by taking over weak institutions, or by opening branches where no other facilities are being provided. As was mentioned earlier, the state of Indiana, Iowa, Wisconsin, Oregon, and Washington were among those permitting branches of various scopes because of this advantage. Examples of branch banks taking over suspended unit banks in order to prevent failures are readily found in California and some other states.[1]

There is another and powerful argument which may be raised in favor of branch banking in comparison with unit banking in this country. Careful analyses of bank failures among the smaller communities have shown that one of the important causes of failures are

1. Wernette, J. P., "Branch Banking in California and Bank Failures", Quarterly Journal of Economics, February 1932, Vol. 46, p. 363, footnote; Southworth, op. cit., p. 71.

changes in the environment within which these banks operate, as well as the stress of economic conditions which have been sufficiently powerful to overshadow other favorable factors.[1]

Unit banks cannot get away from these broad economic changes which sap them, nor can they very well guard against them. Branch banks can do this better than unit banks, or they may even be able to overcome them entirely. Such troubles as failure of one crop communities, depression in single industry towns, depressed state of agriculture, and the like may be guarded against or offset in part. Thus the Canadian banks have been able to carry agricultural communities fairly well in times of depression because they had sufficient funds from other sources.[2]

One would naturally be inclined to expect that if branch banking was superior to unit banking, that the bank suspensions in those states having various forms of branch banking would show a more favorable record than the banks in other states. Studies which have been made, however, indicate that there is no basis for concluding that the states with branch banking have in general had less banking suspensions, either in numbers or amounts of deposits involved than those states without branch banking.[3]

Careful analysis of such facts show that they do not provide an adequate basis for drawing inferences as to the relative merits of branch banking and unit banking in the various states or groups of states. In the first place, California is probably the only state with branch banking which could lay claim to having an adequate background to branch banking operations on a sound, full basis. Its rec-

1. Annual Report of Comptroller of Currency, 1929, pp. 3-4.
2. Beckhart, op. cit., p. 313.
3. State Government, Vol. 5, No. 11 (November, 1932, p. 12-13.

ord is relatively more favorable than the others as a whole.[1] Even here, however, it is difficult to determine to what extent the better showing is due to branch banking, economic conditions, a superior state bank act, or what.[2] In California the state banks even make a better showing than national banks in that state or the country as a whole.[3]

Branch banking in this country has evidently done as well or better than unit banking.[4] This appears quite favorable in view of two considerations. One of these is that most of the states permitting branches do not permit the highest quality of branch banking, i. e., our laws do not allow branch banks to develop along the soundest possible financial principles. The second is that branch banking in this country is not "seasoned."

In substantiation of the first point, that branch banking in this country is not of the highest type possible, it is only necessary to recall statements previously made. Our branch banks are restricted territorially, many of them are state banks, most of them are small and have few branches, and in general they have been unable to achieve the full advantages of the style of banking found in Canada, England, and Scotland.

The second point mentioned above, namely that our branch banks are not "seasoned", is based on a comparison of our banks and foreign banks. It may be well to mention that by the word "seasoned" the writer means several things such as banks which have been in operation sufficient length of time to adjust themselves to their environment, systematized their operations, trained their personnel, developed

1. Ibid, loc. cit.
2. Bernette, op. cit., pp. 362-375.
3. Ibid, p. 372-373.
4. Supra, p. 200-210.

high quality managements,and the like. This would leave out new banks or those which expand rapidly or frequently be mergers or the like, since important corporate change of this kind involves greater risk than a steady, normal growth.[1]

For the most part, the growth of branch banking in this country has come since 1920. In view of the youth of the branch banks as well as their rapid growth, one may well say that they are not "aged" or "seasoned." This does not mean that some of them or most of them are not sound, but it would imply that many of them have not reached a state of maturity and strength.

The experiences of foreign countries appear to bear this out. In each of the three foreign countries studied there appeared to be rather loose stages in which the branch banks were consolidating their positions and later when maturity was reached.

The point made here is that in these earlier periods, the branch banks' attention was largely absorbed by matters, such as consolidation and the like, not concerned directly with bank policy and management. These earlier years involved problems and risks aside from those due to the business of banking itself.

Disadvantages of Branch Banking

To a considerable degree, the disadvantages of branch banking are the obverse of the advantages. In connection with the discussion of the advantages, certain of the limitations and undesirable features were pointed out. In stating the disadvantages here, this duplication will be avoided where possible.

1. Unpublished data in files. Bureau of Business Research, University of Illinois; Cf. Breckenridge, The Canadian Banking System, p. 367.

Loss of Personal Contact

One of the most common criticisms of branch banking is that it cannot provide the close friendly and intimate type of banking relationships which can be provided by unit banking. Branch banking may be likened to the local branch of the large grocery stores, to the chain clothing store, and other enterprises of a like kind.

In certain respects this criticism is valid. The services which the local branch bank will provide will in many respects be like these chain merchandising stores. The customer will tend to go to that branch bank where he will get the best service consistent with the price. Personal friendships will be of less importance in providing bank deposits, in obtaining loans, and other banking services.

But this of itself, has its advantages. The branch manager will not feel free in dispensing funds among his friends and business associates. All too frequently, in the small banks, one of the prime motives for their establishment is to afford a source of funds to the officers, or to enterprises in which they or their friends are interested.[1]

The branch manager knows that if he is overliberal he will be called to task by the visiting auditors and other supervisory officials. He realizes that he is responsible to someone above him. He realizes that his own opportunities for advancement depend upon his ability to wisely distribute funds entrusted to him, through selection of sound investment risks. His own self interest prompts him to obtain all the opportunities for good business in his community. It is to the advantage of the bank to encourage him to loan all the money which can be profitably loaned, particularly in view of the fact that

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1. Vanderlip, op. cit., p. 64.

the small communities provide the source for the most stable type of revenue, since interest rates fluctuate less there. On the other hand, both the bank and the manager would be foolish to accept risks which imperiled their investments in any way. If branch banking is to mean some limitations in the liberality of granting of credit, it would appear justified, if it also avoids the severe losses which accompany liberality.

