WILLIAM GOUGE, ADVISOR TO PRESIDENT JACKSON, ON THE PRINCIPLES OF THE BANKING SYSTEM 1833

SUMMARY

To place the subject fairly before the reader, we shall bring together the principal propositions that have been supported in this essay, and leave the decision to his candid judgment.

We have maintained:

1. That real money is that valuable by reference to which the value of other articles is estimated, and by the instrumentality of which they are circulated. It is a *commodity*, done up in a particular form to serve a particular use, and does not differ *essentially* from other items of wealth.

2. That silver, owing to its different physical properties, the universal and incessant demand for it, and the small proportion the annual supply bears to the stock on hand, is as good a practical standard of value as can reasonably be desired. It has no variations except such as *necessarily* arise from the nature of value.

3. That real money diffuses itself through different countries, and through different parts of a country, in proportion to the demands of commerce. No prohibitions can prevent its departing from countries where wealth and trade are declining; and no obstacle, except spurious money, can prevent its flowing into countries where wealth and trade are increasing.

4. That money is the tool of all trades, and is, as such, one of the most useful of productive instruments, and one of the most valuable of labor-saving machines.

5. That bills of exchange and promissory notes are a *mere commercial medium*, and are, as *auxiliaries* of gold and silver money, very useful: but they differ from metallic money in having no inherent value, and in being evidences of debt. The expressions of value in bills of exchange and promissory notes, are according to the article which law or custom has made the standard; and the failure to pay bills of exchange and promissory notes, does not affect the value of the currency, or the standard by which all contracts are regulated.

6. That Bank notes are *mere evidences of debt* due by the Banks, and in this respect differ not from the promissory notes of the merchants: but

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William M. Gouge, *A Short History of Paper-Money and Banking in the United States and an Inquiry into the Principles of the System*, I, 135 ff.

being received in full of all demands, they become to all intents and purposes the money of the country.

7. That Banks owe their credit to their charters; for if these were taken away, not even their own stockholders would trust them.

8. That the circulating quality of Bank notes is in part owing to their being receivable in payment of dues to government; in part to the interest which the debtors to Banks and Bank stockholders have in keeping them in circulation; and in part to the difficulty, when the system is firmly established, of obtaining metallic money.

9. That so long as specie payments are maintained, there is a limit on Bank issues; but, this is not sufficient to prevent successive "expansions" and "contractions," which produce ruinous fluctuations of prices; while the means by which Bank medium is kept "convertible," inflict great evils on the community.

10. That no restriction which can be imposed on Banks, and no discretion on the part of the directors, can prevent these fluctuations; for Bank credit, as a branch of commercial credit, is affected by all the causes, natural and political, that affect trade, or that affect the confidence man has in man.

11. That the "flexibility" or "elasticity" of Bank medium is not an excellence, but a defect, and that "expansions" and "contractions" are not made to suit the wants of the community, but from a simple regard to the profits and safety of the Banks.

12. That the uncertainty of trade produced by these successive "expansions" and "contractions," is but *one* of the evils of the present system. That the Banks cause credit dealings to be carried to an extent that is highly pernicious—that they cause credit to be given to men who are not entitled to it, and deprive others of credit to whom it would be useful.

13. That the granting of exclusive privileges to companies, or the exempting of companies from liabilities to which individuals are subject, is repugnant to the fundamental principles of American government; and that the Banks, inasmuch as they have exclusive privileges and exemptions, and have the entire control of credit and currency, are the most pernicious of money corporations.

14. That a *nominal* responsibility may be imposed on such corporations, but that it is impossible to impose on them an effective responsibility. They respect the laws and public opinion so far only as is necessary to promote their own interest.

15. That on the supposition most favorable to the friends of the Banking System, the whole amount gained by the substitution of Bank medium for gold and silver coin, is equal only to about forty cents per

annum for each individual in the country; but that it will be found that nothing is in reality gained *by the nation*, if due allowance be made for the expense of supporting three or four hundred Banks, and for the fact that Bank medium is a machine which performs its work badly.

16. That some hundreds of thousands of dollars are annually extracted from the people of Pennsylvania, and some millions from the people of the United States, for the support of the Banks, insomuch as through Banking the natural order of things is reversed, and interest paid to the Banks on evidences of debt due by them, instead of interest being paid to those who part with commodities in exchange for Bank notes.

17. That into the formation of the Bank capital of the country, very little substantial wealth has ever entered, that capital having been formed principally out of the promissory notes of the original subscribers, or by other means which the operations of the Banks themselves have facilitated. They who have bought the script of the Banks at second-hand, may have honestly paid cent. per cent. for it; but what they have paid has gone to those from whom they bought the script, and does not form any part of the capital of the Banks.

18. That if it was the wish of the legislature to promote usurious dealings, it could not well devise more efficient means than incorporating paper-money Banks. That these Banks, moreover, give rise to many kinds of stock-jobbing, by which the simple-minded are injured and the crafty benefited.

19. That many legislators have in voting for Banks, supposed that they were promoting the welfare of their constituents; but the prevalence of false views in legislative bodies in respect to money corporations and paper-money, is to be attributed chiefly to the desire certain members have to make money for themselves, or to afford their political partisans and personal friends opportunities for speculation.

20. That the banking interest has a pernicious influence on the periodical press, on public elections, and the general course of legislation. This interest is so powerful, that the establishment of a system of sound currency and sound credit is impracticable, except one or other of the political parties into which the nation is divided, makes such an object its primary principle of action.

21. That through the various advantages which the system of incorporated paper-money Banking has given to some men over others, the foundation has been laid of an *artificial* inequality of wealth, which kind of inequality is, when once laid, increased by all the subsequent operations of society.

22. That this artificial inequality of wealth, adds nothing to the

substantial happiness of the rich, and detracts much from the happiness of the rest of the community. That its tendency is to corrupt one portion of society, and debase another.

23. That the sudden dissolution of the Banking System, without suitable preparation, would put an end to the collection of debts, destroy private credit, break up many productive establishments, throw much of the property of the industrious into the hands of speculators, and deprive laboring people of employment.

24. That the system can be got rid of without difficulty, by prohibiting, after a certain day, the issue of small notes, and by proceeding gradually to those of the highest denomination.

25. That the feasibility of getting rid of the system, is further proved by the fact, that the whole amount of Bank notes and Bank credits, is, according to Mr. Gallatin's calculation, only about one hundred and nine million dollars. By paying ten or eleven millions a year, the whole can be liquidated in the term of ten years. If, however, twenty or thirty years should be required for the operation, the longest of these is but a short period in the lifetime of a nation.

26. That it has not been solely through the undervaluation of gold at the mint, that eagles and half-eagles have disappeared. The free use of Bank notes is the chief cause of the disappearance of gold. Nevertheless, a new coinage of pieces containing four and eight, or five and ten dollars' worth of gold is desirable, to save the trouble of calculating fractions. The dollar being the money of contract and account, no possible confusion or injustice can be produced by an adjustment of the gold coinage to the silver standard.

27. That incorporating a paper-money Bank is not the "necessary and proper," or "natural and appropriate" way of managing the fiscal concerns of the Union; but that the "necessary and proper," or "natural and appropriate" way, is by sub-treasury offices.

28. That incorporating a paper-money Bank is not "the necessary and proper," or "natural and appropriate" way of correcting the evils occasioned by the State Banks, inasmuch as a National Bank, resting on the same principles as the State Banks, must produce similar evils.

29. That "convertible" paper prevents the accumulation of such a stock of the precious metals as will enable the country to bear transitions from peace to war, and insure the punctual payment of war taxes; and that the "necessary and proper," or "natural and appropriate" way of providing for all public exigencies, is by making the government *a solid money government*, as was intended by the framers of the constitution.

30. That if Congress should, from excessive caution, or some less

commendable motive, decline passing the acts necessary to insure the gradual withdrawal of Bank notes, they may greatly diminish the evils of the system, by declaring that nothing but gold and silver shall be received in payment of duties, and by making the operations of the government entirely distinct from those of the Banks.

31. That on the abolition of incorporated paper-money Banks, private Bankers will rise up, who will receive money on deposite, and allow interest on the same, discount promissory notes, and buy and sell bills of exchange. Operating on sufficient funds, and being responsible for their engagements in the whole amount of their estates, these private Bankers will not by sudden and great "expansions" and "curtailments" derange the whole train of mercantile operations. In each large city, an office of deposite and transfer, similar to the Bank of Hamburgh, will be established, and we shall thus secure all the good of the present Banking System, and avoid all its evils.

32. That if the present system of Banking and paper-money shall continue, the wealth and population of the country will increase from natural causes, till they shall be equal for each square mile to the wealth and population of Europe. But with every year, the state of society in the United States will more nearly approximate to the state of society in Great Britain. Crime and pauperism will increase. A few men will be inordinately rich, some comfortable, and a multitude in poverty. This condition of things will naturally lead to the adoption of that policy which proceeds on the principle that a legal remedy is to be found for each social evil, and nothing left for the operations of nature. This kind of legislation will increase the evils it is intended to cure.

33. That there is reason to *hope*, that on the downfall of moneyed corporations, and the substitution of gold and silver for Bank medium, sound credit will take the place of unsound, and legitimate enterprise the place of wild speculation. That the moral and intellectual character of the people will be sensibly though gradually raised, and the causes laid open of a variety of evils under which society is now suffering. That the sources of legislation will, to a certain extent, be purified, by taking from members of legislative bodies inducements to pass laws for the special benefit of themselves, their personal friends and political partisans. That the operation of the natural and just causes of wealth and poverty, will no longer be inverted, but that each cause will operate in its natural and just order, and produce its natural and just effect—wealth becoming the reward of industry, frugality, skill, prudence, and enterprise, and poverty the punishment of few except the indolent and prodigal.

WILLIAM GOUGE, *A SHORT HISTORY OF PAPER-MONEY AND BANKING*, 1833

CHAPTER I

Of the Medium of Trade, before the Introduction of Paper-Money

The first settlers of a country may be much in want of capital, but they do not need a great sum of money as a medium of domestic trade. A few exchanges of products for gold and silver coin, will regulate barter transactions with sufficient accuracy for general dealings. A great portion of the stock of money which the original emigrants brought with them, was therefore soon exchanged for the comforts and conveniences which Europe could supply, and trade by barter became the custom of the country.

If the government had not interfered, all would have been well. But as early as 1618, as is stated by Holmes, in his American Annals, Governor Argall of Virginia, ordered "that all goods should be sold at an advance of 25 per cent., and tobacco taken in payment at three shillings per pound, and not more or less, on the penalty of three years servitude to the colony."[2]

In 1641, as we learn from the same authority, the General Court of Massachusetts "made orders about payment of debts, setting corn at the usual price, and making it payable for all debts which should arise after a time prefixed." In 1643, the same General Court ordered "that wampompeag should pass current in the payment of debts to the amount of forty shillings, the white at eight a penny, the black at four a penny, except for county rates."

Wampompeag being an article of traffick with the the Indians, had a value in domestic trade, but an attempt to fix its value by law was an absurdity,

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William M. Gouge, *A Short History of Paper-Money and Banking in the United States and an Inquiry into the Principles of the System*, II, 3 ff.

[2]Burk, in the appendix to the first volume of the History of Virginia, mentions some facts which elucidate the statement of Holmes.

"I find," he says, "in the proclamations of the Virginia Governors and Councils, the rates of some commodities and something like a scale of exchange between specie and tobacco. During the administration of Captain Argall, tobacco was fixed at three shillings the pound.

and making it a legal tender was something worse than absurdity. The measure was, however, in perfect accordance with the orders given by the General Court in 1633, declaring, "that artificers, such as carpenters and masons, should not receive more than two shillings a day, and proportionably, and that merchants should not advance more than four pence in the shilling above what their goods cost in England."

In Pennsylvania, as well as in the other colonies, a considerable traffic was carried on by barter. In the year 1700, or about that time, a proposition was brought before the General Assembly, to make domestic products a legal tender, at their current rates. The proposition was rejected. But Holmes states that, in Maryland, as late as the year 1732, an act was passed "making tobacco a legal tender at one penny a pound, and Indian corn at twenty pence a bushel."

The colonists had hardly become numerous enough to require more than two or three hundred thousand dollars of medium for domestic uses, before specie began to flow in abundantly. Their trade with the West Indies and a clandestine commerce with the Spanish Maine, made silver so plentiful, that, as early as 1652, (thirty years before the foundation of Philadelphia,) a mint was established in New-England for coining shil-

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In 1623, Canary, Malaga, Alicant, Tent, Muskadel, and Bastard wines, were rated at six shillings in specie, and nine shillings the gallon payable in tobacco. Sherry, Sack, and Aquavitae, at four shillings, or four shillings six pence tobacco. Wine vinegar at three shillings, or four shillings and six pence tobacco. Cider and beer vinegar at two shillings, or three shillings in tobacco. Loaf-sugar one shilling and eight pence per pound, or two shillings and six pence in tobacco; butter and cheese eight pence per pound, or one shilling in tobacco. Newfoundland fish per cwt. fifteen shillings, or one pound four shillings in tobacco. Canada fish, two pounds, or three pounds ten shillings in tobacco. English meal sold at ten shillings the bushel, and Indian corn at eight. After a careful inspection of the old records, I cannot find any rates of labor specified, although they too are mentioned, as forming a part of the subject of proclamations."

Holmes, in his Annals, supplies one deficiency in Burk's price current, namely, the price of a passage from Europe.

"The enterprising colonists being generally destitute of families, Sir Edward Sandys, the treasurer, proposed to the Virginia company to send over a freight of young women to become wives for the planters. The proposal was applauded; and ninety girls, "young and uncorrupt," were sent over in the ships, that arrived this year, (1620) and the year following, sixty more, handsome and well recommended to the company for their virtuous education and demeanor. The price of a wife, at the first, was *one hundred pounds of tobacco:* but as the number became scarce, the price was increased to *one hundred and fifty pounds,* the value of which, in money, was three shillings per pound. This debt for wives, it was ordered, should have the precedency of all other debts, and be first recoverable."

The Rev. Mr. Weems, a Virginia writer, intimates that it would have done a man's heart good, to see the gallant, young Virginians, hastening to the water side, when a ship arrived from London, each carrying a bundle of the best tobacco under his arm, and each taking back with him a beautiful and virtuous young wife.

lings, sixpences and three-penny pieces.[3] In 1662 a mint was established in Maryland[4]

Gabriel Thomas, in his account of Pennsylvania, published about the year 1698, says silver was more plentiful in that province than in England.

Plentiful, however, as it was, there was not enough to satisfy the wishes of every body. Attempts were, therefore, made to keep the precious metals in the country, by raising the official value of the coin. Virginia, in 1645, prohibited dealings by barter, and established the Spanish piece of eight at six shillings, as the standard currency of that colony. The other colonies affixed various denominations to the dollar, and the country exhibited a singular spectacle. Its money of account was the same nominally as that of England. Its coin was chiefly Spanish and Portuguese. But what was a shilling in Pennsylvania, was more than a shilling in New York, and less than a shilling in Virginia.

In the third year of Queen Anne, an attempt was made to put an end to this confusion, by a Royal Proclamation and act of parliament, fixing the plantation pound at two ounces sixteen pennyweights sixteen grains of silver, of the fineness of common pieces of eight, at six shillings and ten pence halfpenny per ounce; but from various causes, the act proved effective in Barbadoes only. In South Carolina, the dollar was estimated at 4s. 8d., in Virginia and New-England at 6s., in Pennsylvania, New Jersey, and Maryland at 7s. 6d., and in New York and North Carolina at 8s.

These are to be understood as the rates at which the currencies of the different colonies were finally settled. They were varied from time to time to suit the varying views of the lawgivers.[5] Confusion in dealing was

[3]"The law enacted that 'Massachusetts' and a tree in the centre, be on the one side: and New-England, and the year of our Lord, and the figure XII, VI, III, according to the value of each piece, be on the other side."—Massachusetts Laws. "The several coins had N. E. on one side, and the number denoting the number of *pence*, with the year 1652, on the other. The date was never altered, though more coin was stamped annually for thirty years."—*Holmes*.

[4]In 1662, the Assembly of Maryland besought the proprietary "to take orders for sitting up a mint," and a law was passed for that purpose. "The great hindrance to the colony in trade for the want of money" is assigned as the reason for the measure. It was enacted, that the money coined shall be of as good silver as English sterling; that every shilling, and so in proportion for other pieces, shall weigh above nine pence in such silver; and that the proprietary shall accept of it in payment of his rents and other debts. This coin being afterwards circulated, the present law of Maryland was confirmed in 1676. This is the only law for coining money, which occurs in colonial history, previous to the American Revolution, excepting the ordinance of Massachusetts in 1652."—*Chalmers*, 1. 248.