In connection with this same criticism the point is frequently made that the branch manager is a hired employee who has no discretion in loaning, and that the merchant finds himself fumbling through red tape in an efort to obtain a loan.

It is quite likely that a business man applying for a considerable loan for the first time might find that he could not go to the bank and have a balance to his credit immediately. In such circumstances he might find that there would be some delay, unless the loan was urgent, in which case arrangements could be made with the head office of district supervisory offices by phone.

The practice followed by the Bank of America seems reasonable. In this institution the customers of the local branch are each given a line of credit. The branch manager may at any time grant credit to the client within the limits of the credit line thus established and accepted by the head office. In addition, the local manager is given a certain loaning limit, depending upon his experience and the importance of his office, up to which he may loan upon his own judgment. Anything beyond his loaning limit or beyond the limit of the credit line established for the larger customers must be referred to superiors for concurrence or refusal.[1]

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1. Wernette, op. cit., p. 370.

Under the ordinary business needs, the local manager would thus be able to provide all the needed funds without any delay to the borrower. Business men who cannot anticipate their credit needs, ar indeed poor business risks.

Withdrawal of capital from small communities

This criticism of branch banking may be restated as the "skimming" of the small communities of their capital accumulation in order to place it in the money centers. In other words, the branch banks are accused of withdrawing funds from small communities and of refusing to loan it there, but giving preference to the more liquid and speculative loans of the stock markets and the like.

As just pointed out, however, it is not compatible with the bank's own best interests to refuse to make loans for any reasonable sums irrespective of whether they are in small or large communities. It is true, that a few large loans are much easier to supervise and keep in touch with the credit risk, than many hundreds of small and scattered loans. But the making of few and large loans does not meet the prerequisites of sound investment principles.

Certain centers normally accumulate funds more rapidly than they need them, whereas other communities need more capital than they can accumulate.[1] Were it not for branches, interest rates would be very low in centers where funds accumulate rapidly, whereas they would be high in centers where there is rapid growth and consequent demand for capital. Certain communities may be deteriorating, and their capital migrating. Many other considerations may account for excess funds in some towns and demands for them elsewhere. In so far as the branch system is able to equalize these various demands and supply, it contributes to the greatest economic welfare.

1. Beckhart, op. cit., pp. 412-413.

In fact, this very argument may be turned around and used in favor of branch banking and in opposition to unit banking. With the growth of chain stores, public utility companies owned by holding companies in large cities, with the increasing use of automobiles and the tendency to spend more in large centers and less in small communities, the small unit bank is finding itself less able to cope with the situation. There is a constant drain upon such local banks to meet unfavorable clearings in the larger centers. In other words, there is a constant stream of funds leaving the small town, which the local bank is called upon to meet, without an equally compensating regular inflow of funds. The utility company, the chain store, the out-of-town buyer are depositing funds in the bank with the purpose of transferring it to larger centers. In the case of chain stores and utility companies it is even possible that payments to local employees may come from the central offices, and all the local bank may be called upon is to remit funds to the large cities.

Not only do the opportunities for profitable and desirable business disappear, but the local bank is called upon to perform the unprofitable parts of the business which these large organizations still perform locally. Because of the outward flow of funds, the local bank may find its loaning power curtailed. When funds circulate within the small community, there are no rapid changes in balances, but rather transfers from one to another. But when funds must constantly go out, and be replenished only infrequently, the opportunities for credit creation are handicapped.

Under such circumstances a branch bank can perform the needed banking functions more efficiently and cheaper than the unit bank. It can also perform these in a safer fashion. If heavy drains are made upon such a branch at certain times for shifting of funds to

larger centers, the branch may draw upon the general fountain of credit of the entire banking system. It matters not at all for the safety of the branch whether there is a constant inflow of funds or a constant outflow, provided that what funds go out or are returned are safely invested. Provided that such branches which have a continual outflow of funds are balanced by others which have an inflow of funds, the bank as a whole is not embarrassed by the necessity of meeting adverse clearings with other banks.

It is the small community, and especially agricultural communities which fear that branch banking will draw funds away into the money centers. Yet the experiences of English and Canadian banks is just the opposite.[1] In the case of Canada, there is evidence to indicate that the farmers at times receive far larger sums in the way of loans than the amounts of deposits which they contribute to the banks.[2] Similar conditions are to be found in the branch operations of California. Former Comptroller Pole stated,".... as far as branch banking has been carried on in this country, particularly in California, ... the parent banks have thrown far more of their funds to the small communities than they have ever drawn from them."[3]

Destruction of Individual Initiative, Enterprise, and Progress.

It has been frequently contended by the advocates of unit banking that branch banks are detrimental to the best interests of the country, since they destroy individual initiative and thereby enterprise, and that the banks are too conservative and closely identified with large corporations, and the large financial centers. The usual contention is that credit becomes too much a matter of capacity and

1. Sykes, op. cit., p. 155-56.
2. Beckhart, op. cit., p. 413.
3. Hearings on the National and Federal Reserve Banking Systems, Part 1, p. 9.

capital and too little recognition is given to the credit and character of the business man of small means. The banks are unwilling to venture their money in new schemes and are willing to aid only those enterprises which have an assured place in industrial life. Sykes goes so far as to say:[1]

"Again, trade depression--and especially a severe depression extending to many types of industry--shows one of the worst features of loans made by a few great concerns. The machine-like London control is not only slow to respond to prospective openings made by individual enterpreneurs, but its scientifically devised time-limits tend to detach some, if not all, of the support given to industry just at the time when perhaps it is most needed to pass through the middle of the depression before there is a definite turn for the better. And when the support is withdrawn, it is not now possible to turn to a number of other competing banks with the total number of concerns at 13, as when the number of banks was, say, 50, and especially if it is recollected that of these 13 only 5 are represented throughout the country."

Perhaps from the point of view of progress of society, it may be better for bankers to venture some of their depositors' money on new ventures, but from the point of view of sound banking and likewise from the point of view of sound corporate financing, the banker would do well to refrain from loaning money to any but established concerns with a definite economic place.

The claim has been made that Canada and England have failed to progress as rapidly as this country because of the backwardness of the branch bankers. England, especially is pointed out, and used as an illustration of what branch banking may do to stifle the progress of this country if branch banking should be permitted unchecked. The depressed state of industry and trade which have existed in England during the past decade are frequently cited as proof. The much less advanced state of economic development to be found in Canada as well as its slower growth is also pointed to in contrast to the development in this country under unit banking systems.

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1. Op. cit., p. 157.

But it is possible that in spite of the banking systems, Canada and England have been about as prosperous as the United States. A comprehensive study of prosperity and depression years in various countries, shows that between 1888 and 1924 the ratio of years of prosperity to years of depression for each was:[1]

Canada	1.86
United States	1.79
England	1.71
Average 17 countries	1.14

Statistics compiled by Beckhart also show that the rate of economic growth of Canada is greater than that of the United States, although that of England is lower than the United States.[2]

Much is made of the statement that the unit banking system is the fundamental system of this country, and that it made possible the great development of this country in the second half of the nineteenth century and the first quarter of this century. But Collins has rather effectively dissected this argument.[3]

Excessive Competition and Consequent Increased Costs of Services.

It appears rather paradoxical that the branch banks should be accused of fostering a monopoly of banking and creating a money trust through the concentration of money and credit on the one hand, and that they should be criticized because of their common practice of competing severely for branch offices.

There is some basis, however, for this criticism. Branch banks do compete with one another for the extension of their offices, each seeking to obtain a foothold in new territories, in newly developed areas of old cities, and the like. Consequently, in each of the for-

1. Thorp, W. L.,and Mitchell, W. C., Business Annals, National Bureau of Economic Research, Inc., N. Y., 1926, p. 65.
2. Op. cit., p. 449.
3. Rural Banking Reform, p. 23.

eign countries studied it is possible to find small communities with two or three branches of competing banks;[1] in the large cities hundreds of branches of competing banks are to be found. It is generally agreed that a vastly smaller number of banking offices could serve the public convenience.[1]

Each bank realizes that if it does not open a new office wherever there is business for one, or even prospective volume of business to justify an office, that some competing bank will do so. In fact, the action of one bank in opening a new office, is usually the immediate cause of two or three others to follow suit. If one branch is opened, it tends to take some of the business formerly divided among several located in a nearby community, and each bank then feels called upon to likewise open additional offices in order to protect its share of business in the new field.

In this country this tendency towards over-extension of branch offices has not reached a point where it is near the situation found in foreign countries. Perhaps this lesser state of duplication of offices may be attributed to the backward state of the branch movement at present. Possibly with the continued growth of branch banking in this country, the same problem will become more prominent. Perhaps, too, the restrictions placed upon the free establishment of branches has tended to prevent over-banking here. The fact that branches in many states cannot be opened without authority of banking supervisors, may have tended to keep them down in numbers, or at least to maintain a better planned development.

The situation here, however, is not altogether free of this criticism. In general, there still appears plenty of room for development of branches in rural communities. On the other hand, the move-

1. Beckhart, op. cit., pp. 367-371.

ment has proceeded far in some of our large cities, as indicated by the following tabulation.

Table XXXIV-Number of Branches in Leading Branch Banking Centers on December 31, 1929.

City	Number of Branches	Population per Branch
New York	580	11,949
Detroit	309	5,077
Los Angeles	201	6,159
Philadelphia	133	14,669
San Francisco	97	6,540
Cleveland	85	10,593
Buffalo	73	7,850
Boston	66	11,836
Baltimore	65	12,382
Cincinnati	50	9,023

Source of Data: Federal Reserve Bulletin, April, 1930, p. 145.

Thus in some of our cities there is a branch for each 5,000 to 6,000 people. And it is interesting to note that Detroit, the city which shows the greatest number of offices per inhabitant, has had an utter collapse of banking.

The objection to this over-development of offices lies in the fact that the public must ultimately pay for them. If the bank is unable to earn a reasonable return in those communities, it seems no more natural that the bank would seek to recompense itself at some less competitive point. Thus for the public, it would seem more beneficial if there was less severe competition at certain points, and the excessive costs of such offices were employed in better services in other offices, or in lower costs.

This problem, like some of the others, resolves itself into one of weighing the good with the bad of branch banking. Regulation may be what is needed.

Monopoly and Excessive Charges Result from Branch Banking.

Branch banking naturally tends towards larger banking units. This appears to be due in part to the endeavors of each branch bank to achieve the benefits to be obtained from widespread distribution of offices and the other economies which accompany broad distribution. The experience of each of the three foreign countries studied and of certain of the states in this country, notably California, and to a lesser extent North and South Carolina, indicate that competition and resulting consolidations of branch banks finally results in a small number of banks.

It is when the banks have been reduced in number that there appears to be opportunity for cooperation among them which may result in charges of monopoly. In each of the foreign countries studied, but more particularly England and Canada, the cry of monopoly has been heard.[1] It would appear, however, that the competition among banks is greater in England than in either Scotland or Canada. In these two latter countries, it has been the custom for the banks to cooperate to a far greater degree than the English banks in setting interest rates, regulating practices of clearings, and the like. In Canada this cooperation is encouraged in the laws which provide for a government recognized bankers association which has been given important functions in banking supervision.[2]

The allegations of monopoly may take at least three forms. One of these is that branch banking creates great concentration of money and the consequent ability to wield it to the detriment of best interests of the depositors and the nation. The second is that

1. Supra, p. ; Sykes, op. cit., pp. 166-168; Johnson, op. cit., pp. 133-34; Beckhart, pp. 474.
2. Beckhart, op. cit., p. 446.

branch banks are able to charge excessive rates in certain localities where they have little competition, and to make lower rates in highly competitive centers. A third criticism is that branch banks are able to unfairly destroy or compete with unit banks. The first two points are discussed below. The third is taken up in a separate section.