[5]Dr. Franklin, in his historical account of Pennsylvania, says, "during this weak practice silver got up by degrees to eight shillings and nine pence per ounce, and English crowns were six, seven, and eight shillings a piece."

thereby introduced, and some injustice was done to individuals: but the chief object of these changes, namely, that of keeping a great stock of the precious metals in the country, was not effected. In proportion as the denominations of the coin were raised, the merchants raised the price of their goods. The laws of nature counteracted the laws of the land. The people exchanged their surplus gold and silver for such things as they wanted still more than gold and silver—leaving just as much money in the country as its domestic trade required, and not one shilling more.

CHAPTER II

Of Provincial Paper-Money

Paper-money was first issued by Massachusetts in 1690. The object was not to supply any supposed want of a medium for trade, but to satisfy the demands of some clamorous soldiers. Other issues were subsequently made, partly with the view of defraying the expenses of government, and partly with a view of making money plenty in every man's pocket. But as the quantity increased, the value diminished, as will be seen by inspecting the following table.

	Exch. with London.	*1 oz. Silver*			*Exch. with London.*	*1 oz. Silver*
1702	133	6*s.*	10½*d.*	1728	340	18*s.*
1706	135	7		1730	380	20
1713	150	8		1737	500	26
1716	175	9	3	1741	550	28
1717	225	12		1749	1100	60
1722	270	14				

The ill-judged expedition of the Carolinians against St. Augustine, in 1702, entailed a debt of six thousand pounds on that colony, for the discharge of which a bill was passed by the provincial assembly for stamping bills of credit, which were to be sunk in three years by a duty laid upon liquors, skins and furs. For five or six years after the emission, the paper passed in the country at the same value and rate as the sterling money of England.

To defray the expenses of an expedition against the Tuscaroras, and to accommodate domestic trade, the legislature of South Carolina established a public Bank in 1712, and issued forty-eight thousand pounds in bills of credit, called Bank bills, to be lent out on interest on landed and personal security, and to be sunk gradually at the rate of four thousand pounds a year. Soon after the emission of these Bank bills, the rate of exchange and the price of produce rose, advancing in the first year to one hundred and fifty, and in the second to two hundred per cent. By the year 1731, the rate of exchange rose to seven hundred, at which, says Holmes, "it continued with little variation upwards of forty years."

In the year 1723, "the province of Pennsylvania made its first experiment of a paper currency. It issued, in March, fifteen thousand pounds, on such terms as appeared likely to be effectual to keep up the credit of the bills. It made no loans, but on land security, or plate deposited in the loan office: obliged the borrowers to pay five per cent. for the sums they took up; made its bills a tender in all payments, on pain of confiscating the debt, or forfeiting the commodity; imposed sufficient penalties on all persons, who presumed to make any bargain or sale on cheaper terms in case of being paid in gold or silver; and provided for the gradual reduction of the bills, by enacting that one-eighth of the principal, as well as the whole interest, should be annually paid."

Governor Pownall, in his work on the administration of the colonies, bestows high praise on the paper system of Pennsylvania. "I will venture to say," he declares, "that there never was a wiser or a better measure, never one better calculated to serve the interests of an increasing country, that there never was a measure more steadily pursued or more faithfully executed, for forty years together, than the loan office in Pennsylvania, founded and administered by the assembly of that province." Dr. Franklin also bestowed high commendation on the system. And Adam Smith, apparently guided by Governor Pownall and Dr. Franklin, says, "Pennsylvania was always more moderate in its emission of paper-money than any of our other colonies. Its paper currency accordingly *is said* never to have sunk below the value of the gold and silver which was current in the colony before the first emission of its paper-money."

All things go by comparison. The credit bills of Pennsylvania were so much better than those of the other governments, that there was a demand for them throughout the country as bills of exchange: but it is not a fact that they never sunk below the value of the gold and silver which was current in the colony before the first emission of its paper. The following table taken from an official document to be found in Proud's History of Pennsylvania, shows that the paper was never at a less discount than eleven per cent. if gold be taken as the standard, or seven per cent. if silver be the standard.

	Gold			Silver.	
1700 to 1709	5*l.*	10*s.*	0*d.*	9*s.*	2*d.*
1709 to 1720	5	10	0	6	10½
1720 to 1723	5	10	0	7	5
1723 to 1726	6	6	6	8	3
1726 to 1730	6	3	9	8	1
1730 to 1738	6	9	3	8	9

We have no account of the bullion market in provincial Pennsylvania, subsequent to the year 1738, but this table shows that those who represented to Adam Smith that the paper of the colony suffered no depreciation, were misled by making neither gold nor silver the standard, but by making the paper the standard of itself. As the Pennsylvania pound current never changed its name, they thought it never changed its value.[6]

The following table shows the rate of exchange of the currencies of the different colonies, for 100*l.* sterling, at two different periods.

	1740	1748
New England,	525	1,100
New York,	160	190
New Jersey,	160	180 and 190
Pennsylvania,	170	180
Maryland,	200	200
North Carolina,	1,400	1,000
South Carolina,	800	750
Virginia,		120 and 125

[6]It is curious to observe the similarity of the reasoning of the supporters of this paper-money with that of the anti-bullionists of a subsequent period. A merchant of Boston writing to his friend in England in 1740, uses the following language.

"Upon the continuance of a favorable turn in the trading circumstances of the province of New-England, the government might stop at any rate which silver should fall to, and make that rate the fixed silver pound, and make it a lawful tender; and common consent or acceptance of the people would complete the scheme of silver money. And thus the pound sterling is fixed in England at three ounces seventeen pennyweights and two grains of silver, of a certain fineness, or silver at five shillings and two pence per ounce.

"But if that kingdom were under our unhappy circumstances, as not having a sufficiency in value in silver and all other exports to discharge the whole demand of their imports: it would then be next to a miracle if silver did not rise to above five shillings and two pence per ounce in the market, in proportion to the balance of debt against them; and their trading circumstances continue to decline, as ours have; their silver would be brought to twenty-seven shillings per ounce, as ours is, and the current money of Great Britain be at the rate of twenty shillings per ounce, whatever the lawful money might be." *Anderson*, vol. iii, p. 498.

Here we have the doctrine clearly stated that when paper is at a discount, it is not paper that has fallen, but silver that has risen; and the English anti-bullionists are thus deprived of all claim to originality in error. All the arguments they used during the suspension of specie payments were mere plagiarisms from the Boston merchant.

The government of Virginia appears not to have issued any paper-money previous to the revolutionary war.

In respect to the paper-money of the colonies generally, we may say, in the language of Adam Smith, "allowing the colony security to be perfectly good, a hundred pounds payable fifteen years hence, in a country where interest is at six per cent., is worth little more than forty pounds ready money. To oblige a creditor, therefore, to accept of this as a full payment for a debt of a hundred pounds actually paid down in ready money, was an act of such violent injustice as has scarce, perhaps, been attempted by the government of any other country which pretended to be free. It bears the evident marks of having originally been, what the honest and downright Dr. Douglass assures us it was, a scheme of fraudulent debtors to cheat their creditors. The government of Pennsylvania, indeed, pretended, upon their first emission of paper-money, to render their paper of equal value with gold and silver, by enacting penalties against all those who made any difference in the price of their goods when they sold them for colony paper, and when they sold them for gold and silver: a regulation equally tyrannical, but much less effectual than that which it was meant to support. A positive law may render a shilling a legal tender for a guinea, because it may direct the courts of justice to discharge the debtor who has made that tender. But no positive law can oblige a person who sells goods, and who is at liberty to sell or not to sell as he pleases, to accept of a shilling as equivalent to a guinea in the price of them."

Dr. Hugh Williamson, the historian of North Carolina, is not less emphatic than Adam Smith in denouncing the system.

"Of all the varieties of fraud," he says, "which have been practised by men who call themselves honest, and wish to preserve a decent appearance, none have been more frequent in legislative bodies than the attempt to pass money for more than its proper value. There are men who conceive that crimes lose their stain, when the offenders are numerous: that in the character of legislators they cannot be rogues: 'defendit numerus.' There are men who would be ashamed to acquire five shillings by stealing, picking a pocket, or robbing on the highway; but they would freely and without blushing assist in passing a law to defraud their creditors of their just demands. There are instances of men being banished from North Carolina for stealing a hog not worth five dollars: while the men who banished them would contend for paying a debt of seven pounds with the value of twenty shillings: the moral sense is depraved by tender laws, or laws that enable the debtor to defraud his creditor, by offering him a fictitious payment. By such laws the mind is alienated from the love of justice, and is prepared for any species of chicane and fraud."

Hutchinson, the historian of Massachusetts, has preserved many curious particulars of the introduction of paper-money into this country, and of its operation on society. After relating the unsuccessful expedition of the Massachusetts troops against Quebec in 1690, he proceeds as follows with his narrative.

"The government was utterly unprepared for the return of the forces. They seem to have presumed, not only upon success, but upon the enemy's treasure to bear the charge of the expedition. The soldiers were upon the point of mutiny for want of their wages. It was utterly impracticable to raise in a few days such a sum as would be necessary. An act was passed for levying the sum, but the men would not stay until it should be brought into the treasury. The extreme difficulty to which the government was thus reduced, was the occasion of the first bills of credit ever issued in the colonies, as a substitute in the place of money. The debt was paid by paper notes from two shillings to ten pounds denomination, which notes were to be received for payment of the tax which was to be levied, and all other payments in the treasury. This was a new expedient. They had better credit than King James' leather-money in Ireland, about the same time. But the notes would not command money, nor any commodities at money price. Sir William Phipps, it is said, exchanged a large sum at par in order to give them credit. The soldiers in general were great sufferers, and could get no more than twelve or fourteen shillings in the pound. As the time of payment of the tax approached, the credit of the notes was raised, and the government allowing five per cent. to those who paid their taxes in notes, they became better than money. This was gain to the possessor, but it did not restore to the poor soldier what he had lost by the discount.

"The government, encouraged by the restoration of credit to their bills, afterwards issued others for charges of government. They obtained good credit at the time of their being issued. The charges of government were paid in this manner from year to year. Whilst the sum was small, silver continued the measure, and bills continued their value. When the charges of government increased, after the second expedition to Canada in 1711, the bills likewise increased, and in the same or greater proportion, the silver and gold were sent out of the country. There being a cry of scarcity of money in 1714, the government caused 50,000*l.* to be issued, and in 1716, 100,000*l.*, and lent to the inhabitants, to be paid in at a certain period, and in the meantime to pass as money. Lands were mortgaged for security. As soon as the silver and gold were gone, and the bills were the sole instrument of commerce, pounds, shillings, and pence, were altogether ideal, for no possible reason could be assigned why a bill of twenty shillings should bear a certain proportion to any one quantity of silver more than another. Sums in bills were drawing into the treasury from time to time, by the taxes or payment of the loans: but then other sums were continually issuing out, and all the bills were paid and received without any distinction, either in public or private payments, so that, for near forty years together, the currency was in much the same state as if a hundred thousand pounds sterling had been stamped on pieces of leather, or paper of various denominations, and declared to be the money of the government, without any other sanction than this, that when there should be taxes to pay, the treasury would receive this sort of money, and that every creditor should be obliged to receive it from his debtor. Can it be supposed that such a medium could retain its value? In 1702, 6s. 8d. was equal to an ounce of silver. In 1749, 50s. was judged equal to an ounce of silver. I saw a five shilling bill which had been issued in 1690, and was remaining in 1749, and was then equal to eight pence only in the lawful money, and so retained but one-eighth of its original value. Such was the delusion, that not only the bills of the Massachusetts government passed as money, but they received the bills of the governments of Connecticut, New-Hampshire, and Rhode Island also as a currency. The Massachusetts bills passed also in those governments."

By the year 1713, "silver and gold were entirely banished. Of two instruments, one in use in a particular State only, the other with the whole commercial world, it is easy to determine which must leave the particular State and which remain. The currency of silver and gold entirely ceasing, the price of every thing bought or sold was no longer compared therewith, but with paper bills, or rather with mere ideal pounds, shillings, and pence. The rise of exchange with England and all other countries was not attributed to the true cause, the want of a fixed staple medium, but to the general bad state of the trade. Three parties were formed, one very small, which was for drawing in the paper bills and depending upon a silver and gold currency. Mr. Hutchinson, one of the members for Boston, was among the most active of this party. He was an enemy all his life, to a depreciating currency, upon a principle very ancient, but too seldom practised upon, *nil utile quod non honestum,* [nothing which is not honest is useful.] . . .[7]

[7]See Hutchinson's account of the Massachusetts experiment, 72-84. (Ed.)

From the account of the operation of the provincial paper-money of Massachusetts, the reader may judge of its operation in the other colonies; and thereby learn to estimate properly that provision of the United States' Constitution, which forbids any State "to emit bills of credit, pass any law violating the obligation of contracts, or make any thing but gold and silver a legal tender in the payment of debts."

The successful issue of the experiment in Massachusetts did not induce the other governments to take the necessary measures for substituting a metallic for a paper medium. But as the British merchants trading to the colonies were sufferers by the monetary system of the day, an act of parliament was passed in 1763, "to prevent paper bills of credit, hereafter to be issued in any of his Majesty's colonies or plantations in America, from being declared to be a legal tender in payment of money, and to prevent the legal tender of such bills as are now subsisting from being prolonged beyond the periods for calling in and sinking the same."

The preamble to the act declared, with great truth, that by means of paper bills of credit, "debts have been discharged with a much less value than was contracted for, to the great discouragement and prejudice of trade and commerce of his Majesty's subjects, by occasioning confusion in dealings and lessening credit in the said colonies or plantations." The body of the act made void all acts of assembly thereafter passed to establish or keep up such tender; and inflicted a fine of 1,000 pounds (with immediate dismissal and future incapacity to fill any public office or place of trust,) on any governor who should give his assent to such act of legal tender.

This measure caused much murmuring, for the speculating classes of society, who are always the most noisy, liked not to be deprived of so many opportunities of profit as a vacillating currency afforded them. They appear to have had influence enough to prevent the act from being effective in some of the colonies; for we find that ten years after, another act with the same title was passed by the British Parliament.

The two acts together seem to have reduced the paper bills of credit to a very small amount; for Pelatiah Webster, a respectable merchant of Philadelphia, estimates the whole circulating cash of the thirteen States, just before the war, at twelve million dollars, or perhaps, not more than ten million hard dollars in value. "Not more than half," he says, "or at most three-fifths, of the circulating cash in this State (Pennsylvania,) was paper; and I am well convinced that that proportion was not exceeded in the other States where paper-money was circulated."

This provincial paper-money may be regarded as a species of government script, which by an act of tyranny was made a legal tender. It fluctuated in value, according to the changes in the credit of the government by which it was issued, and the amount thrown into the market. Being more liable to great depreciation, it was inferior to Bank paper as money: but its character was better understood by the people. They knew the authority of the government, and the resources of the government. When they were injured, they knew by whom they were injured, if not to what extent.

In one respect the provincial paper-money system had an effect directly opposite to that of the present Banking System. Through the present Banking System, dealings on credit are carried to an extent beyond that in which they are useful, and in which they become highly pernicious. Through the old paper-money system, confidence was destroyed, and credit prevented from spreading to its natural extent.

The profits gained by the governments by the issues of paper-money, enabled them to diminish the regular taxes; but this gain was insignificant, and the evils produced by the system were incalculably great. All that honest men lost by highwaymen, housebreakers, footpads, and horsethieves, was trifling in amount when compared with that which they lost through the instrumentality of the paper-money of the different colonies.

CHAPTER III

Of Continental Money

According to an estimate by the Register of the Treasury, in 1790, the issues of continental money were as follows, viz:

	Old Emission. Dolls.	*90ths.*	New Emission Dolls.	*90ths*
In 1776	20,064,464	66		
1777	26,426,333	1		
1778	66,965,269	34		
1779	149,703,856	77		
1780	82,908,320	47	891,236	80
1781	11,408,095	00	1,179,249	00
	$357,476,541	45	$2,070,485	80

. . .On the 31st of May, 1781, the continental bills ceased to circulate as money, but they were afterwards bought on speculation at various prices, from four hundred for one, up to one thousand for one.

The value of continental paper was not the same in different parts of the country. The exchange was, for example, December, 25th, 1779, at thirty-five for one in New-England, New York, the Carolinas, and Georgia, and at forty for one in Pennsylvania, New Jersey, Delaware, Maryland, and Virginia.

An account taken from the books of merchants in Virginia shows that the depreciation there regularly followed that in Philadelphia, though, towards the close, it sometimes lagged a month or more behind. Thus, when exchange was in Philadelphia at one hundred for one, in January, 1781, it was in Virginia at seventy-five for one: and in April, when exchange in Philadelphia was at one hundred and thirty-five for one, it was in Virginia at one hundred for one.

As late as May, 1781, speculations were entered into at Philadelphia, to purchase continental money at two hundred and twenty-five for one, and sell it at Boston at seventy-five for one.

It is worthy of remark "that the depreciation of continental money never stopped the circulation of it. As long as it retained any value at all it passed quick enough: and would purchase hard money or any thing else, as readily as ever, when the exchange was 200 for 1, and when every hope, or even idea, of its being ultimately redeemed at nominal value had entirely vanished."

The facility of raising ways and means, in the early part of the war, by issues of paper, led to much extravagance in the commissary department, and prevented the establishment of a sound system of finance. . . Our ancestors were lavish of their blood, in defence of their rights. If it was through a wish to save their treasure that they resorted to paper-money, they did not succeed in their object. As a mode of raising revenue, it might be compared to a tax, the expenses of collecting which were many times as great as the sum brought into the treasury. The benefit the government derived from it, was in no way commensurate with the burden it imposed on the people. Most of the loss fell on the Whigs, as it was in their hands the paper depreciated. The Tories, who had from the beginning no confidence in it, made it a rule to part with it as soon as possible.

This continental money was, in its true character, a simple evidence of debt due by the government: and may, as such, in the first stage of its operation, be compared to the *forced loans* which the potentates of Europe have at times extracted from their subjects. As a *forced currency*, it may be compared to the base coin which the same potentates have issued in other seasons of difficulty. The resort to it can be justified (if it can be justified at all) only on the plea of state necessity—a plea so easily made that it ought never to be admitted without close examination. . . .

CHAPTER IV

Of the Bank of North America

It is a common opinion that the Bank of North America rendered essential service during our revolutionary struggle—that, without it, the achievement of independence would have been difficult, if not impossible. Assertions to this effect have been made with so much confidence that we once believed them to be well-founded; but on examination we find—

First. That the capture of Cornwallis, which is described by historians as the closing scene of the Revolutionary War, took place on the 9th of October, 1781, and that the Bank did not go into operation till January 7th, 1782.

Secondly. That the whole amount of expenditures of the U. S. Government in the year 1782, was only three million six hundred thousand dollars, and in 1783 only three million two hundred thousand dollars. Large loans were negotiated in Europe in these years; "and such a conviction of the necessities of public supplies generally took place through the States, that considerable sums were obtained by a tax on polls and real estates."

Thirdly. The whole amount subscribed by individuals to the Bank did not, as appears from the concurrent testimony of Mr. Robert Morris and Mr. Gouverneur Morris, exceed 70,000 dollars.

Fourthly. From statements made by Mr. Robert Morris, in public debate in the Legislature of Pennsylvania, in the year 1786, it appears that the advances made by the Bank to the Government, above the amount of silver money actually paid in by the Government, never did exceed 165,000 dollars, and for a part of the time did not amount to 50,000 dollars[8]

[8]From the statements of Mr. Robert Morris, the accounts of the Government with the Bank were as follows:

		Cr.	Dr.	
April 2d,	1782	252,918	300,000	47,082
July	1782	252,918	400,000	147,082
October	1782	253,394		146,606
January	1783	53,394	100,000	46,606
April	1783	53,394	100,000	46,606
July	1783		129,800	129,800
October	1783		164,781	164,781

January 1st, 1784, the debt was discharged.

The last column shows the amount in which the Government was in debt to the Bank, at the different periods mentioned.

The reader, on duly considering these facts, will probably be convinced that the services rendered by the Bank of North America, during our revolutionary struggle, have been grossly exaggerated.

From the beginning of the year 1780, till the close of the war, hard money was very plenty. This "was occasioned by large sums, by various means, coming from the English army at New York, and spreading through the States; also by large sums remitted by France to their army and navy here; also by large importations of hard money from the Havanna and other places abroad; so that hard money was never more plenty nor more easily collected than at that time." In a note to an essay of later date, Mr. Webster says. "the States were really overrun with abundance of cash: the French and English armies, our foreign loans, Havanna trade &c., had filled the country with money."

"It has been asked," says Lord Sheffield, "what has become of the money which we have sent during the war to America? Some is come back—a considerable part is the circulating cash within our lines. Many British subjects in New York have very large sums in their possession. The Dutch and Germans, whose number is not inconsiderable, have hoarded up—and it is believed considerable sums are concealed.

"France sent (not included in the debt) above 600,000 pounds sterling in specie to America, being obliged to send cash."[9]

The operations of the war caused such a drain of specie from Europe, that the Bank of England was brought into jeopardy, and the *Caisse d' Escompte* at Paris actually suspended payments in 1783: and such a flux of specie into the United States, that, as Mr. Webster observes, "hard money was never more plenty or more easily collected."

Such being the state of the money market, it is difficult to believe that the Government might not, if the Bank had not been established, have obtained a loan of 50,000 to 165,000 dollars from some other source. It does not appear that the Bank ever made advances to the Government, except on the best security. For at least 80,000 dollars of the amount, the State of Pennsylvania was guarantee. For the residue of the amount, the Government might have pledged the proceeds of the taxes, or bills on Europe: and on the same security, it is probable, individuals would have made the advances, especially as money was so abundant, and the news of peace confidently expected.

The truth is, that the project of establishing a Bank in Philadelphia had been conceived by Mr. Robert Morris, before the commencement of the

[9]Observations on the Commerce of the American States, June 21st 1783.

war, as appears from his own declaration:[10] and he had entered into negociations in Europe with a view to effect this object. But a project for a Bank about the year 1763, had been vigorously opposed on the ground that it would give a few men a monopoly of trade: and it is probable that Mr. Robert Morris's project would have encountered severe opposition, if it had not been brought forward as a *fiscal* measure and at a time when neither the Legislature nor the people could give it that consideration it deserved.

He submitted his plan to Congress in May, 1780, and on the 26th of the same month it was approved by that body. "Yet," he says, "until the month of September or October following, there were not more subscriptions in the whole, than amounted to about 70,000 dollars. During the time, one of his most Christian Majesty's frigates arrived at Boston, and brought a remittance in specie of about 470,000 dollars. The sum was brought to Philadelphia and deposited in the vaults of the Bank. I determined from the moment of its arrival, to subscribe on behalf of the United States, for those shares in the Bank which remained vacant: but such was the amount of the public expenditures, that notwithstanding the utmost care and caution to keep this money, nearly one-half of the sum was exhausted before the institution could be organized. In November, 1781, the president and directors of the Bank were elected: they obtained a charter of incorporation from Congress—and opened the Bank for transacting business in January, 1782. I subscribed the sum then remaining in the treasury, being about 254,000 dollars, into the Bank stock, per account of the United States, which became thereby the principal stockholder."[11]

[10]See Carey's "Debates and Proceedings of the General Assembly of Pennsylvania, on the memorials praying a repeal or suspension of the law annulling the charter of the Bank." Phil. 1786.

[11]It may be made a question, whether the *whole* of the original capital of the Bank was not advanced by Government. Thomas Paine says, in one of his tracts, it is well known "that the Bank originated in another Bank called the Bank of Pennsylvania, which was formed in the spring of 1780. On the 17th of June, it was resolved to open a security subscription to the amount of 300,000 pounds Pennsylvania currency, in real money, the subscribers to *execute bonds* for the amount of their subscription, and to form a Bank for supplying the army." He afterwards speaks of some of *these subscriptions* being transferred to the Bank of North America.

From the journals of Congress, it appears that the Board of Treasury was directed to deposite in this Pennsylvania Bond-Bank, "bills of exchange, in favor of the directors thereof, on the Ministers of the United States in Europe, or any of them, and in such sums as shall be thought convenient, but not to exceed in the whole £150,000 sterling."

Were the 70,000 dollars which were subscribed by individuals to the Bank of North America, paid in bonds or in money? Was a part of the 470,000 dollars received by the French frigate, used in redeeming some of these bonds: and was it in this way subscriptions were transferred from the old Bond Bank to the Bank of North America: or were the 70,000 dollars paid in by individuals without any trafficking with Government? These questions

As is remarked by Mr. Gouverneur Morris, the sum subscribed by Government may be said to have been paid in with one hand, and borrowed with the other, leaving the Bank but 70,000 dollars at most for its proper operations. On this amount it undertook to make advances to the Government and to individuals; but as the experience of the evils of continental money was fresh in the minds of the people, some difficulty was encountered in giving currency to the notes of the Bank. To remove this "prejudice" the gentlemen who were interested in the institution, were, as we have learned from undoubted private authority, in the practice of requesting people from the country and laboring men about town, to go to the Bank and get silver in exchange for notes. When they went on this errand of neighborly kindness, as *they* thought it, they found a display of silver on the counter, and men employed in raising boxes containing silver, or supposed to contain silver, from the cellar into the Banking room, or lowering them from the Banking room into the cellar. By contrivances like these, the Bank obtained the reputation of possessing immense wealth; but its hollowness was several times nearly made apparent, especially on one occasion, when one of the co-partners withdrew a deposit of some five or six thousand dollars, when the whole specie stock of the Bank did not probably exceed twenty thousand.

By these means, and by the assistance of the United States Government, the notes of the Bank became current; and so profitable was the business that the early dividends were at the rate of from 12 to 16 per cent. per annum. This naturally created a desire in others to share in so very lucrative a trade. A project was therefrom formed for establishing a second Bank, to be called the Bank of Pennsylvania. This, they who were interested in the Bank of North America strenuously opposed, fearing the effect of a rival institution in Philadelphia. To prevent its being established, they opened their books for additional subscriptions; but not without murmuring loudly at the hardship of receiving new partners.[12]

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are, perhaps, rather curious than useful: but our knowledge of the contrivances for forming Bank stock in our own day, makes us desire to see an explanation of the 70,000 dollars subscription by individuals.

[12]The following is an extract from a pamphlet, published in 1785, entitled an "Address to the General Assembly of Pennsylvania, on the abolition of the Bank Charter."

"After the peace, when the advantages of the Bank had been felt, and the property of the stock had become secure, an opposition was raised by some of the same persons who are now the opposers, but on grounds somewhat different. For then, instead of considering the Bank as pernicious, it was considered to be so highly beneficial that they must needs have two. They did indeed complain of the old Bank. But for what? Not because the capital was so large as to threaten general ruin: but because the directors would not open a subscription to make it larger. And what was the modest request of that day? Why, truly, such an extension of the capital as might enable those who had waited for events in perfect ease and

In the year 1784, the Bank did a very extensive business; and by the beginning of 1785, the effects of its operations began to be very apparent. They are such as Banking has always produced—a temporary plentifulness of money, followed by great scarcity, usury, ruin to the many, riches to the few. These effects were ably set forth in petitions to the Assembly, from the inhabitants of Philadelphia, and those of the counties of Chester and Bucks, presented on the 21st and 23rd of March, praying for a repeal of the charter of the Bank. Those petitions were referred to a committee, who, in a report of the 25th of the same month, fully sustained the allegations of the petitioners, and recommended a repeal of the charter. This recommendation was carried into effect, at the *ensuing* session, on the 13th of September, 1785.

Thus we find that the first Bank established in this country produced so much evil, that its charter was taken from it in less than four years after it had commenced operations.

The Bank, however, claiming the right of prosecuting its business under the act of Congress, continued its operations, though on a more moderate scale. In 1786, an attempt was made by its friends to obtain a renewal of the charter from the State of Pennsylvania, but it was successfully opposed by Wm. Findlay of Westmoreland, Mr. Smilie of the same county, and other leading democrats. It is difficult, however, for the people long to withstand the efforts of a powerful monied interest: and it being pleaded, with some show of reason, that the forms of the Constitu-

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safety, to enjoy the same advantages with those who had borne the burden, and run the risk of the contest. It was, indeed, a hard case that many worthy gentlemen who would not have given a shilling to save the State, should be obliged to pay either $500 for a share in Bank which had cost but four, or to lend their money on bond and mortgage to the farmers of Pennsylvania. A very hard case. And so loudly did they complain of it, that at last many sensible members of Assembly were prevailed on to believe it would be a good thing to have two Banks. Two shops to go to, for that was the fashionable phrase. And they were the more easily led into this opinion, because it was laid down by some in high stations, for whose sentiments they had acquired a habitual respect.

"The consequence of the noise made at the time, must be well remembered. The Assembly were plagued with long arguments on both sides which might have been spared, and then, all at once, the thing was hushed up and accommodated. Because, such of the promoters of the new Bank as had money, found out their new friends had none. Because they all found out the scheme did not promise so much either of security or profit, as was imagined. And because they had not too much confidence in each other, being (like Nebuchadnezar's image) composed of discordant materials. They agreed, therefore, to abandon their project, on certain conditions acceded to by the old Bank, one of which was to extend the subscription, and this it is which has converted all the surplus money of the State into Bank stock. For otherwise, let the price of a share have risen ever so high, nay, had it gone to 4000 instead of 400 dollars, not one penny would have been added to the Bank capital. But in proporition as stock rose, the dividends would have been less valuable.

"It is notorious that if the Directors had not been under compulsion, they would not have extended the subscriptions beyond the first 400,000 dollars. It is notorious that any addition to the number of shares lessens the value of each."

tion had not been properly regarded in taking away the charter, and many persons fearing a return of the old paper money system, the Bank was re-incorporated on the 17th of March, 1787, with limited powers, and for fourteen years. By successive acts of the Legislature, it has been continued in existence to the present day.

CHAPTER V

Of the Old Bank of the United States

"Let the Americans," said Wm. Pitt, "adopt their funding system, and go into their Banking institutions, and their boasted independence will be a mere phantom."

No small number of Americans were of a similar opinion: but it was contended by others, that if the revolutionary debt was not funded, injustice would be done to the public creditors. Out of this funding system sprung the old Bank of the United States, for three-fourths of its capital consisted of public stocks. The Bank, its friends averred, was necessary to support the public credit, and aid the fiscal operations of the Federal Government. Its opponents contended that it was anti-republican in its tendency, and that the Constitution gave Congress no power to establish such an institution.

The period immediately succeeding the Revolutionary War, was, in a peculiar sense, an age of speculation. Trafficking in soldier's certificates, in the public lands, and in the various evidences of the public debt, was the business of many who had money, and of many who had not. Perhaps the fortunes some thereby acquired, may have excited envy, and thus increased the opposition to the system which had its origin with some in political, and with others, in moral reasons. Be this as it may, the Bank of the United States was regarded as the cap-stone of a policy which was viewed as very objectionable: and the democratic journals of the day abounded in what one of our most respectable authors calls "abuse of the Banking and funding system."

Mr. Jefferson's opposition to Banks was of the most decided character. In his preface to Destutt Tracy's Political Economy, he denounces them as parisitical institutions: and he seldom let slip an opportunity of expressing his abhorrence of their whole scheme of operations. His objections to the Bank of the United States on constitutional grounds were equally strong. "I consider," he says, "the foundation of the Constitution as laid on this ground, that "all powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States or the people." To take a single step beyond the boundaries thus specially drawn around the power of Congress, is to take possession of a boundless field of power, no longer susceptible of definition. The incorporation of a Bank, and other powers assumed by this bill, have not, in my opinion, been delegated to the United States by the Constitution." After showing that the powers were not among those specially enumerated, nor in any of the general phrases, he says "It is known that the very power now proposed as *a means* was rejected as *an end* by the Convention which formed the Constitution: a proposition was made to them to authorize Congress to open canals, and an emendatory one to empower them to incorporate; but the whole was rejected, and one of the reasons urged in the debate was, that then they would have power to create a Bank, which would render the great cities, where there were prejudices or jealousies on this subject, adverse to the reception of the Constitution."

The Bank was not established by a strict party vote, for eleven out of thirty-nine who voted for it were democrats, and six out of twenty, who opposed it, were federalists; but it afterwards became, as Mr. Niles says, one of the landmarks of party, and, in the second Congress, a resolution declaring the Bank charter unconstitutional, was within one vote of passing the House.

The hostility of the democratic party to the Bank, was but little abated for many years; but, as the time approached for the expiration of the charter, enmity to the institution gave way, in a great degree, to fear of the distress which the winding up of its affairs would produce. The pens of numerous scribes were employed in portraying the manifold evils which must come upon the country, and deputations of merchants and mechanics were sent from Philadelphia to Washington, to beg Congress to avert the impending danger.