An investigation of banking concentration in England when amalgamations were at their peak, and when banks had just about effected their present large size, suggested that supervision of the government be imposed in consideration of further consolidations. Although no criticism of monopoly was made, it was evident that those studying the situation felt it would be unwise to permit further concentration of banking in the country.[1] A substantially similar situation is to be found in Canada and Scotland. Doubtless, there is a far greater degree of "cooperation" in these countries than can be found here.

On the other hand, the present concentration of banking in each of these countries has been the partial outcome of severe competitive conditions among the former smaller branch bank systems. Under such smaller banks, many of the advantages of branch banking cannot be obtained. Only through consolidation can many of the unneeded branches be avoided. If this excessive duplication of offices is accomplished by consolidations, public services may not be impaired, and still the banks may be able to earn a higher profit or else pass the savings on to customers in lower charges.

There does appear to be some basis for believing that branch banks have charged higher rates in certain communities where there

1. Sykes, op. cit., Appendix III, p. 218.

was little competition. Considerable criticism has been levelled at the Canadian banks in this respect in recent years.[1]

Most of these difficulties have occurred in the western provinces where agriculture is the dominant business. The banks claim that higher rates are natural in such communities in order to compensate for the higher risks involved. The banks of Canada have also asked high rates, that is 8 to 10 per cent in new offices in the northwest, the contention of the banks being that such charges were reasonable in view of the expense which the bank incurred in maintaining an office in a new community where risks were great and far from their usual offices.

Although one may well be inclined to believe that some of the charges made in these smaller communities, especially those on a non-competitive basis have been higher than need be to yield a fair return to the bank, it is only necessary to look across the border to the United States in order to make one wonder whether the Canadian farmer and western tradesmen are not being unreasonable in their contentions for lower rates. A comparison of rates and charges in certain of our states along the Canadian broder with adjoining provinces dispels any criticism which one is at first prone to ply against the Canadian banks.[2]

It appears that the unit banks in the United States, in view of the many failures, cannot well afford to offer lower interest charges. These unit banks probably cannot operate economically enougth to offer lower charges to customers and still remain in business. But merely because the rates in Canada are lower than they are here, does

1. Beckhart, op. cit., pp. 451-454.
2. Ibid, p. 453.

not mean that they are entirely reasonable in view of the system of banking in operation in Canada. That is, the branch banks may still be charging unreasonable rates in view of their costs of operation.

One of the important economic and social problems in this and other countries, particularly of the last twenty-five years has been the status of large corporations. The growth of large corporations has brought many serious problems in regulation, one of the fundamental questions being whether it is better to legislate large companies out of existence because of their evils, or whether it is better to regulate them in order to obviate their evils and still retain their advantages.

Branch banking means in general large banks. Consequently, there may be certain abuses in large banking businesses just as there are in other large enterprises. Although the writer is not an advocate of regulation and government control, it would seem preferable that these abuses be minimized and the advantages retained.

Destruction of the Unit Banking System.

Reviewing the experiences of branch banking, leads one to the conclusion that unrestricted competition between unit banks and branch banks leads to the ultimate extinction of the unit banks. There is doubtless good basis for the unit banker to contend that branch banking will mean the destruction or perhaps, more accurately stated, the supercession of unit banks by branch banks.

The unit banker sees his doom in unrestricted branch banking. This is especially true of the smaller bankers. On the other hand there are many bankers who are sufficiently competent to feel that branch banking is inimical to their best interests, and who also feel that they can probably serve their communities as well as the

branch bank.[1]

The fundamental question to the public at large, however, is not whether the unit system of banking or the branch banking system will dominate, but which will be able to serve them best and contribute to their welfare. This issue few unit bankers attempt to answer.

There are some criticisms of the manner in which branch banks supercede their competitors. For this purpose, England and the United States provide the most fruitful sources of reference, since it is in these two countries that the unit bankers were or are numerous.

The contention is made that the branch bank is able to drive out the unit bank by unfair practices. The means by which this can be accomplished are more than one. At least one of these has been mentioned, indirectly, in preceding sections. It is possible for the branch bank to open an office in a community where there is a unit bank, and by lowering interest rates at such a point, and by making up this difference at other offices without competition, to drive the unit bank out of existence.

Although it is not easy to find instances in illustration of this contention, it is quite possible that such instances have taken place. Certain sharp practices did exist between the early banks in Scotland in their struggle for branches and profits, but these were overcome by cooperation seeking higher business ethics. Branch banks in California have been accused of such practices in their dealings with small banks.[2] What evidence there is on this point indicates that the pressure upon the small banks does not come from lowering of interest rates purposely for their detriment, or efforts to force

1. "Branch Banking: The First Step", Fortune, December, 1931.
2. Hearings Before the House Committee of Currency & Banking, 1924, p. 184-186.

them to sell out at unfair prices, below their real value. The pressure appears to take the form of insistence or persuasion that the stockholders of the small bank sell out to the large banks in order for the former to participate in the larger profit possibilities of the branch banks. Usually the prices offered are more than liberal, when the profit possibilities of the unit bank as an independent institution are considered.[1]

It seems more reasonable, however, to attribute some of the criticism of branch banks on this score in part to an advantage which they enjoy rather than to unfair business practices. The branch bank can operate more economically, and instances may be found in which interest rates have been forced down by the entrance of a branch into new territory.[2] It is reasonable to believe that what the unit banker frequently believes is unfair business in the way of lowered rates, is actually the forcing of rates in accordance with the economic advantages of branch banking.

In this same line of thought, the statement is frequently made that branch banks use their advantage over unit banks to drive them out. Either they are requested to sell out to the large bank, or the unit bank is threatened with competition which will drive him out of business. In California, provisions in the state law, accompanied with the interpretation of the de novo rule by the banking department, made it practically impossible for the branch banks to open new offices in communities where unit banks were already established.[3] One of the methods of circumventing these restrictions was to have friends of the branch bank organize a unit bank in the desired community,

1. Southworth, op. cit., p. 72.
2. Fifteenth Annual Report of the Federal Reserve Board, p. 29.
3. Southworth, op. cit., p. 78.

which after complying with the formality of becoming a bank might then proceed to consolidate with the bank in the larger city as a branch. In this way the unit bankers were not able to protect themselves against the competition of branch banks.[1]

In this country, the laws of some of the states which provide for branch banking, make provision for the protection of unit bankers.[2] Most frequently this takes the form of requirements of approval of the new branch as necessary for public convenience and welfare by the banking authorities. In other cases, provision is found (in addition to the above provision) that a new branch may be established only by taking over a unit bank in a city where an already existing bank is found, but that in communities without banking facilities, only approval of banking authorities is required.

There is another way in which branch banks are enabled to absorb their competitors, and that is by absorbing them through purchase. Branch banks have frequently been criticized for the excessive prices which they have paid in acquiring other banks, both unit banks, and other branch banks.

Beyond a doubt, prices which have been paid, have on many occasions appeared high--perhaps unreasonably high.[3] In numerous instances the branch banks have paid high premiums for the stocks they purchased, or for the assets and good will of the banks absorbed. There is more than one way to look at these high prices paid. In some instances, they have been attributed to the competition among branch banks for additional offices, which are most quickly obtained

1. Ibid, p. 79; The California Statute has a provision intended to prevent this.
2. Supra, Table XIV.
3. Sykes, pp. 69 and 83.

(on a profitable basis) by taking over already existing banks.

Apparently the branch banks have been able to pay these high prices, and still earn a reasonable return on them. The branch banks can afford to pay aprice which is in excess of what would appear to be justified by the independent bank's earning power taken as an independent bank. But on the other hand, it may be possible for the branch bank, by effecting economies in the operation of the absorbed bank, in the avoidance of duplication of facilities, in the employment of funds from such bank at higher rates elsewhere, or perhaps in the employment of funds not needed elsewhere at the new office, to earn a higher return upon the investment in the acquired banking offices than the independent bank could hope to do by itself.

One writer believes that in this ability of banks with branches to pay high prices for their absorbed offices there lies "a grave practical danger."[1] Branches throughout trade areas would mean that "Many hasty and ill considered consolidations would be put through. Efficiency would suffer. A great readjustment in the relations of banks and business would be necessary. It would mean competitive bidding for the stocks of the banks which would be absorbed into the great branch-bank systems. It would mean an orgy of speculation in bank stocks. It would bring into play the vigorous activity of promoters, not necessarily bankers or men with capacity in bank administration, who would buy up or obtain options upon large numbers of banks with a view to selling them to the competing great banks."[2]

The above arguments, while they do point out "a grave practical danger" in so far as they are based upon the experiences of banks

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1. Anderson, Benjamin M., "Branch Banking Throughout Federal Reserve Districts", The Chase Economic Bulletin, Vol. X, No. 2, May 8, 1930, p. 15.
2. Ibid, pp. 14, 15.

elsewhere, are not a valid argument against branch banking. They are an argument against unrestrained and too sudden a change to branch banking. If such disadvantages can be minimized by regulations restricting the transition from unit banks to branch banks, it would be possible to obtain the advantages of branch banking, and avoid some of the undesirable consequences which may attach to it.

Serious Danger from the Failure of a Large Branch Bank

If the contention is valid that branch banking in general means large banks, then it follows that the failure of such a bank may have very serious consequences. And as pointed out in earlier pages, branch banks are not infallible.

The failure of the City of Glasgow bank of Scotland and the Home Bank of Canada had profound effects upon the public, the other banks, and the trends of banking. In both cases, especially the former, runs resulted on other solvent banks; all banks were discredited. These, of course, are merely two examples. There were others just as far reaching in their effects. In this country, the finger is pointed at such instances as the Bank of the United States in New York and the collapse of banking with innumerable branches in Detroit. As pointed out, these were not truly branch banks, but they indicate some of the consequences which may be expected from failures of large banks, either branch or non-branch.

The argument in favor of the small unit bank and as opposed to branch banks, is that the former are widely distributed and not closely related. Failures among many unrelated and widely spread banks do not cause the disturbance which a few large failures do. Especially would the branch bank be vulnerable if its branches were widespread over the country and runs were started in many places upon both solvent and insolvent institutions.

In favor of branch banking it may be restated that failures in the foreign countries have been far less frequent and involved far less resources than those in this country. Furthermore, the preliminary evidence would appear to indicate that real branch banks in this country did fare better than unit banks both in numbers and resources involved.

As the experience of Canada indicates, it is easier to obtain the support of the remaining banks to assist in the support of liquidation of the banks which fail. A far greater degree of cooperation is obtained in preventing one large failure than in thousands of scattered small failures.

It is rather difficult to conceive of the wholesale failure and suspension of banks in this country had there been large branch banks. Few banking disturbances could be more far-reaching than the periodic wholesale banking suspensions through which this country has gone. The failure of a large branch bank, even though it had a thousand branches would hardly cause any more of a clamity than that which recently transpired.

Difficulty of Examination by Governmental Officials

The problem of examination of banks by government officials, such as bank examiners in this country, has not arisen in Scotland or England, although it was an important question in Canada at the time of the failure of the Home Bank. It has also received considerable prominence in the arguments against branch banking in this country.

Around 1910 the concensus of opinion of Canadian bankers was that external audits or examinations by governmental officials were little more than useless.[1] The bankers did not feel that the ac-

1. See Interviews on Banking System of Canada, p. 108; Beckhart, op. cit., p. 437; Breckenridge, Canadian Banking System, p. 435; Eckhardt, op. cit., pp. 218-221.

countants could be competent to pass upon anything other than the accuracy of the routine functions of banking. In other words, they felt that external auditors could not appraise the value of a large bank's assets, especially if these were from scattered branches.

In spite of the opposition of most bankers, the law which had required stockholders' auditors since 1913 was greatly strengthened in 1923 after the failure of the Home Bank. At this latter date provision was also made for government supervision under an Inspector General.[1]

In this country the accepted policy for many years has been that of governmental examinations. But in the agitations of these problems with reference to branch banks, questions have been raised as to the feasibility of such governmental examiners making competent audits of branch banks, when they have as many as two to four hundred offices. The opinion of some of the opponents of branch banking has been that the auditors cannot make a sound examination of the bank unless it shall involve a simultaneous examination of all offices.