The predictions that were so confidently made of the ruin that would overspread the land, if the charter were not renewed, had their intended effect on some of the democratic members. But, after a full discussion, the bill was indefinitely postponed on the 24th of January, 1811, in the House of Representatives, by a vote of 65 to 64. The National Intelligencer said, on recording the vote, that if the question had not been on the indefinite postponement, but on the passage of the bill, the majority would have been much greater.

Another bill was brought before the Senate; but, on the 20th of February, the first section was struck out by the casting vote of the Vice President, George Clinton.

The Senate gave this vote, which was equivalent to a rejection of the bill, only *eleven days* before the charter expired. The Bank made application in this interval for such an extension of its charter as would enable it to wind up its concerns. But the Committee of the House to whom the memorial was referred, reported, through their Chairman, Mr. Henry Clay, "that, holding the opinion, (as a majority of the Committee do,) that the Constitution did not authorize Congress originally to grant the charter, it follows as a necessary consequence of that opinion, than an extension of it, even under the restrictions contemplated by the stockholders, is equally repugnant to the Constitution."

Trustees were then appointed, and they proceeded so rapidly in winding up the concerns of the Bank, that on the 1st of June, 1812, they paid over to the stockholders 70 per cent. of the capital stock, and 18 per cent. more on the 1st of October.[13]

This was a rapid collection of the debts due to the institution, inasmuch as it enabled the trustees to pay 88 per cent. of the capital stock, in about a year and a half; but it did not produce the universal ruin with which the country had been threatened. "Many persons," said Dr. Seybert, writing in 1816, "viewed a dissolution of the late Bank of the United States as a national calamity; it was asserted that a general bankruptcy must follow that event. The fact was otherwise: every branch of industry continued uninterrupted—no failures in the mercantile community were attributable to that occurrence."

CHAPTER VI

Of Banking from 1790 to 1810-11

In Vol. III of the American edition of the Edinburgh Cyclopedia, published in 1813, the following table is given, "to exhibit in one view the names of the Banks most deserving of notice, the time of their institution, and the amount of their capital." The table is not complete, but it shows the time in which the Banking system was introduced into the different States.

Names.	Instituted.	Capital.
Bank of North America, Pa.	1781-2	$2,000,000
Massachusetts Bank at Boston, Mass.	1784	1,600,000
Bank of New York, N. Y.	1784	950,000
Bank of Maryland, Md.	1790	300,000

[13]Another instalment, amounting to 7 per cent., was paid on the 1st of April, 1813. An additional payment of 5 per cent. was made in April, 1815, and another of 5 per cent. in December, 1817. Two or three small payments, of the exact amount of which we are not informed, were subsequently made. Some years before the expiration of the charter, the stock sold at 156.

Names.	Instituted.	Capital.
Providence Bank, R. I.	1791	400,000
Bank of Albany, N.Y.	1792	260,000
Bank of South Carolina, S. C.	1792	640,000
Union Bank of Boston, Mass.	1792	1,200,000
New Hampshire Bank, N. H.	1792	100,000
Bank of Alexandria, Va.	1792	500,000
Hartford Bank, Conn.	1792	930,000
Union Bank, New London, Conn.	1792	500,000
New Haven Bank, Conn.	1792	400,000
Bank of Columbia, N. Y.	1793	160,000
Bank of Columbia, D. C.	1793	500,000
Bank of Pennsylvania, Pa.	1793	3,000,000
Bank of Nantucket, Mass.	1795	100,000
Bank of Delaware, Del.	1795	110,000
Bank of Baltimore, Md.	1795	1,200,000
Middletown Bank, Conn.	1795	400,000
Bank of Rhode Island, R. I.	1795	100,000
Norwich Bank, Conn.	1796	200,000
Manhattan Bank, N. Y.	1799	2,000,000
Portland Bank, Me.	1799	300,000
Essex Bank, Salem, Mass.	1799	300,000
Washington Bank, Westerly, R. I.	1800	50,000
Bank of Bristol, R. I.	1800	120,000
Exchange Bank, Providence, R. I.	1801	400,000
Farmers' Bank, Lansinburgh, N. Y.	1801	75,000
State Bank of South Carolina, S. C.	1801	800,000
Maine Bank, Portland, Me.	1802	300,000
New Hampshire Union Bank, N. H.	1802	200,000
Lin and Ken Bank, Wiscasset, Me.	1802	200,000
Kentucky Insurance Company, Ky.	1802	150,000
Merchants Bank, N. Y.	1803	1,250,000
Bedford Bank, at N. B., Mass.	1803	150,000
New York State Bank, N. Y.	1803	460,000
Newburyport Bank, Mass.	1803	550,000
Saco Bank, Mass.	1803	100,000
Albany Mercantile Comp., N. Y.	1803	25,000
Plymouth Bank, Mass.	1803	100,000
Boston Bank, Mass.	1803	1,800,000
Stafford Bank, at Dover, Mass.	1803	150,000
Philadelphia Bank, Pa.	1803	2,000,000

Names.	Instituted.	Capital.
Miami Exporting Comp., Cinn. O.	1803	200,000
Salem Bank, Mass.	1803	200,000
Roger Williams' Bank, R. I.	1803	150,000
Newport Bank, R. I.	1803	120,000
Warren Bank, R. I.	1803	68,000
Exeter Bank, N. H.	——	200,000
Union Bank of Maryland, Md.	1804	3,000,000
Bank of Cape Fear, N. C.	1804	350,000
Bank of Newbern, N. C.	1804	300,000
Newark Banking and Ins., Co., N. J.	1804	225,000
Trenton Bank, N. J.	1804	300,000
Hallowell and Augusta Bank, Me.	1804	200,000
Worcester Bank, Mass.	1804	150,000
Nantucket Pacific Bank, Mass.	1804	100,000
Marblehead Bank, Mass.	1804	100,000
Rhode Island Bank, R. I.	1804	150,000
Smithfield Union Bank, R. I.	1805	50,000
Narragansett Bank, R. I.	1805	60,000
Rhode Island Central Bank, R. I.	1805	60,000
Bank of Virginia, Va.	1805	1,500,000
Mechanics' Bank, Baltimore, Md.	1806	1,000,000
Bank of Chilicothe, Ohio	1806	100,000
Bridgeport Bank, Conn.	1806	200,000
Derby Bank, Conn.	1806	200,000
Bank of Kentucky, Ky.	1807	1,000,000
Bank of Nashville, Tenn.	1807	500,000
Bank of Marietta, Ohio	1807	100,000
Farmers Bk. of the State of Del., D.	1807	500,000
New Brunswick Bank, N. J.	1807	150,000
Farmers and Mechanics Bank, Pa.	1807	1,250,000
Hagerstown Bank, Md.	1807	250,000
Mohawk Bank, N. Y.	1807	200,000
New London Bank, Conn.	1807	200,000
Hudson Bank, N. Y.	1808	300,000
Bank of Steubenville, Ohio	1809	100,000
Chambersburgh Bank, Pa.	1809	250,000
Commercial Bank, R. I.	1809	50,000
State Bank of North Carolina	1810	1,600,000
Commer. and Farm. Bank of Balt., Md.	1810	1,000,000
Farm. and Merch. Bk. of Balt., Md.	1810	500,000

Names.	Instituted.	Capital.
Franklin Bank of Balt., Md.	1810	600,000
Marine Bank of Balt., Md.	1810	600,000
Elkton Bank, Md.	1810	300,000
Farmers' Bank of Lancaster, Pa.	1810	300,000
Mechanics' Bank of N. Y.	1810	2,000,000
Bank of Troy, N. Y.	1811	500,000
Mechanics' and Farmers' Bank, N. Y.	1811	600,000
State Bank at Boston, Mass.	1811	3,000,000
Merchants' Bank at Salem, Mass.	1811	200,000
Cumberland Bank of Allegany, Md.	1811	200,000
Bank of Newburgh, N. Y.	1811	400,000
Farmers' Bank of Wor. and Som., Md.	1811	200,000
Middle District Bank, N. Y.	1811	500,000
Bank of New Orleans, Lou.	1811	500,000
Union Bank, N. Y.	1811	1,800,000
Eagle Bank, Conn.	1811	750,000
Bank of America, N. Y.	1812	6,000,000
City Bank, N. Y.	1812	2,000,000
Farm. and Mechan. Bk. of Cinn., O.	1812	500,000
Bank of Muskingum, Zanesville, O.	1812	100,000
Monongahela Bank, O.	1812	250,000
New York Manufacturing Co., N. Y.	1812	1,200,000
Camden State Bank, N. J.	1812	800,000
Trenton State Bank, N. J.	1812	300,000
New-Brunswick State Bank, N. J.	1812	400,000
Newark State Bank, N.J.	1812	400,000
Elizabeth State Bank, N. J.	1812	200,000
Morris State Bank, N. J.	1812	200,000
Utica Bank, N. Y.	1812	1,000,000
Pittsburg Manufacturing Co., Pa.	1812	1,000,000
City Bank of Baltimore, Md.	1812	1,500,000
B. of Wil'gton and Brandywine, Del.	1812	120,000
Farm. and Mechan. Bank of Del.	1812	75,000
Commercial Bank of Del.	1812	200,000
Farm. and Mechan. Bk. of Va.	1812	1,500,000
Savannah Bank, Geo.	——	1,000,000
Union Bank, S. C.	——	1,000,000
Planters' and Mechanics' Bank, S. C.	——	1,000,000
	Total,	$77,258,000

The operations of Banks in those times, were much like their operations in our own days. Thus Mr. Burwell, of Virginia, in a speech delivered in 1811, said, "In Baltimore, where the Bank capital has always exceeded the demand by solvent customers, and where, to give full employment to their funds, the Banks have been accustomed to accommodate mere speculators, failures have happened to the amount of a million, without property to pay the creditors twenty cents in the dollar. (A gentleman from Maryland corrected Mr. Burwell, by stating that the failures had in the aggregate exceeded the sum he had mentioned, but in no single instance had the loss to creditors exceeded 600,000 dollars.) "I stand corrected," continued Mr. Burwell, "only 600,000 dollars."

It was in New-England, however, that Banking operations were carried farthest. The author of a pamphlet, entitled "Remarks on Money," published at Philadelphia in 1814, says, some of the institutions in that quarter issued bills for so small a sum as twenty-five cents, whereby "it was rendered so difficult in some of the Eastern States, to get a dollar changed, that it became necessary to purchase change of the money dealers in towns for current travelling expenses in the country."

Of the principles of operation of some of these institutions, we have a curious memorial in a report made on the 20th of March, 1809, by a committee of the legislature of Rhode Island, appointed to inquire into the situation of the Farmers' Exchange Bank of Gloucester.

The committee state, "that the said Bank was incorporated, February, A. D. 1804. That by the charter, its capital stock was to consist of two thousand shares of fifty dollars each, payable in seven instalments, in gold or silver. It appears to the committee that the capital stock was not paid in according to the provisions of the charter. Some of the stockholders paid the whole amount of the shares by them subscribed; others paid a part and gave their notes for the residue. The directors did not pay any money whatever, for although, in common with the other stockholders, the directors lodged the amount of their first instalment in specie, yet, in a very few days afterwards, all the directors received out of the Bank the amount of said instalments in bills of said Bank, for which no security whatever was given, and they gave five notes, without endorsers, for the five first instalments, payable on demand with interest: for the two last instalments, no payment was made or security given. The said notes remained in the Bank until the directors transferred their stock, when they were delivered up in the manner hereinafter mentioned. The directors were the holders of one hundred and three shares each, and in this manner did the Farmers' Exchange Bank, which by the charter was to consist of two thousand shares, commence its operations with only six hundred and sixty-one shares, on which any payments had been made in gold and silver, agreeably to the express provisions of the charter: and the whole money paid into the Bank at any one period whatever, on the said six hundred and sixty-one shares, amounted to nineteen thousand one hundred and forty-one dollars and eighty-six cents.

"Prior to the twenty-ninth of March, 1808, sundry stockholders, holding four hundred and fifty shares, transferred them to the directors of said Bank. No money or other consideration whatever was paid by the directors with their own property to any of the stockholders who so transferred their shares, but they were uniformly paid for with the property of the corporation. Most of the said stockholders were indebted to the Bank in notes, and to them their notes were given up, and if their shares exceeded the sum due from them to the Bank, the balance was paid out of the Bank with the property of the corporation: and none of the said directors, or any person whatever, was debited for the said sums so paid, or for the notes surrendered.

"On the third day of June, 1805, the Board of Directors passed a vote permitting each director to take out of the Bank two hundred dollars for the purpose of exchanging the same. The said directors have never paid or accounted for said money to the Bank.

"When the Bank first commenced its operations, the capital paid in, including the money paid by the directors, and which was soon after repaid to them, as is herein before stated, amounted to the sum of eleven thousand eight hundred and six dollars and sixty-one cents; when the directors had, as before stated, taken back in bills the amount they had paid in specie for their first instalment, the capital stock really paid in, amounted to only the sum of three thousand and eighty-one dollars and eleven cents.

"The directors never declared any certain dividend of the profits of the Bank, but once a year paid to the stockholders interest generally at the rate of eight per cent. per annum on the sums they had respectively paid in, and the residue, amounting in some years to one hundred and thirty dollars each, the directors divided among themselves.

"According to the books containing the weekly state of the Bank, there were several periods when the amount of bills in circulation far exceeded the amount of notes due the Bank; for instance, on the twenty-fifth day of March, 1805, the amount of bills in circulation was seventy-two thousand two hundred and eleven dollars, and the amount of debts due the Bank was fifty-three thousand two hundred and seventy-five dollars: at some periods, anterior to the 29th day of March, 1808, the Bank had in circulation from sixty to seventy thousand dollars. On the 28th day of March, 1808, there was in said Bank, in specie and bills of other Banks, three hundred and eighty dollars and fifty cents, and the Bank had twenty-two thousand five hundred and twenty-four dollars of their own bills in circulation."

Under this system, the Bank carried on operations about four years: and then eleven of the directors transferred their interest in the institution to the agent of Andrew Dexter, jun., of Boston. Each of the directors received thirteen hundred dollars in consideration of his transferring his shares; and each of them received back the notes he had given for instalments, the whole principal and interest whereof were then due to the Bank. "The thirteen hundred dollars were paid to some of the directors by notes signed by Simon Smith and John Harris, as principals, and Andrew Dexter, jun., as surety: to others by surrendering them notes given by the Bank for money borrowed, and to others by giving them the notes of individuals which were the property of the Bank. It appears that *all* the money paid to the said directors, *was paid out of the Bank with the property of said corporation,* except that there is charged to said Dexter, three thousand seven hundred and eighty-five dollars and ninety-five cents paid on that account."

Dexter thus got control of the institution, and having a Board of Directors disposed to favor his views, he got from the Bank, at divers times in the course of the year, "its bills to the amount of *seven hundred and sixty thousand two hundred and sixty-five dollars,* and there was paid to sundry persons for his use, three thousand seven hundred and eighty-five dollars and ninety-five cents."

"From the first connexion of Dexter with the Bank, he appears, by himself and his agents, to have had the entire control and management thereof: all his schemes and plans, however wild and extravagant, were adopted and carried into execution without reserve: those of the directors who still pretended to superintend the concerns of the Bank, took no care whatever to guard the interest of the stockholders or the public.

"Dexter was furnished with as much money as he thought proper to demand, and prescribed his own terms as to the security he gave, the rate of interest, and the time and manner of payment. The greatest secrecy was used respecting his negotiations at the Bank, to prevent the public from being alarmed at the immense sum of money which was so suddenly put in circulation; and at the request of Dexter, the cashier signed the bills secretly and chiefly in the night. Dexter never gave any security whatever, except his own name, for any money received by him from the Bank. For the first sums delivered, Dexter gave his receipts: for other sums he gave receipts to the following purpose, that he would employ the money as their agent for their benefit, paying them six per cent. interest therefor, and redeeming the bills by paying specie for them as often as they returned to the Bank, the cost of redemption to be paid by the Bank. After these receipts had been standing for some time, they were taken up by Dexter, and a note given by him for the whole amount, of the tenor and effect following. 'I, Andrew Dexter, jun., do promise the President, Directors, and Company of the Farmers' Exchange Bank, to pay them, on order,——dollars, in two years from the date, with interest, at two per cent. per annum: it being however understood, that said Dexter shall not be called upon to make payment until he thinks proper, he being the principal stockholder, and best knowing when it will be proper to pay the same.' The said note was afterwards given to Dexter, and a note given by him for *five hundred and seven thousand seven hundred and seventy-one dollars,* bearing date on the 30th of November, 1808: all the money received by Dexter after that time was delivered to him by order of Harris and Fairbanks, the last of which was delivered on the 9th of February, 1809, for which Dexter gave his notes, which are now remaining in the Bank: one bearing date on the 4th of November, 1808, for *three hundred thousand dollars*: one bearing date on the 30th of the same month for thirty-two thousand dollars, and one bearing date on the 12th day of December, 1808, for six thousand dollars: all which notes amount to the sum of *eight hundred and fifty-five thousand seven hundred and seventy-one dollars,* payable in eight years from their respective dates, bearing interest at and after the rate of two per cent. per annum.