The problem of bank examination is, of course, greatly complicated by the hundreds of branches, but this does not appear to be a fundamental objection to branches. There is nothing in sound auditing practice which requires that the audit of an enterprise must be simultaneous at all its offices, or factories. Through the reconciliation of accounts and statements, all prepared as of a given date, and the checking of transactions prior and after such date, a staff of auditors can ascertain to their reasonable satisfaction, the facts as of a given date or for a given period.

The present practice of banking examinations as conducted by the Comptroller of the Currency appears to be reasonable, and to permit

1. Beckhart, op. cit., p. 436-445.

of flexibility in adapting itself to even larger banks than now exist.[1] The present arrangement is for a corps of about 40 men to simultaneously engage in audits of the head office and important branches of the large branch banks. The great proportion of the securities and documents will be found at the head office. Together with the larger branches, the head office will account for the preponderance of assets and business. Statements from each branch as of the date of the audit are then received, and reconciled with home office records. After the completion of these larger offices, the staff then proceeds to the examination of the smaller offices.

1. Hearings on Chain, Group, and Branch Banking, p. 134.

Chapter IX

CONCLUSIONS

A brief survey of the development of branch banking in Scotland, England, and Canada, and a comparison with its development in the United States reveals many features of similarity and many others of dissimilarity among them. In Scotland and Canada the early banks operated branches, instances being found before 1775 in Scotland and about 1825 in Canada. In both countries branch banks commenced operations before the banking institutions became very numerous or powerful. The other banks in these two countries either adopted the branch banking system or were absorbed by their more progressive rivals, or else eliminated in other ways. The branch systems were easily able to establish themselves supreme. In the case of Scotland, a practically unrestricted development along evolutionary lines has taken place. Canada was allowed relatively less freedom, but benefited from the guidance of the mother country in establishing her banking institutions. Although Canada was early divided into provinces, each independent of the other politically, they were all obedient to England, whose control maintained substantially similar branch banking systems in each, so that the organization of a Dominion in 1867 was accomplished without any difficulty in so far as the banks were concerned.

England, on the other hand, along with the United States, provides a contrast to the above countries. In 1825 the banking system of England was weak and uncoordinated. The small private country banks were subject to most of the abuses and weaknesses inherent in small banks and which are to be found in this country at present. Furthermore, the ability to reform the banks was circumscribed by the charter of the Bank of England which gave it a monopoly of joint stock bank-

ing with the right to issue notes, and as most of the people believed a monopoly of joint stock banking of any kind. Repeated disorders among the country banks--which operated for the prime purpose of issuing notes, forced the government to bring pressure upon the Bank, and in 1826 resulted in modification of its charter, permitting joint stock banks to issue notes within a distance of 65 miles from London. It was also recognized about this time that joint stock banks could operate anywhere in the country provided they did not issue notes.

Under such conditions, joint stock banks of unlimited liability grew rapidly from 1833 until about 1838, at which time they were a participant in the general joint stock speculation. Many of the joint stock banks at this time did not operate branches, but those which did soon began to outdistance their rivals as well as to absorb both private and later joint stock banks. A continual process of amalgamation on the part of the joint stock banks, and of amalgamation and failure on the part of the private banks, finally resulted in a unified, closely coordinated branch banking system in England.

The only important restraint which was placed on the branch banks in England (in addition to the inability to issue notes within 65 miles of London) was the Act of 1844 restricting note issues of all banks (except the Bank of England) and making it impossible for joint stock banks to increase their issues through amalgamations with other joint stock banks or private banks. This had a definite retarding influence on branch expansion until after 1860 when checks began to take the place of note issues in business transactions. The reason that the restriction on note issues hindered branch growth was that the ability to issue notes provided a major source of profit for small country offices.

Banking development in the United States in the years before

the Civil War was not fundamentally different from that which was to be found in the other countries studied. Branch banking was in operation in many states, and besides the First and Second Banks of the United States had been, on the whole, successful and sound branch banking institutions. These two banks had provided important central banking functions for this country besides stabilizing and providing commercial banking facilities.

But the abuses of wild cat banking, poorly constructed state statutes, ignorant bank operationand supervision brought about the doom of branches. In certain states reforms were aimed at branches, in others the reforms took the nature of bond secured currencies, and remedies which hindered or destroyed branches. Furthermore, the Civil War destroyed many of the banking systems of the Southern states where branches were most commonly to be found. A final blow at branch banking was provided by the National Bank Act which nationalized the banking system, provided a bond secured currency, which practically prohibited branch banking, and destroyed state banking systems which were the strongholds of branches.

With the growth of population and wealth in this country, there has also been a great growth of banks. But instead of banking expansion taking the form found in the foreign countries studied, i. e., branches, a great system of unit banks developed. This was facilitated by the change of banking in its dependence from note issues to checks. Accompanying this change was the revival of state banking systems. An unduly large proportion of the banking expansion in this country in the third quarter of the nineteenth century and the first quarter of the twentieth century was in the small communities and state systems.

On several occasions during the last half century, banking instability has been noticed in this country, sometimes engendered ,but

at least accentuated by the small country banks. The Federal Reserve Act, hailed as a notable reform has failed to provide a fundamental improvement. Reforms have sought not to disturb or destroy the strongly entrenched unit banking systems.

In the meantime, there has been a marked revival of branch banking in certain states, and the national government has chosen to allow national banks to meet competitive conditions of state banks by granting limited branch privileges. As provided by the Banking Act of 1933, national banks are to have branch banking privileges on an almost equal plane with state banks.[1]

The whole situation in the United States during the past decade, and at the present time may well be likened to the situation in England a century ago. The banking system is neither homogeneous nor coordinated. It has fostered or at least aggravated severe periods of banking and commercial instability. The unit banks have been and still are fairly well entrenched. The competition between the 48 state banking systems and the national banking system has not proved sound. National banks have been given certain powers in order to permit them to compete with state banks, and vice versa. The national system has failed to set the standard and force other banks to meet its level, but has on several occasions changed its operations to accord with those of state banks for competitive reasons.