"Out of the amount above stated, as due from the said Andrew Dexter, jun. to the Bank, ought to be deducted certain drafts or orders drawn on said Dexter by the cashier, to take up the bills at different times returned to the Bank, as far as the said drafts or orders have been paid by said Dexter. The amount of said drafts or orders, according to the books of the Bank, still outstanding and unsettled, is two hundred and four thousand and five dollars, but of this sum the committee have no means of ascertaining what part has been paid by the said Dexter.

"In December, 1808, the credit of the Bank had become very low, and the bills were selling at a large discount: but the said Andrew Dexter, jun., and the other persons who managed the affairs of the Bank, instead of putting a stop to the emission of their bills, and making some provision for the payment of those in circulation, redoubled their efforts to circulate sums to a large amount, when at the same time they refused the payment of the smallest sums at the Bank.

"The president and cashier were incessantly employed in signing bills:" and "Dexter was continually urging them to sign bills as fast as possible," telling them that every thing depended on his having them very speedily: that if they were not soon finished, he should not be able to dispose of them, and that at that time he should be able to sell some of them very well. The bills were made with so much precipitation, and the officers of the Bank were so much pressed for time, that said bills were in some instances sent to Boston without being dated or numbered.

"There is now in said Bank, eighty-six dollars and forty-six cents of specie. On the 9th of February, 1809, there had been emitted by said Bank, six hundred and forty-eight thousand and forty-three dollars of their bills, according to their books. Owing to the extreme confusion in which their mode of keeping their accounts has involved all their transactions, it is impossible to ascertain with precision the amount of their bills now in circulation: but from the inquiries and examinations made by the committee, they are of opinion that the bills of said Bank now in circulation, amount to the enormous sum of five hundred and eighty thousand dollars."

The testimony of the cashier is appended to the report. It appears from his evidence that the emission of six hundred and forty-eight thousand eight hundred and forty-three dollars in Bank bills, spoken of by the committee, took place between the 29th of March, 1808, and the 9th of February, 1809, and that previous to the first mentioned date, the Bank had bills in circulation to the amount of forty-five thousand eight hundred and twenty-one dollars.

The history of the Farmers' Bank of Gloucester shows what cunning men can do, when they have a legislative charter to work with.

When the explosion took place, other New-England Banks exhibited proof that they had been trading on the same principles, though not to the same extent. In a speech in congress, in February, 1811, Mr. Desha, of Kentucky, said, "The Berkshire and Northampton Banks, both of Massachusetts, when their vaults were examined, one had perhaps thirty or forty dollars in it, the other, I believe, was entirely empty: the Coos Bank, (I believe it was called,) of New-Hampshire, was nearly in the same situation, and thousands of their bills in circulation at the same time."

Mr. Burwell, of Virginia, said, "The State of Massachusetts found, upon examining the vaults of the Banks, the whole of them did not contain specie equal to the paper issued by a single one."

We have no list of the New-England Banks that stopped payment previous to the war: but it is evident from all testimony, that the Banking institutions in that quarter had extended their operations so far, that the necessary reaction produced very disastrous consequences.

South of New-England, the Banking System was, in some respects, less pernicious than it has been at any period since the year 1814. The notes of the Banks were then "convertible" into either gold or silver. The old Bank of the United States issued no notes of a less denomination than ten dollars: whereby it was enabled to exercise a more salutary control over the local Banks, than the present Bank has ever found possible.

As long as a state of war existed between Spain and Great Britain, the citizens of this country were the carriers and commercial agents of Spain, and nearly all the metallic treasures of Mexico passed through our hands. From the peace of Amiens, in 1801, this influx of silver abated: but it was still considerable. It could hardly be regarded as part of the currency of the country, being received by us in payment for European goods, and afterwards transmitted to those from whom we had obtained those goods; yet temporary deposites of it were made in the Banks, whereby these institutions were sometimes prevented from feeling the effects their expansions must otherwise have produced. The specie constantly *in transitu* from South America through the United States to other parts of the world, was so great in amount, that a retention of the quarterly or semi-quarterly supply for only a month or two was sufficient to relieve the Banks from the difficulties into which they were occasionally brought by extending their operations too far.

The Bank of England having suspended specie payments in 1797, and paper money being in extensive use on the continent of Europe, the demand for the precious metals as a material for money was, in a degree, abated. This rendered the pressure on the American Banks less severe than it is at present.[14]

[14]The competition among the Banks being less than it is now, these institutions made very high dividends. In 1792, the Bank of North America divided 15 per cent.; in 1793, 13½ per cent.; from 1794 to 1799, inclusive, 12 per cent. per annum; from 1800 to 1802, 10 per cent.; in 1803, 9½ per cent.; from 1804 to 1810, 9 per cent. The dividends of the old Bank of the United States were from 7⅝ per cent. to 10 per cent. From 1792 to 1808, the Bank of Pennsylvania never divided less than 8 per cent., and sometimes its annual dividends were as high as 10 per cent. Dr. Bollman, writing in 1810, says, "none of the Banks divided less than 8 per cent., and some of them much more."

High dividends were not the only profit those who had the control of the Banks derived from their situation. Banking was a closer monopoly than it now is, and circumstances were such as to render that monopoly very lucrative. Money being at this period worth more than Bank interest to mercantile men, facility of borrowing gave to such as possessed it great advantages. Our commerce was exposed to frequent interruptions by the belligerents. These sometimes made the necessity of borrowing very urgent, which necessities the agents of the Bank directors used to meet by lending money at two or three per cent. a month.

The Banks expanded and contracted their issues then, as the Banks do now, and as credit Banks from the necessity of their nature always will do, and the occasional plenty of money produced by Banking operations, and the subsequent scarcity, had the same effects that they have in our own times. As a close veil was then thrown over Banking proceedings, it was not always easy to trace these effects to their causes: but even in those days it was not possible completely to conceal the connection of causes and consequences from the eyes of observers. The periodical demand for specie for the China and East India trade always caused a pressure in the money market. The specie at the Branch Bank at New York was, it is said, reduced on one occasion to 10,000 dollars. Notwithstanding all the advantages the Banks then enjoyed, they were probably many times brought near the necessity of suspending specie payments, for they had the same inducements then that they have now for extending their operations as far as possible.

The effects of these operations were less severely felt, the further a county or a town was removed from the sphere of Bank influence. In many of the agricultural districts, the state of credit was sound, or nearly so. The "vulgar prejudices of the country people in favor of gold and silver money, were not then entirely subdued." The spirit of wild speculation did not often infect them. Industry and economy were considered as the true roads to wealth: and men of reputation found little difficulty in borrowing as much money as was wanted. The country capitalists did not then purchase Bank stock with their surplus funds, but lent them to their industrious neighbors for long periods. Little risk attended this mode of lending, and it was mutually beneficial to the parties concerned.

"Before the establishment of Banks in the interior," say a committee of the Senate of Pennsylvania, "the farmer who possessed credit and character, experienced little difficulty in borrowing on his simple bond, for one or more years, any sum which it was thought could be prudently loaned to him. Embarrassments and failures, in those days, were scarcely known among our husbandmen, and society moved on by a regular, sure, and happy march. In our cities, on the contrary, where loans have been chiefly made by incorporated Banks, we have seen a continued succession of bankruptcies, and had it not been for the practice so universally prevalent amongst merchants *of securing the Banks for the sake of indorsers,* Banking long since would have been abandoned as an unprofitable trade."

"From the adoption of the Federal Constitution in 1788, down to 1804," says a writer in the Richmond Enquirer, "Banks were unknown in Virginia, with the exception of a branch of the old U. S. Bank in Norfolk, about 1799 or 1800. The paper of this Bank scarcely found its way into the interior of the country: and it may be truly said, the currency of the country was metallic. Until the year 1798, no people enjoyed more happiness or prosperity than the people of the United States—nor did any country ever flourish more within the space of time. The desk of every agriculturist in Virginia had some gold or silver to spare, if he was a prudent, industrious man; or he had something like money to spare in the hands of his merchant, who, in the days of which I am speaking, acted as a banker to his prospering customers. Nor was any interest paid upon such moneys as might be deposited in the hands of the merchant: because both planter and merchant considered themselves accommodated by the arrangement: the planter in having his money safely kept for him, until he wanted to use it, and the merchant in having the use of the money until it was called for. Under such circumstances, none will doubt the happy condition of both planter and merchant, and if the view be somewhat extended, it will be found that this state of prosperity was not confined to one or two classes of society, but extended to all. The man embarrassed might readily sell something, and to advantage, to pay his debts. The currency of the country being specie, was widely scattered through the land, and in diversified hands, so that its concentration at any particular point was impossible, and consequently its removal from the country could not happen to any great extent.

"I know there are many, who, in order to effect present objects, insist that commerce could not be carried on without the aid of Banks. To this I answer, how was commerce carried on before we had Banks? Will any body deny there was any commerce in this country at that time? None will be found hardy enough to take this ground, for every intelligent man of forty years, knows that, before there were any Banks in Virginia, the foreign commerce of the country was greater than it has ever been since, and the country far more prosperous. Nor was there the least inconvenience in transmitting money from one point to another through the merchants, whose credit *then,* was as good as the credit of the Banks now, if not better. Banks have destroyed the credit and confidence which men had in one another.

"No people had more cause to rejoice than the people of Virginia; but alas, the Banks came, and all things became changed. Like the Upas tree, they have withered and destroyed the healthful condition of the country, and inflicted on the people political and pecuniary diseases of the most deadly character."

CHAPTER VIII

Of Banking from 1814-15 to 1815-16

"At the time of the suspension of our city Banks, a public meeting of merchants and others was held, who publicly sanctioned the measure, under a pledge given by the Banks, that as soon as the war was terminated, specie payments would be resumed. That this measure was intended, is evident, from the curtailment of loans immediately consequent upon the suspension.[15]

"But, unhappily, the redemption of the pledge was not demanded by the public at the stipulated time, and the Banks, urged on by cupidity, and losing sight of moral obligations in their lust for profit, launched out into an extent of issues unexampled in the annals of folly. The fulfilling of a promise to pay money, by tendering another promise *equally false,* sanctioned by the public acquiescence, led to the organization of additional Banks, under the act of March, 1814, which had not till then been attempted to be formed, and a scene of indiscretion in the loaning of Bank credits was every where exhibited, which realized the anticipations of those who had foretold the ruinous effects of the paper system. Money lost its value. The notes of the city Banks depreciated twenty per cent.,

[15]This meeting was composed principally, if not exclusively, of owners of Bank stock, and of debtors to the Banks; and the great body of the public, knowing little of the nature of Banking operations, acquiesced in the measure.

Peace was restored in *less* than six months after the Banks of the Middle States had suspended payment.

So confident were some of the public that these institutions would then redeem the solemn pledge they had given, that "the chests and secure places were unlocked, and hard money was again in the market, at three or four per cent. above par." Even in May the discount on Philadelphia notes was only 5 per cent.; but the Banks, under one pretext or another, refused to open their vaults, and the paper sunk, by June, to 9, and by November, to 16 per cent. below par.

and those of the country Banks from twenty to fifty, and specie so entirely disappeared from circulation, that even the fractional parts of a dollar were substituted by small notes and tickets, issued by Banks, corporations and individuals. The depreciation of money enhancing the prices of every species of property and commodity, appeared like a *real* rise in value, and led to all the consequences which are ever attendant upon a gradual advance of prices. The false delusions of artificial wealth increased the demand of the farmer for foreign productions, and led him to consume in anticipation of his crops. The country trader, seduced by a demand for more than his ordinary supply of merchandise, was tempted to the extension of his credit, and filled his stores, at the most extravagant prices, with goods vastly beyond what the actual resources of his customers could pay for, whilst the importing merchant, having no guide to ascertain the real wants of the community but the eagerness of retailers to purchase his commodities, sent orders abroad for a supply of manufactures wholly disproportioned to the effective demand of the country. Individuals of every profession were tempted to embark in speculation, and the whole community was literally plunged in debt. *The plenty of money,* as it was called, was so profuse, that the managers of the Banks were fearful they could not find a demand for all they could fabricate, and it was no unfrequent occurrence to hear solicitations urged to individuals to become borrowers, under promises as to indulgences the most tempting. Such continued to be the state of things until towards the close of the year 1815."

The Secretary of the Treasury negotiated with the Banks as independent sovereignties. His first effort was "to associate them with a view of furnishing a uniform national currency." [16] It is almost needless to say that this effort did not succeed.

His next attempt was, "by their agency in circulating treasury notes, to overcome the inequalities of exchange." This, he says, was but "partially successful."

He then proposed a plan, "with the design to curtail the issues of Bank notes, to fix the public confidence, and to give each Bank a legitimate share in the circulation." What the particulars of this plan were, he has not stated, but it is evident from the context that it was through the free-will of the Banks he sought to carry it into execution. He soon found that a plan which was not fitted to promote their particular interests, was "not likely to receive their general sanction. The truth is," he adds, "the charter restrictions of some of the Banks, the mutual relation and depen-

[16] Proposition relating to the National Circulating Medium, December 6th, 1815.

dence of the Banks of the same State, and even of the Banks of the different States, and the duty which the directors of each Bank conceive they owe to their immediate constituents upon points of security or emolument, interpose an insuperable obstacle to any voluntary arrangement, upon national considerations alone, for the establishment of a national medium, through the agency of the State Banks." The plain English of this is, that the directors of the Banks esteemed it a "*duty*" to make as much profit as they could, and Government did not see fit to interfere with them in the discharge of this sacred "duty."

In the effort "to overcome the inequalities of exchange, by the circulating of treasury notes, through the agency of the Banks," Government did indeed make some exertion of its power. The Secretary issued an order, declaring that, after the first of August, nothing should be received in payment of duties but specie, treasury bills and the notes of such Banks as would receive treasury bills in deposit at par. "The effect of this plan," says a contemporary writer,[17] "was clearly foreseen by all who fairly understood the subject. What was the result? In places where treasury bills were in the market, at or above par, the Banks agreed to receive them: whereas, where they were below par, the proposition was rejected."

But this measure had not simply a negative effect. It increased the mass of Bank paper in circulation, and thereby still further vitiated the currency. This is abundantly proved in a pamphlet entitled "An Appeal to the Public," published at New York, in December, 1815.

In this pamphlet, Mr. Isaac Bronson, the author, states the active capital of the Banks of the city of New York to be 13,515,000 dollars, and computes the amount on which they were drawing interest to be twenty-two or twenty-three millions. "Admitting it to be twenty-two millions, it follows that the Banks make dividends on a sum which exceeds their active capital about *eight* millions and a half, yielding the stockholders about half a million in dividends. This profit is derived from their mere credit, without any cost or consideration whatever. Of the eight and a half millions excess beyond their capitals, five millions have been issued in the purchase of, and in exchange for, Government securities of various sorts, bearing interest.

"We have been speaking hitherto of '*the* Banks,' as if no distinctions were to be made between them. It is now time to make the proper discrimination. Among each other the directors have already, in their conversation, fallen into the familiar distinctions of the 'debtor Banks,'

[17] Inquiry into the causes of the present state of the Circulating Medium. Philadelphia, August, 1815.

and the 'creditor' Banks. By the former, are meant those whose paper has accumulated in the latter, to an amount which cannot be taken up. The debtor Banks, the Banks who are indebted to the others, have become so indebted, because they hold large amounts of public securities, bearing interest, for which they have issued their Bank notes to *Government,* and which notes have found their way into the other Banks. To keep the creditor Banks quiet, however, and as much as possible in good humor, it has been stipulated that they shall charge interest on these accumulations. The practical effect therefore is, that the debtor Banks make their profit by trusting *Government*; and the creditor Banks make theirs by trusting the debtor Banks. The debtor Banks give out their notes in exchange for treasury notes bearing interest; and the creditor Banks charge interest on the notes they receive of the debtor Banks. But if these notes accumulate in the hands of individuals, no interest is allowed *them,* unless they compel its payment by law. And thus the Banks have established a rule of justice towards each other, in itself very correct, but which they refuse, however, to extend to the rest of the community.

"It is important to our subject that the reader should clearly understand the course of the Banks in relation to treasury notes. We hope, therefore, to be pardoned for what to some may appear unnecessarily minute.

"Some months since, the Secretary of the Treasury proposed, to all the Banks in the United States, that they should receive treasury notes when offered them, and give their own notes in exchange for them: accompanying this proposition at the same time by a threat, that the treasury should not receive the paper of those Banks which did not receive treasury notes! At a meeting of a select committee of our Banks, appointed to consider these propositions, it was resolved not to agree to them. *Three* of the Banks, and of course they are the three who have been called, because they have become, the *debtor Banks,* did afterwards, however, by a private and separate arrangement, made by agents sent to Philadelphia on purpose, agree to these propositions, without the consent or knowledge of the five other Banks; so that these Banks now receive treasury notes from any one who presents them, and issue their bills in exchange for them when required. And here, we submit to the reader, whether it does not necessarily and inevitably follow, that these Banks have parted with all power of control over their issues? That department of the Bank has been abandoned to the Secretary of the Treasury; for it is very clear, that he may to-morrow, if he pleases, cause these Banks to add twenty millions to that excess of paper, which is the true cause of depreciation. That this excess is continually increasing, is most notorious: to what *extent,* is one of those Bank secrets which all their caution has not prevented us from penetrating.

"Among others, this singular and ludicrous consequence has followed: The United States take only the bills of those Banks which cannot keep their accounts even with the other Banks; and refuse to receive the bills of those Banks which are immense *creditors* of the Banks whose bills *are* received.

"And the practical result will be, that so long as the notes of these Banks continue to be worth more than treasury notes, so long will treasury notes continue to be presented and Bank notes issued in exchange for them. When the Bank notes, from the quantity afloat, become degraded below treasury notes, this practice will cease. But the affairs of the Banks will be, by that time, utterly irretrievable, and they will follow the fate of all the Banks which have been mere machines of Government.

"It appears from the reply to the Connecticut Banks, that in July, the *commercial* loans had been reduced nearly three millions below what their amount was when payments were suspended. But it is at the same time acknowledged, that the whole amount of loans had been increased *three* per cent. on the capitals of the Banks: and this *before* the system of receiving treasury notes was adopted. The effect of that system, as we have been recently enabled to ascertain, has been to produce in the creditor Banks an accumulation of the notes of the debtor Banks of between two and *three millions*: although the balances, when payments were suspended, were less than three hundred thousand."

The plentifulness of "money," whether caused by the Banks trafficking with the Government, or by discounts to private persons, was very acceptable to the great mass of the people. The Banks of Pennsylvania added ten millions to the amount of their loans in the course of the year, and the Banks of some of the other States were equally liberal, if not more so. Never before had the country exhibited such an *appearance* of prosperity. The unequal value of the Bank notes of different districts, was productive of some inconvenience, but this was not sufficient to counterbalance the advantage of a general rise of prices, and the briskness of nearly every kind of business.

"We cannot," says one writer, "see, with some honest calculators, how the continuance of the present state of things can affect the interests of the country. If specie has been withdrawn from circulation, it is because it has been occupied abroad in a more profitable employment than it was engaged in at home. Its exportation has added to the stock and wealth of the nation, by the purchase of merchandise abroad, worth more than the specie itself. *To be sure, we are subject to some inconveniences in our transactions at market, and in petty dealings; but as we become accustomed to the use of paper money, the disadvantage will vanish.* All large mercantile negotiations are conducted as they have heretofore been, by Bank notes, or checks upon Banks. As to the agios of exchange, where balances are due, they must of necessity continue: but before long they will be so completely understood, as to occasion no embarrassment. The merchant who sells his goods for foreign notes, will add to the price of his goods the amount of the loss he sustains upon the notes, and the purchaser will eventually discover, that the difference which he must pay for his goods, at a place where his Bank notes are at *a discount,* and at a place where they are *at par,* is at least equal to the agio on his notes. As to the solidity of the Banks, the suspension of specie payments has produced no alteration. Although the Banks do not pay specie for *any* of their notes, yet the time never has been when they could pay specie for them *all*: for a Bank that keeps on hand a sufficiency of specie to meet all its debts, can never divide six per cent. interest. The very principle upon which it is founded, requires that it should trade beyond its capital. But the Banks have the same means of discharging all their notes as they ever had, viz: claims upon individuals who have borrowed their *money,* and who are now as able to pay as ever they were, if not in specie, in merchandise and property of equal value."

CHAPTER XIII

Of Banking from 1819-10 to 1820-21

Appended to the report of the committee of the Senate of Pennsylvania, are a number of questions which were propounded to members of the Legislature, together with the answers which were given. From these answers we have formed the following table of the price of the best improved land in Pennsylvania, at three different periods. The second column gives the price the land bore in the height of the speculation, which was in different counties in different years, as the Banks extended their operations into them.

	1809		1819
Bedford,	$30 to 40	80 to 100 (1815)	20 to 30
Lebanon,	40 to 60	130 to 150 (1816-17)	50 to 70
Bradford and Tioga,	6 to 14	10 to 20 (1814)	3 to 10
Somerset and Cambria,		15 to 50 (1814)	5 to 20

	1809		1819
Cumberland,	40 to 60	150 to 200 (1813-14)	25 to 40
Dauphin,	16 to 24	35 to 45 (1815-16)	12 to 15
Adams,	30 to 50	60 to 100 (1814)	no price
Lancaster,	75 to 100	250 to 300 (1813-14)	50 to 70
Delaware,	75 to 120	100 to 150	40 to 75
Northumberland,	40 to 50	80 to 90 (1815)	30 to 40
Berks and Schuylkill,	80 to 100	150 to 200	80 to 100
Northampton Wayne & Pike,	80 to 100	100 to 140 (1815-16)	15 to 20
Bucks,	50 to 60	100 to 110 (1814-15)	55 to 65
Huntington,	20 to 30	40 to 60 (1815)	20 to 30

The official valuation of real and personal property in the State of New York, exhibits an equally striking fall. It was, in

1818,	$314,913,695,
1819,	$218,862,793,
1820,	$256,603,300

The depression of prices continued throughout the year 1820, and, though money was abundant with retired capitalists, the pressure on the great body of industrious people was very severe. "Our difficulties in commerce," said a director of the United States' Bank, writing to a friend in England, "continue without abatement. Men in business are like patients in the last stage of consumption, hoping for a favorable change, but growing worse every day till they expire. Dismal as are the prospects on your side of the water, they are worse here. You have some regular and profitable trade—*we have none.* It is all scamper and hap-hazard." The director then states that in former times he would, without hesitation, have trusted some men among his customers with goods to the amount of 100,000 pounds sterling; but he adds, "now I do not know the persons doing business; and there is not one among them whose order I would take for 1,000 pounds. What a difference! A long continuance of distresses in the commercial world has had a bad effect on the morality of the country. The vast number of failures takes away the odium. Men fail in parties for convenience; and the barriers of honesty are broken down by a perpetual legislation suited to the condition of insolvent debtors. We have now no imprisonment for debt. Credit is become very rare, as you may well imagine, for we have nothing to depend upon but a man's honesty. Besides our commercial distresses, we are suffering great alarm in this city (Philadelphia) from incendiaries, who have succeeded in setting fire to a great number of buildings. On Sunday evening our theatre was entirely destroyed.

"Houses which rented for 1,200 dollars, now rent for 450 dollars. Fuel which cost 12 dollars, now costs 5½ dollars: flour which was 10 and 11 dollars, is now 4½; beef 25 cents, now 8 cents: other things in proportion. It is thus true we now pay less for these necessaries, but we can make no money. The farmer is become as poor as a rat: the labor of the farm costs him more than the produce is worth. He cannot pay the storekeeper, and the storekeeper cannot pay the merchant.

"Mail robberies and piracies are quite the order of the day. Two men were hung at Baltimore a few months ago for robbing the mail: two more will experience the same fate, in a few days, at the same place, for the same crime. Two men are to be hung there a week hence for piracy, and five others are under sentence of death."

"Money is plenty," says Mr. Niles, on the 4th of March. "The six per cent. stocks are at 103 to 104; but there is little use for money in the hands of those who do not owe it. Hence it has a sluggish currency, and those who have it do not know what to do with it for themselves, and are afraid to trust it to others."

On the 15th of April, the same writer says—"It has become a serious affair to the laboring man to purchase himself a new garment—his wages, on an average, do not purchase him half as much as they did, and he is continually *uncertain* as to obtaining even that. Many of the mechanical professions have equally declined: as an instance, though our population is one-half greater than it was ten years ago, it is certainly a fact that the printing of books is not now half so extensive as it was then. The desire to read is not lessened, but the means of purchasing are denied—the most common school-books are a drug. Hatters, shoemakers, and tailors, and even blacksmiths, whose work seemed to be indispensable, have lost, in general, much of their former businesses—from a fourth to one-half. This is the result of necessity, and those who might purchase, abstain, in looking to a fearful future."

Five months afterwards, he gave an equally gloomy view of the state of affairs. Writing under date of September 16th, he says—"Five years ago all the large stores in Market street, &c., Baltimore, were cut into two, and then there were not enough of them; and a dwelling-house could hardly be had—if a man talked of moving, fifty were applying for the property. The stores have resumed their old shapes, and dwelling-houses are abundant. I believe we have 10,000 less inhabitants than we had in 1815; and, by calculation, I have concluded that the property on Market street at this time, if all on rent, would produce a sum less by $250,000 a year, than it would have produced as rent in that year.

"Desire no longer presses on enjoyment with the laboring classes, but necessity presses on necessity; and, one by one, they give up their enjoyments which they hitherto delighted to indulge themselves in. This is evident to every person who will look at society. The laboring people cannot get much money, and therefore cannot spend much. The average price of wheat is hardly more than fifty cents a bushel, and the farmer cannot buy many luxuries at that rate: a mechanic is hardly half his time employed, or at reduced wages, and must therefore limit his expenditure."

It was natural that, in this condition of things, the public mind should be employed on projects for alleviating distress, if not for preventing its recurrence.

One measure that was suggested, was the requiring of cash payment of duties. This would have been beneficial, insomuch as it would have lopped off one of the branches of the super-extended credit system, but it would have afforded no immediate relief. An effort was made in congress to carry through a measure of this kind, but it was not successful.

Another effort, which was attended with no better success, was to restrict sales by auction. There is no cause to regret that this effort did not succeed. The only way in which the value of many kinds of property could be realized in this season of distress, was through sales by auction, and restrictions on this business would have increased the sufferings of the public.

A large portion of society were very anxious that a bankrupt law should be passed, and it may be doubted if the mercantile part of any community ever stood more in need of relief. But the bill which was reported to Congress was modelled on the English system, and not adapted to the state of things in America. It might, if it had been adopted, have afforded relief to many worthy men; but in its general operation it would probably have been productive of great evils. It was rejected by a decided majority.

The measure from which most was hoped, and which was pushed with most vigor and most perseverance, was an increase of the duty on imports. The dulness of business, the lowness of prices, and the want of employment, which were produced by the reaction of the Banking System, were all urged as reasons why Congress should afford adequate "protection to domestic industry."

It is no part of our plan to discuss the tariff policy. But it belongs to the history of Banking, to state that the raising of the duties on imports, to a height which now threatens to convulse if not to rend our Union, was one of the consequences of the great reaction of 1819. As the effects of the reaction were felt for several years, the advocates of the restrictive system had full leisure for applying all the arguments in support of their favorite policy, which they could derive from the continued lowness of prices, dulness of business and want of employment.

The evils produced by the system of paper-money and moneyed corporations, are of such a nature that they cannot be remedied by acts of legislation. When they come they must be endured. If we *will* have the system, we *must* bear its consequences. But there was one measure which, as it might have alleviated the distress, we have sometimes wondered was not adopted: We have wondered it was not adopted, because it is a measure which has been adopted in other countries, and in our own country at other times. We mean an *equitable* adjustment of the affairs of debtor and creditor. When the South Sea bubble bursted, the British parliament saw that to require a literal fulfilment of the obligations which were affected by that stock-jobbing concern, would be to give the getters-up of that scheme all the property of their miserable dupes. It therefore, in some cases, reduced the amount of money to be paid, as much as nine-tenths. During the revolutionary war, "scales of the depreciation" of continental money were from time to time published by the legislature, by which the courts were governed in enforcing such contracts as were submitted to adjudication.

The great Banking bubble of America was the same in principle as the South Sea bubble, but of longer continuance, and involved in it the fortunes of the whole community. But nothing like an *equitable* adjustment of the affairs of debtor and creditor was attempted. An obligation to pay ten thousand dollars, entered into in 1816 or 1818, when the current dollar was in some parts of the country worth perhaps but fifty cents in silver, was enforced according to the strictness of the letter, in 1819 and 1820, when the current dollar was of equal value with the legal dollar, and worth one hundred cents in silver.

It is an awful thing to change the money standard of a country: but it is equally awful to refuse to recognise such a change, when it has actually been made. Effecting an equitable adjustment of the affairs of debtor and creditor, by a legislative or a judicial recognition of the practical changes which had been made in the standard of value, would not have "impaired the obligation of contracts." Both debtor and creditor, when they entered into the contract, had the "current" dollar in view. The disorder was, however, so general, that an equitable adjustment of contracts would have been a work of great difficulty, if not of impossibility. Perhaps the courts, looking forward to the operations of future years, acted wisely in regarding the dollar as a fixed quantity, though it was, in fact, during these years, a quantity that was always changing.

CHAPTER XIV

Of Banking in the Western States

The first paper issuing institution west of the Allegany mountains, was the Lexington Insurance Company, which was incorporated in 1802, with a capital of 150,000 dollars. Humphrey Marshall, the historian of Kentucky says, Banking privileges were, in this case, surreptitiously obtained. This business being found to be lucrative to those who were engaged in it, the Kentucky Bank was instituted in 1807, with a nominal capital of one million of dollars.

The Miami Exporting Company was instituted at Cincinnati, Ohio, in 1803, with a capital of two hundred thousand dollars. As its title indicates that it was established ostensibly for commercial purposes of another nature, perhaps Banking privileges were obtained for its surreptitiously, as in the case, in the previous year, of the Lexington Insurance Company. Be this as it may, the Miami Exporting Company did Banking business; and in the nine years subsequent to its institution, five other Banks were established in different parts of the State, making in all six Banks in Ohio in 1812, with a nominal capital of one million two hundred thousand dollars.

These Banks maintained specie payments till within a month or two of the close of the war. This is a fact not generally known, but it is placed beyond doubt by a statement made by Mr. Hawkins in Congress, on the 17th of January, 1815, that "*even* the Banks of Kentucky and Ohio, where specie abounded, had *at length* been compelled in self-defence to stop payment of specie."

It must be evident from this, that if the United States government had immediately compelled the Banks of the great Atlantic cities to redeem the pledge they had given in the preceding August, the western country might have suffered but little from the suspension of specie payments. But when the United States government connived at the suspension of specie payments, sanctioned the use of inconvertible paper, and by its fiscal manoeuvreing encouraged the issue of additional amounts of such paper, it was impossible that the mania which had reached Pennsylvania, from New-England, through New York and New Jersey, should not extend into Ohio and Kentucky.

Kentucky was, however, at first comparatively moderate. All she did at the close of the war, was to authorize the Bank of Kentucky to increase its capital to three millions, and to establish thirteen branches. Seven of these branches were in operation in 1816. Ohio, apparently, went further into the system; for we have seen a list of twenty-one chartered institutions which were in operation in that State in 1816, and allusion is made to others which were carrying on the Banking business without charters.

Still, the issues of paper in the Western States were moderate when compared with those in the Middle States. Mr. William Jones, the first president of the United States Bank, stated, in the documents laid before Congress in 1819, that, "at the time of the subscription to the stock of the Bank, specie was at six per cent. at the westward, and at fourteen per cent. in Philadelphia, New-York, and Baltimore." In the table appended to Mr. McDuffie's report, the rate of exchange at Lexington on Boston, in July, 1816, is stated to have been two per cent.—a sure proof that the currency of Kentucky was not at that time much, if it was any, depreciated.

The issues of the western Banks were probably increased considerably in the last six months of 1816: and in this or the following year the system was extended into Indiana, Illinois and Missouri.