The agitation for branch banking as one means of reforming the system and doing away with many weaknesses of the unit banking system, has been going on since at least 1873, but it has made more progress in the past ten years than in the preceding fifty years. In June 1930 sixteen per cent of the banking offices of the country were branch bank offices. During the years 1924 to 1930 bank loans and

1. "Summary of the Glass Act", Federal Reserve Bank of Richmond, June 22, 1933.

discounts of branch banks have increased from about 32 per cent of the total loans and discounts to about 43 per cent.

At present thirteen states permit banks to operate branches on a state wide basis. These are:

Arizona	Nevada	South Carolina
California	North Carolina	Utah
Delaware	Oregon	Vermont
Maryland	Rhode Island	Virginia
	Washington	

Sixteen states permit branches within restricted areas, such as a city, county, or adjoining counties. These are:

Georgia	Michigan	Mississippi	Ohio
Indiana	Kentucky	Montana	Pennsylvania
Iowa	Maine	New Jersey	Tennessee
Louisiana	Massachusetts	New York	Wisconsin

In addition four states have some branch banks in operation although ther laws do not now permit branches to be established. These are Alabama, Arkansas, Minnesota, and Nebraska.

One of the significant developments in the movement of branch banking in recent years has been the noticeable tendency for the states to provide for branches. Within the past three years four states, Nevada, Oregon, Utah, and Washington have authorized state-wide branch operation. An additional four states have, in the same period, authorized branch operations in restricted areas. These are Indiana, Iowa, Montana, and Wisconsin. Recent banking difficulties have evidently provided the pressure necessary to effect some of these changes.

In each of the foreign countries studied, certain tendencies towards increasing concentration were noticed. Through the process of amalgamation the branch banks have grown and solidified their position. The branch banks gained when their rivals failed. Furthermore, the competition of the branch banks contributed to the failure and withdrawal of many non-branch banks. Private and small joint

stock or corporate banks could not compete with stronger and more powerful rivals employing a more economical system of operation. There is also evidence to indicate that these same forces are operative in this country in those states permitting branch banking.

So far has this concentration gone that in the foreign countries studied a few banks are to be found operating in each of them. In England there were in 1930 (besides 4 private banks) 16 joint stock banks with 10,082 branches and £2,225,682,000 resources. In Scotland ther were 8 banks, 1,718 branches, and £317,490,000 resources. In Canada there were 11 banks, 4,083 branches, and $3,237,073,000 resources. In the United States the percentage of banksoffices controlled by branch banks increased from 31 in 1924 to 47 in 1930 for those states permitting state-wide branches. In these same states the percentage of loans and investments controlled by branch banks increased from 50 in 1924 to 62 in 1930. Similar tendencies were to be noticed in other states with limited types of branch banking.

These concentrative forces have reached a place where the public have, in some instances, felt constrained to protect their own interests and protest against the dangers of monopoly which are inherent in such large combinations of capital. In the foreign countries there are few competitors in the field of operations.

Certain other important trends were found in the foreign countries and are becoming increasingly evident in this country. Among these may be mentioned the failure of capital funds to increase commensurately with the resources and liabilities. In England and Scotland especially, and in Canada and the United States to a lesser degree, capital of branch banks has declined relatively. In addition to this decline, shareholders of banks in England and Scotland

and new banks organized in the United States in accordance with the Bank Act of 1933 are relieved of double liability.

Reserves of most of the banks have remained relatively constant to total resources, but have tended to decline in comparison with total liabilities.

There is a limit to how far such tendencies can go. One may wonder if this limit has not been reached in England and Scotland, and is being closely approached by some of the branch banks in the United States.

Since branch banking in this country is still in early stages of development, it appears reasonable to ask how far the experiences of the foreign countries will be the experiences of this country in the future. If the branch banks in this country were not restricted by state and national laws, the answer would probably be that there would be no fundamental differences in the future development in this country from those of other countries. In view of the limited extent of branch development, and the numerous restrictions, it is evident that the growth for some time in the future will be stilted.

Since the policy of the national government has been, and still is, to grant national banks only those powers which are necessary to enable them to compete with state banks, the branch banking policy continues to be one of local option--i. e. as determined by the respective state laws. Thus a nation wide branch banking system is at present impossible. The numerous changes in laws in recent years, however, augur well for the future of branch development. It is possible that nation wide systems may be operative in the future in conjunction with some such ancillary device as group banking. It seems as though the movement to branch banks will gradually spread among the states, especially when periods of banking difficulties

appear in the future. Such occasions will be the opportunities for branch banks, both in those states now permitting branches, and for the authorization of branches in states now prohibiting them.

Laws of most of the states and the United States requiring minimum reserves, restricting the loaning powers to certain companies, requirements that national banks be members of the Federal Reserve System, guarantee of bank deposits, and the like will tend to restrain branch banking and to keep its growth within closer bounds than would otherwise be probable. Some of these provisions will restrict banking growth by denying it a too free use of funds, by preventing overextension in periods of expansion, and by saddling it with certain unneeded expenses. In other words, branch banking and profits will be restrained. On the other hand, unit banking will be favored and kept in operation longer than would otherwise probably have been possible.

Branch banking in this country will be unable to follow the lines of development that have been possible in other countries because of its inability to achieve the full advantages which were possible in those other countries. At the same time it will have some of its disadvantages magnified due to these same restrictions and division of banking powers between the states on one hand and the national government on the other. As long as branch banking is confined territorially, it will find itself unable to reach its fullest development. Several states provide that banks may open new offices only by taking over existing unit banks, thus tending to perpetuate the unit bank and enabling it to sell out at its price. Some states provide that new branches may be established by taking over an existing bank or by opening de novo branches in communities not already served by unit banks. Furthermore, the provision is quite common that branches

may not be established except with the discretionary consent of the state banking authorities, or in the case of national banks with the consent of the Comptroller of the Currency.