It was about this time, that branches of the United States Bank were established in the west, and they sought to make a profit, less by circulating their own paper, than by giving drafts on the eastern cities, receiving in exchange notes of the local Banks, and requiring interest to be paid on the same. This was rather a roundabout way of inducing the local Banks to extend their issues, but it was the most effective that could be adopted. Western Bank paper being exchangeable for United States branch drafts, and United States branch drafts being exchangable for European products in the Atlantic cities, the effect was similar to that which would have been produced by making western Bank notes current in New York and Philadelphia.

The full effects of this system were felt in the year 1818, or in the second year of active operations of the United States Bank. Mr. Niles, then speaking of "new Banks establishing, or about to be established," says, "behold forty-three new Banks authorized in Kentucky—half a score in Tennessee—eight in Ohio," &c. Of those authorized in Kentucky, at least *thirty-five*, since known as the Independent Banks of Kentucky, went into operation. Their nominal capital was between seven and eight millions of dollars, but their real capital must have been small: for the American Quarterly Review says, the same specie was used for different Banks, and only remained long enough in each for the law to be complied with.

If the months of May, June, July, and August, 1815, were "the golden age of Philadelphia," the first months of the year 1818 were the golden age of the western country. Silver could hardly have been more plentiful at Jerusalem in the days of Solomon, than paper-money was in Ohio, Kentucky, and the adjoining regions. But when the United States Bank found it necessary to curtail, money became as scarce in the west as silver is in Jerusalem under the Turkish despotism.

The Bank of the United States was very sudden in its demands, for its necessities were such as to admit of no delay. An Ohio paper says that the branch at Cincinnati called on the local Banks of that town for a balance of seven hundred thousand dollars, in requisitions of twenty per cent. every thirty days. This compelled the Bank of Cincinnati to stop payment about the middle of November, 1818, and in two days afterwards the Bank of Kentucky unexpectedly followed its example. A strong expression of public opinion compelled the Bank of Kentucky to resume specie payments in less than a week, and it continued to pay specie till the early part of 1820.

It is stated that in the twelve months preceding June 26th, 1819, eight hundred thousand dollars in specie were drawn from Ohio. If this be true, the wonder is not that only six or seven Banks in that State paid specie in August, 1819, but that they were not all bankrupt. This was the fate of the Independent Banks of Kentucky. Some of them maintained a show of specie payments till August, and afterwards paid out notes which were lent them by the Bank of Kentucky, redeemable in 365 days after date: but towards the close of the year a few of them paid any thing.

The Bank of Vincennes (Indiana) had recourse to a very ingenious expedient. It issued notes payable at its branch at Vevay, nine months after date, printing the words "nine months after date" in very small letters. All this, however, availed nothing. It went with the others.[18]

The effect which the sudden withdrawal of specie and discrediting of Bank paper had on prices in the western country was very distressing. "It is said," remarked Mr. Niles on the 2d of September, 1820, "but we know not how to believe it, that corn is selling at 10, and wheat at 20 cents per

[18]The Banks in the *extreme* west did not all stop payment till a year or two after the failure of the Banks in Kentucky. The Shawneetown and Edwardsville Banks, in Illinois, paid specie in August, 1821. One, at least, of the Banks in Missouri, continued to pay specie until the latter part of 1821; and several of the Ohio Banks appear to have paid specie in the midst of all the confusion.

bushel, specie, in some parts of Kentucky. At this rate how are debts to be paid?" Mr. Niles appears afterwards to have had other evidence sufficient to overcome his incredulity, for he remarked on the 15th of September, 1821: "a gentleman in Western Virginia directs the Register to be stopped, because he used to pay for it annually with one barrel of flour, but that three will not do it now. Another, a miller in Ohio, on paying his advance to my agent, observed, that he had sold *four barrels of flour* to obtain the note of five dollars which was remitted."

In other publications we have evidence of the lowness of prices. For example: In the United States Gazette of May 23d, 1821, corn is said to have been sold at Cincinnati at 10 cents a bushel: and the same periodical of the 1st of June, has a notice of a letter from a practical farmer in Harrison County, Ohio, stating that wheat had fallen to 25 cents a bushel, and in some instances to 12½ cents. A letter from Greenfield, Ohio, dated May 3d, 1821, and quoted in the Gazette of June 23d, states that wheat was sold at 12½ cents a bushel, and that whiskey was dull at 15 cents a gallon.[19] The Weekly Register of May 19th, gives the following quotation from "a late Pittsburg Mercury." "Flour, a barrel, $1: whiskey 15 cents a gallon: good merchantable pine boards, 20 cents a hundred feet: sheep and calves $1 a head. Foreign goods at the old prices. One bushel and a half of wheat will buy a pound of coffee: a barrel of flour will buy a pound of tea; twelve and a half barrels will buy one yard of superfine broadcloth."

While the staples of the western country were at this low price, the people were deeply in debt to the United States Government, to the merchants of the Atlantic cities, to the United States' Bank, to the local Banks, and to one another. The plentiful issues of paper had led to great speculations in the public lands. The wild lands of the West had been sold, in some instances, as high as forty or fifty dollars an acre. The sum due to Government on account of these purchases, exceeded twenty-two million dollars in the latter part of 1820. The sum due to one of the branches of the United States' Bank, that at Cincinnati, exceeded two million dollars. The sums which were due by the western people to one another, to the local Banks, and to the merchants of the Atlantic cities could not easily be calculated.

To relieve the public distress, the Legislature of Ohio passed a law to prevent property from being sold unless it would bring a certain amount, to be fixed by appraisers. This law operated very unequally. Another law of the same State, to prohibit buying and selling the notes of chartered

[19]Towards the close of the year 1821, flour rose at Cincinnati to $3 50 barrel.

Banks, would have increased the mischief, if it had not, happily, been such a law as, from the nature of things, could not be enforced.

Kentucky adopted what has been called the "relief system," in all its extent. Stop laws, stays of executions, and replevin acts, followed one another in quick succession. And Commonwealth's Banks, or State Loan Offices, were established in Kentucky, Indiana, Illinois, and Missouri, with power to issue millions of paper-money. The creditor had no alternative but to receive this paper or wait for payment till better times should arrive.

Governor Adair, in his message to the Legislature, in October, 1821, said, that "the paramount law of necessity" had compelled Kentucky to resort to a policy against which strong objections might be brought: but, he added, "let it never be forgotten, that the measures adopted have completely realized the proposed end: that an agitated and endangered population of half a million souls, has been tranquillized and secured, without the infliction of legal justice, or the example of violated morality."

All the people of Kentucky did not think so highly of the system, and the Judges of the Court of Appeals were among the dissidents. They resolutely refused to acknowledge the constitutionality of the "relief laws:" and the Legislature established a new Court of Appeals, the judges composing which were friendly to the relief system.

The people divided into two parties, and the contest was conducted with great violence. The party friendly to the new Court of Appeals had the ascendancy for several years. In 1824, they numbered sixty members of the Legislature, while their opponents numbered but forty. In the session of 1825-26, they appear to have been less powerful, for we find that preparations were made to defend the records of the new Court of Appeals with powder and ball. In the fall of 1826, the friends of the Old Court elected a majority of members of the Legislature. A change of only ninety-one votes at the polls, would have given their opponents the majority of members. The Old Court party has, however, ever since retained its ascendancy; and the relief system is at an end.

All parties now are willing to admit that this "relief system" did great evil. It did not effect an equitable adjustment of the affairs of debtor and creditor. That could have been effected only by a legislative or judicial recognition of the changes which had been made in the standard of value, and a separate adjudication in each case. It was only by accident if a man received payment in paper of the same value as that which was current when the debt was contracted.

The Bank of Kentucky commenced discounting on the 27th of April,

1821. Its notes were sold almost immediately at 70 cents in the dollar; and continued to depreciate till April or May in the ensuing year, when the exchange was 210 paper dollars for 100 silver dollars. On the 28th of July, 1821, which was ten days after it commenced its issues, the notes of the State Bank of Illinois were 50 per cent. below par. In addition to the loss which each creditor sustained by being paid in money of this description, he was liable to further loss from the paper depreciating while it remained in his hands.

The other branches of the relief system, the stop laws, the appraisement laws, the stays of execution, and the replevin acts, tended to destroy the confidence of men in one another and in the Government.

The relief system is at an end; but its evil effects will be felt in the West for twenty years. What, then, ought we to think of the Banking system, in which the relief system originated?

A memorial from sundry citizens of the western parts of the State, asserts—

"That embarrassment is universal: that the sordid and avaricious are acquiring the sacrificed property of the liberal and industrious: that so much property is exposed to sale under execution, that buyers cannot be had to pay more for it than the fees of offices: that those mischiefs, instead of diminishing, are daily increasing, and that overtrading and the facility of getting credit have produced these effects."

The petition of the inhabitants of Fayette county represents—

"That the fictitious capital and boundless credit extended by Banking, the almost universal spirit of speculation, the prostration of manufactures by the mistaken policy of the National Government, the introduction of luxuries and extravagancies, and a reduction of exports, have produced a long train of calamities: that industry is paralized—that the precious metals have vanished—that the Banks are tottering—that litigation is unprecedented in extent, and ruinous in its effects—that many merciless creditors, not content with plunging unfortunate debtors into the most abject poverty, frequently take from them the whole of that property to themselves, which in better times would pay the sums due to all, leaving the unfortunate debtor in jail, and his family in misery.

"These are but a few of the extracts, which might be presented to the House and placed upon the journal: but these are deemed sufficient, accompanied by the remark, that these representations are not only supported by all the other petitions presented at this session, but by the testimony of the members of the Legislature, coming themselves from all quarters of the State."

The committee then give a short sketch of the commercial history of the country, after which, they say—

"In defiance of all experience, and in contempt of warnings almost prophetic, which were given to them at the time, the people of Pennsylvania, during an expensive war, and in the midst of great embarrassments, established *forty-one* new Banks, with a capital of seventeen and a half millions dollars, and authority to issue Bank notes to double that amount! In consequence of this most destructive measure, the inclination of a large part of the people, created by past prosperity, to live by speculation and not by labor, was greatly increased: a spirit in all respects akin to gambling, prevailed; a fictitious value was given to all descriptions of property: specie was driven from circulation, as if by common consent, and all efforts to restore society to its natural condition were treated with undisguised contempt."

These remarks are followed by a short view of operations subsequent to the war, after which, the Committee declare—"A new measure, however, remained to be adopted, that was really to close the last scene in the drama of error: the currency had already nearly vanished, but was temporarily restored on the seaboard. The enormity of fictitious credit began to be felt: the abusive extent of paper issues was about to effect it own remedy in the State, when Congress created a *corporation,* with authority to circulate upwards of *one hundred millions* of a new paper medium—a corporation spreading its branches over the Union with the baneful influence of the fabled Upas.

"Awakened by the quick succession of events so disastrous, from the dream of perpetual prosperity under which they had so long been entranced, the people now find themselves involved in distresses, against which no provision had been made, and from which, they allege, they can find no refuge but in legislative interference."

CHAPTER XVI

Of Banking in the Southern States

The Banks of the south found it convenient to suspend specie payments, soon after this measure was resolved on by the Banks of Philadelphia; and an extension of Banking operations in that quarter was the necessary consequence. Without resorting to other evidence, the following tabular view of the amount of Bank capital in the four Southern States, in two different periods, will be sufficient.

	1814	1816
Georgia,	623,580	1,502,600
South Carolina,	3,730,900	3,832,758
North Carolina,	1,576,600	2,776,000
Virginia,	3,592,000	5,521,415
	9,523,080	13,632,773

According to Mr. Gallatin's tables, there were fourteen Banks in these States on the first of January, 1815, and twenty-three on the first of January, 1816. Two of the Banks of Virginia had, in this interval, increased their circulation from 4,616,240, to 6,031,446 dollars. Of the circulation of the other Banks in the south, we have no returns. The aggregate increase was, no doubt, very considerable, but it was not sufficient to bring down the currency to a level with that of Maryland and Pennsylvania. In the tables appended to Mr. McDuffie's report, it is stated that, on the 1st of July, 1816, when subscriptions were made to the stock of the United States Bank, specie was, at Philadelphia, at 17 per cent. advance, and at Washington, at 20 per cent., while it was only 9 a 10 at Norfolk, and 6 a 8 at Charleston. The price of specie in North Carolina and Georgia is not mentioned, but North Carolina notes bore a premium of four per cent. at Philadelphia on that day, and New York notes were at a discount of 5 a 9 per cent. at Savannah.

The Comparative moderation of the Southern Banks is to be ascribed to the fact, that as but a small portion of the revenue from the customs is collected in the south, they did not get many of the treasury notes which were issued in the year after the war.

When the United States Bank began operations, it did not include the offices at Charleston and Savannah, in the plan for the "equalization of exchanges." It however gave these offices authority to do an extensive business. By the 29th of July, 1817, the branch at Charleston had made discounts to the amount of 850,000, and that at Savannah to the amount of about 300,000 dollars. On the 23d of June, 1818, the total of discounts at Charleston, including bills of exchange and stock notes, was about $2,700,000, at Savannah $1,000,000, at Fayetteville $500,000, at Norfolk $1,400,000, and at Richmond $3,000,000.

This increase of credit dealings in the south did not improve the state of the currency: and the attempts that were made to support excessive issues of paper, by importing specie, proved utterly unavailing. The directors of the Bank of the State of South Carolina say, that "in the first six months of 1818, it is probable that upwards of $800,000 in specie were thrown into general circulation in the city of Charleston. It is probable that by the first of November in that year, not 50,000 dollars of the whole sum remained in the State; we are confident that not $10,000 could have been found in Charleston."

The Bank of the United States was, to promote its own views, very indulgent to the Banks of the south, at the commencement of its operations. Without being so, it could not, as its specie capital was inconsiderable, and as the deposites of public money were small in that quarter, have done much business at Savannah and Charleston. It freely received the notes of the local Banks, and as it did not press for immediate payment, it encouraged them to make additional issues. The Bank of the United States could not, however, defer its demands for ever, and when it called for payment, a conflict commenced between it and the local Banks, which was not fairly terminated for several years.

As some movements in the legislatures of Georgia and South Carolina had, at an early period, indicated a disposition to embarrass its operations, the United States Bank did not deem it prudent to use the most rigorous measures with the Banks of Charleston and Savannah. Fully aware of this fact, the Banks south of Virginia began, in the crisis of 1819, boldly to *evade* specie payments, if they did not make a full and formal suspension.

The Bank of Darien, Georgia, for example, adopted the following course of procedure, as is described by an eye-witness: "Persons making demands on the Bank of Darien must swear before a justice of the peace, *in Bank*, to each and every bill presented that it is his own: that he is not agent for any other person; and that oath must be made in the presence of at least five directors and the cashier: it also makes the person so demanding specie subject to a charge of $1 37½ on *each* bill, which must be paid on the spot, and unless you find five directors and the cashier together, you cannot make a demand."

As the United States Bank could not easily get payment from the local Banks, and as specie was almost immediately demanded for such of its own notes as it issued in the south, it found it politic, if not necessary, to receive what was due on account of the imposts in North and South Carolina, and Georgia, in notes of the Banks of those States. So far as it traded, it traded on these notes, issuing none of its own. This arrangement gave the southern Banks a monopoly of the profits derivable from the circulation of paper: but they were not satisfied, because they had not also the profits derivable from the use of the public deposites. When the United States Bank, in the spring of 1820, made a demand on the Banks of Savannah, for payment of a considerable amount of notes, which had been received principally in payment of duties, those Banks refused either to make payment in specie, or to allow interest on the sum which was unliquidated. The United States Bank then protested a large amount of their notes: and soon afterwards, five hundred dollars in notes of the State Bank of Georgia were advertised to be sold by auction, for specie, in lots to suit purchasers, in front of the Exchange at Savannah.

In August the Banks of Savannah had again the reputation of specie paying Banks: but they refused to give *money* to individuals for their paper, unless those applying for it would agree to take half the amount in bills of the *Darien* Bank. It cannot, however, be said that they refused all kinds of accommodation to the public, for while they would not pay cash for their notes, they would oblige a holder of them by giving him a draft on New York at three per cent. advance.

In this contest the local Banks enlisted the feelings of the Legislature of Georgia in their favor: and an act was passed, in the beginning of 1821, to repeal the law allowing twenty-five per cent. damages on nonpayment of notes, so far as it might operate in favor of the United States Bank. Such a disposition in the Legislature, was an encouragement to the Banks to evade payment to individuals: and we read, without feelings of surprise, that on a demand being made in April on the Planters' Bank of Georgia for thirty thousand dollars in specie, the cashier replied that he would pay in cents only: and that, when a gentleman of Augusta made a demand for specie in June, cents were tendered to him and counted out at the rate of sixty dollars a day.