Such provisions provide a buffer which may temper the transition from unit banks to branch banks. Depending largely on how these regulations are enforced, they provide a manner of protecting unit banks or restraining too rapid extension of branch banks, by preventing branch banks from giving unit banks unfair competition, by preventing branch banks from over-reaching theirselfes, and in numerous other ways they may slow up the transition in banking systems. Properly used, such restraints may be beneficial to both types of banking, and also to the public, and may prevent excesses due to speculation and rapid growth.

Although there is reason to believe that branch banking extension will be restricted, there does not appear to be any reason to believe that it will be destroyed. As long as there are many small independent banks, it is probable that there will be opportunities for branch banking to take them over. Although the Banking Act of 1933 which was recently approved by the President contains many provisions designed to strengthen the banking structure, the writer is not convinced that they will prove a fundamental and completely sound reform for the country's banking ills.

In spite of provisions to be found in such bank acts, there will doubtless be times again when banks will fail in considerable numbers. Perhaps the guarantee of bank deposits found in the new banking law will reduce the losses to the depositors, but it can hardly raise the standard of banking itself; just the opposite may result. As in the past, such laws assume that the fundamental banking structure should be based upon the unit bank. They seek to provide in a make-shift

manner what might be better performed by a few banks with many branches widely distributed over the country. Such branch banks would have all the diversification and centralization which is possible under the Federal Reserve Banks and a guarantee of deposits, and in addition such banks could have a higher type of management, more direct responsibility, and a sincere motive for protecting their own interest, since they will have no outside guarantee to fall back upon.

If a country wide branch banking system were authorized, or even though branch banks be restricted only to states, there would be some reason for believing that it might be desirable to make certain changes in the nature of the regulatory and supervisory control of banks. The philosophy of banking regulation and supervision which has grown up in this country is largely based upon the needs for such on the part of unit banks. Under a system of branch banking, there would appear to be less need for such close control, and possibly a relaxation of these could take place. Certainly, it would appear that a shift in the emphasis and some relaxation might be possible and even desirable if the number of banks in the country could be reduced through the employment of branches.

Under a nation wide branch banking development, certain institutions which have been created for the coordination of the unit banking system might find that there would be less need for their facilities. Such would probably be the situation for the Federal Reserve System. One of the important services offered by this system is the equalization in demand and supply of loanable funds throughout the country, and consequent equalization of interest rates. In connection with this it takes care of the seasonal needs of banks in various sections of the country.

But, with nation wide branches, the banks would perform this

function themselves just as efficiently or possibly more efficiently and safely. Under such circumstances the Reserve Banks might find the needs for their services greatly curtailed. This would probably drastically impair their earning power. The loss of such a large volume of their business might make it necessary to allow these banks to offer certain commercial banking services directly to the public, such as is the case of the central banks of England, France, and Germany. The Reserve Banks might find that they would no longer be called upon to perform the function of equalization of capital, but only hold the position analogous to the Bank of England which is looked upon as the source of emergency accommodation by the joint stock banks.

With the present development of branch banking in this country, this impairment of the Federal Reserve Banks' functions does not appear very near. But any considerable further extension of branches might bring such a problem to the fore. Even though nation wide branches were not permitted, a combination of branch banking and group banking might accomplish practically the same thing. Large branch banks, even though confined to states, might rely far less on the Reserve Banks than unit banks of similar resources.

Under reasonably satisfactory conditions, the advantages of branch banking, as well as some of the disadvantages which attach to it, may be listed as:

Advantages:

1. Economy of reserves.
2. Equalization of demand and supply of funds.
3. Equalization and lowering of interest rates.
4. Economical employment of stockholders' capital.
5. Advantages of large scale operations and division of labor.
6. Decentralization of money and credit markets.
7. More adequate and effective control of money and credit.
8. Diversification of loans and discounts and a possible greater employment of funds in such business needs.

9. Adjustment of banking offices to economic demand.
10. Impersonal business relations making for sounder business relations.
11. Convenient and adequate banking service to customers.
12. Economical operation.
13. Greater safety and fewer failures.

Disadvantages

1. Loss of personal contacts.
2. Withdrawal of capital from some communities.
3. Weakening of individual initiative and enterprise.
4. Excessive competition and consequent increased costs of services.
5. Danger of monopoly and excessive charges in some communities.
6. High costs of operation due to decreasing returns of too large enterprises.

Because of legal limitations and regulatory restrictions, however, branch banks in this country have not been able to achieve the full advantages possible under such a system of banking. Consequently, it is not fair to judge branch banking in this country by the standards which have been obtained in the foreign countries studied. Furthermore, the branch banks of the foreign countries confined themselves largely to commercial banking whereas in this country there is a combination of commercial, savings, trust, and investment banking.

Nor is it fair, in the evaluation of branch banking in this country in comparison with unit banking, to state that our experiences afford a sound basis for judging their relative values. Unit banking has evidently reached a state of maturity whereas branch banking has only begun to develop and has a long road to travel before it can reach what may be called its maturity.

By looking at the experiences of Scotland, England, and Canada, it is possible to see that branch banking had to go through definite evolutionary growth. Branch banks had to learn to avoid loans based on real estate and speculative enterprises, and had to develop their system of operation or organization, define their policies, train and develop their managements, and in many other ways grow into what may be

a state of maturity. It is only in the latter stages of maturity that branch banks have reached stability and provided a banking system superior to the unit banking system. As long as branch banks are growing rapidly, consolidating with other banks, and the like, certain problems are introduced. The problems of consolidation, and rapid expansion, are not identical with those of bank operation. It is possible that such problems absorb too great a portion of the best thought of bank managements, and divert their thought from the fundamental problems and policies of bank operation.

Although the branch banks in this country may be spared some of these difficulties by restraints placed upon them, it is also true that they will less rapidly achieve their best modes of operation. Consequently, subsequent weaknesses in branch banking in this country should be criticized only in the light of the extent to which they have been allowed to obtain the fullest advantages possible under the branch banking system.

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