From that time to this, the people of Georgia have suffered the evils of irregular Banking, sometimes in one form and sometimes in another. The paper of their Banks is usually at a discount in the Philadelphia market, exceeding the natural rate of exchange, that is, the cost of transporting specie. In 1824, complaints were made that "change" bills, issued by individuals and corporations, were in circulation. In the same year we find the governor declaring "that all the Banks should resume specie payments without delay." If they all resumed them, they could not all maintain them, for Mr. White, of Baltimore, in a letter to the Secretary of the Treasury in 1830, speaks of "intelligence having just been received of the failure of some of the principal Banks of Georgia to redeem their notes with specie." Complaints of sufferings by the people of the State have been frequent. In 1824 and 1828 these complaints were very loud. When the legislature attempted to relieve the planters, by establishing a Bank on the funds of the State, called the "Central Bank," and opened that Bank for business at Milledgeville in 1829, "the rush for money was tremendous."

In South Carolina a disposition was evinced by a part of the population, to make the suspension of specie payments perpetual. Full proof of this is to be found in a long and elaborate report by the directors of the Bank of the State, dated October 1st, 1819, in which all the arguments of the English anti-bullionists are placed in prominent relief. The prosperity of the country from 1815 to 1817, is depicted in glowing colors. The effects produced by the resumption of specie payments are deplored as unnecessary evils. "It becomes necessary to inquire," say the directors, "whether, in the present state of the world, a metallic currency, sufficient for the wants of our country, is attainable, and whether, if it be obtained, it will be worth the necessary cost: whether, in fact, a currency equally good, perhaps better, may not be established, without any of those sacrifices which our country has already been obliged to make, and which it must for a long time make, to secure this fugitive and evanescent object. . . . In Great Britain, where alone, in modern days, gold and silver have for a short time been left freely to find their value in an unshackled market, they have been known to fluctuate in value nearly fifty per cent. in the course of a few months: a fluctuation which no paper currency has ever undergone, excepting such as has been issued by the mandates of arbitrary and necessitous governments, where no value is received for it on its emission, no pledge given or secured for its redemption."

The Bank of the State of South Carolina did not pay specie regularly till the year 1823, and the United States Bank at Charleston, as it is stated in Degrand's Weekly Report, "fostered the irregularity by aiding the circulation of State Bank paper which was not convertible." Since that time, Banking does not appear to have been less "regular" in South Carolina than in Pennsylvania: but as "regular" Banking by corporations and with paper-money may produce great evils, it might be worthy of inquiry if *part* of the sufferings of the people of that State have not their origin in this cause. The excitement, however, at this moment, appears too great to permit such an inquiry to be made.

Virginia has the honor of being the first State that took effectual measures towards reforming the currency. This she did in 1820, when she passed an act to prohibit the circulation of notes of a less denomination than five dollars. Her Banking operations have never been less regular than those of the Middle States: and she will probably be one of the first to establish a perfectly sound system of credit and currency.

Of the condition of affairs in North Carolina, the reader may judge, by the following extract from a report made to the Legislature, at the session of 1828-29.

"The legislature having laid down, in the charters of the several Banks, certain fundamental articles for the government thereof, the committee assumed these articles as the basis of their investigations, and proceeded accordingly to inquire, in the first place, whether the stock of the several Banks had been raised in the manner required by their charters?—The evidence received by the committee on this point, shows that the charters of the Banks were disregarded and violated in the very creation of their capital.

"The charter of the Bank of Cape Fear, enacted in 1804, authorized that corporation to raise a capital stock of $250,000; and the charter of the Newbern Bank, enacted in the same year, authorized that Bank to raise a capital stock of $200,000; both charters directing the capital to be paid by the stockholders in gold or silver. The undersigned have received no evidence as to the mode in which these Banks got into operation. It would seem, however, that they contemplated, at the outset, an evasion of the provisions of their charters. It is in evidence to the undersigned, that soon after they went into operation, they contrived to get possession of nearly all the paper-money which had been issued on the faith of the State, which, being at the time a legal tender, enabled them to evade demands for specie, which they did, by thrusting this ragged paper at those who presented their notes for specie. In 1807, $25,000 was added to the capital stock of each of these Banks; in 1814, their charters were extended, and they were authorized to increase their respective capitals to $800,000 each, viz., the Newbern Bank was authorized to raise an addition to its stock of $575,000, and the Bank of Cape Fear, an addition of $525,000. It is in evidence to the undersigned, that the whole of this additional stock was manufactured by the Banks themselves, and that, in many instances, favored individuals were permitted to acquire stock by subscribing their names, and putting their notes into Bank, without advancing a single dollar of actual capital. It follows, that the whole amount of the interest drawn from the people, on the loans made on this fictitious capital, was a foul and illegal extortion. The effect of the transaction was the same as if the pretended stockholders had individually executed their notes of hand, without interest, to the amount of the notes which they issued from the Bank, and exchanged them with the people for their notes, bearing interest, and renewable every ninety days. Taking the issues made on this fabricated capital to be in proportion with those made on the former capital, they must have put into circulation, on the faith of the assumed stock, between 3 and 4,000,000 of notes; and thus, a parcel of individuals, under the name of stockholders, but who, in fact, held no stock, contrived to exchange their notes, without interest, to the amount of 3 or 4,000,000, for the notes of the people bearing an interest of more than 6 per cent.; and while the property of the people was pledged for the payment of the notes they had given *to* the stockholders, there was not a dollar or an atom of property pledged to them for the payment of the notes they had received *from* the stockholders; so that for the use of their notes, which, intrinsically, were of no value at all, the stockholders of these two Banks have drawn from the people, by way of interest, something like $200,000 annually.

"The charter of the State Bank, enacted in 1810, authorized that corporation to raise a capital stock of $1,600,000, and directed books to be opened to receive subscriptions for that sum, requiring, at the same time, that individuals subscribing for stock, should pay three-fourths of the amount subscribed in gold or silver, and the other fourth in the paper currency issued on the faith of the State. Books were accordingly opened, and the sum subscribed, including the subscription of $250,000 for the State, amounted to $1,175,600. Of this sum, only $500,000, or thereabouts, was paid into Bank, as required by the charter, in gold or silver. The balance was paid in Bank notes. Upon the capital thus constituted, the Bank went on to operate till November, 1818; at which time, the proportion between the notes in circulation and the specie on hand, was nearly 12 to 1. In other words, the Bank had largely upwards of 11 and nearly 12 dollars of their notes in circulation, for every dollar of specie in their vaults. The directors then ordered books to be opened to receive subscriptions for the $424,000 which remained unsubscribed when the books were first opened; and it forms a part of the order by which this additional subscription was authorized, that the subscribers *might* pay it in the notes of the Bank. The reason assigned for this operation of the directors, is, that they were desirous of applying the sponge to a part of their outstanding debt; and by way of calling in $224,000 of their notes, they authorized individuals who held them to subscribe for stock in the Bank to that amount, and pay for it in their notes. Thus, at a time when they had in circulation nearly 12 dollars in notes for every dollar of specie in their vaults, and when most obviously they were unable to redeem their notes with specie, they purchased them from the holders by the sale of stock which they themselves created by the mere act of subscription. This the undersigned conceive to have been a most flagrant and fraudulent violation of their charter. The charter only authorized the Bank to operate on a real and intrinsic capital, and directed that the capital should be paid into the Bank by the stockholders. In the transaction alluded to, the Bank itself, by a scribbling process of its own, created the capital, and paid off a portion of its debt, by the very act by which it also increased its capital. A circumstance, too, which greatly adds to the enormity of the transaction, is, that before all the instalments became payable, the State Bank, the Bank of Newbern and Bank of Cape Fear, entered into a formal resolution, through their delegates assembled at Fayatteville, in June, 1819, not to pay specie: and their notes immediately fell to 15 per cent. below par. Then commenced the system of usury and extortion, which has since been carried on with such unparalleled audacity, under the *name* of *exchange*. Up to this time, viz., 1819, the high tide of commercial prosperity enjoyed by the country, enabled the Banks to keep afloat, notwithstanding the artificial character of their capital, without resorting to this daring and dishonest expedient. They had kept pace in their operations with the increasing resources of the country, so as to absorb, by way of interest on discounts, nearly all the profits on the immense business then doing; and having raised against the people a debt equal to the vast resources which, from 1815 to that time, they had derived from their foreign commerce, as soon as the alteration occurred in our foreign relations and those resources were cut off, the business of the country, unable any longer to employ the immense circulating medium which had been created by the Banks, and their notes returning upon them for redemption, they determined to extort from the people additional premiums on loans in order to enable them to meet the demands of their creditors. A scene of extortion and usury ensued, which has no parallel in the annals of avarice—the strange spectacle of moneyed institutions exacting specie in exchange for their notes, which they themselves refused to redeem with specie. To show the gross character of the usury thus carried on, the undersigned will suppose a case: An individual applies to the Bank for a loan of 1000 dollars, and offers his note to be discounted for the amount. He is told by the Bank that his note cannot be discounted, unless he will exchange with them 1000 dollars of specie funds, for 1000 dollars of their notes. Taking their notes to be 5 per cent. below par, 1000 dollars of their notes would *in fact be* no more than 950 dollars. So that the substance of such a proposition would be, that the borrower should give the Bank *fifty dollars* as a premium for the loan of 1000 dollars: which, added to the legal interest received in advance, would amount to something more than 11 per cent. In some instances, the usury has been still more rank. Quantities of their notes have been loaned to individuals on condition that the whole amount should be returned in ninety days in specie funds. At the rate of depreciation before stated, such a transaction would be equivalent to the exaction of 26 per cent. The evidence received by the committee, shows that the State Bank and Bank of Newbern have been guilty of such practices since the summer of 1819. There is no evidence that the Bank of Cape Fear has. It appears in aggravation of the guilt of these practices, that, in case of the State Bank, the specie funds thus extorted from the people in exchange for their depreciated notes, have been employed by the Bank in purchasing back those notes at a discount: That they have, at times, employed agents in New-York and Petersburg, to buy up their notes: and that about twelve months since, a parcel of their notes was bought up by their agent at Petersburg at 8 per cent. discount. It is stated by the President of the Bank of Cape Fear, for whose testimony too much respect cannot be expressed, that the notes of that Bank have, at different times, been bought up at a discount by the Bank. That a quantity of its notes were so purchased in anticipation of the late call of the stockholders; and that during the panic occasioned by that call, something like 500 dollars of their notes were bought up by the Bank at a discount of 5 per cent. The depreciation of the notes of all Banks, occasioned by the refusal of the Banks to make good their notes with specie, has been productive of incalculable mischief to the community; and it is no inconsiderable aggravation of the mischief to know that, in the case of the State Bank, large quantities of their notes have occasionally been thrown into circulation by themselves in the purchase of cotton. It is in evidence to the undersigned, that they laid out at one time 30,000 dollars of their notes in the purchase of cotton, on which they made a profit of more than 8000 dollars. Another remarkable fact in the history of the State Bank, which the undersigned will notice in passing, is, that to protect themselves from demands for specie, they determined at one time to administer an oath to an individual, presenting their notes for specie, in which he was compelled to state that he was not a broker. It further appears to the undersigned, that all the Banks have bought up United States Bank notes, for which they exchanged their own notes at a discount; and the State Bank and Bank of Cape Fear, in direct violation of their charters, have purchased stock to a considerable amount in the United States Bank. The State Bank appears to have made a most convenient use of this arrangement. It appears from the evidence of the late president of that Bank, that they have been in the habit of rendering false statements to the legislature; and that in May last, when they stated in their exhibit that they had on hand 214,000 dollars in specie, 140,000 dollars of it consisted of stock in the

United States Bank. So that, instead of keeping the specie in their vaults to take up their paper, they have vested it in the stock of another Bank, and were deriving interest from it. It further appears, from the evidence of the same person, that the amount of actual specie now in the State Bank at Raleigh, is not more than 300 to 400 dollars: at any rate, not exceeding 1000 dollars.

"The undersigned have now gone through the details of the evidence, and stated all the *essential* facts collected in the course of their examination. Having thus embodied a simple statement of the facts, they would here close their report, and leave the conclusions and arguments to the legislature; but they feel themselves impelled, by a solemn sense of the duty which they owe to the legislature and the country, to take a brief view of the present relation between the Banks and the people, and the consequence which *must* ensue if the Banks are permitted to continue their operations; and in doing so, to advert to the report of the committee of the stockholders of the State Bank at their late general meeting. It appears that the people of North Carolina, having already paid to the Banks, since they went into operation, a profit of about 4,000,000 dollars on their stock—stock, too, three-fourths of which was manufactured by the Banks themselves in a fictitious and fraudulent manner—that having paid this immense sum, exceeding four times the amount of the actual capital stock ever paid into Bank according to law, they still hold the notes of the people for more than 5,000,000 dollars, about four times the amount of the whole circulating medium of the State. Thus it is in the power of the Banks *absolutely to extinguish* the currency of the country, and when they have taken every dollar out of circulation, still to have a debt against the people to the amount 4,000,000 dollars. We say it is in their power to do it; and they intimate pretty plainly that they will do it. The communication from the stockholders of the State Bank, now before the committee, expresses the opinion that it is for the interest of the stockholders to withdraw their money from the Bank, and take it under their own management; and contains a resolution by which they have proclaimed their resolution to assemble in June next, in order to determine whether they will proceed to *wind up* their affairs; and consequently, *the affairs of the people of North Carolina.* Thus having for years contrived, by illegal and fraudulent practices, to draw from the people all the *profits* of their labor, and having by these practices placed the people in an impoverished condition, where they can no longer pay them large profits, they are now preparing, by one fell swoop, to extort from them the *actual means of subsistence.* But the question occurs, will *you* permit it?

Will you permit a parcel of men, who have long set the laws of the country at defiance, to go on and complete the ruin they have already so nearly accomplished? Will you not bring them to the observance of the law? Will you not at length cause them to feel the rod of that law they have so long despised and violated? These questions, your committee conceive, answer themselves. When the legislature is called upon to determine whether their constituents shall live under a government of laws, or a government of corporations, it cannot be difficult to decide. The undersigned, therefore, recommend to the legislature the adoption of the following resolution: —

"Whereas it appears to the legislature that the State Bank of Newbern, and the Bank of Cape Fear, have violated their charters and committed great frauds on the people of North Carolina, whereby said Banks have forfeited the powers and privileges granted in their charters: Therefore,

"*Be it Resolved by the General Assembly of the State of North Carolina,* That the Attorney-General be, and he is hereby directed forthwith to institute a judicial inquiry into the conduct of the said Banks: and that he prosecute such inquiry by writ of *Quo Warranto*, or other legal process."

No such judicial imquiry appears to have been instituted. The practical sovereignty remains with the Banks of North Carolina: and they respect the laws and public opinion, just so far as they believe to be conducive to their own interest.

CHAPTER XVII

Of Banking in New-England

We have searched the public libraries of Philadelphia for particulars respecting the New-England Banks that broke previous to the war, but have been able to find no document of any importance, except the report of the committee of the legislature of Rhode Island in relation to the affairs of the Farmers' Bank of Gloucester. Many writers allude to the great distress that the operations of the moneyed corporations produced in New-England about the years 1808 and 1809, but they do not even give a list of the Banks that then stopped payment.

That the distress was great, we have incidental proof in the rigidity of the laws afterwards adopted to enforce specie payments. All experience shows that till the evils produced by moneyed corporations become absolutely unendurable, the proper remedy is not applied.

After the commencement of hostilities with Great Britain, the New-England Banks were obliged, in order to maintain specie payments, to wind up nearly all their credit dealings. This operation necessarily produced much distress, and greatly increased the dissatisfaction with which the people of that section of the Union regarded the war-like policy of government.

The distress does not appear to have terminated with the war. For a Philadelphian, writing in August, 1815, says, after mentioning the curtailments made by the New-England Banks, "real estate would not command prices nigh its former value; merchandise fell greatly below its usual rate; whilst money in the market was worth two per cent. a month. This is the *existing* state of things in Boston. . . . . It is manifest that the operation of the rigid laws of Massachusetts is highly injurious to the commerce of their towns, and we do not see that the boasted capacity of their Banks to pay a *few* notes in specie, renders their situation more enviable than our own."

The natural anxiety of the New-Englandmen to get payment of what was due to them by the people of the middle States, was attributed to ill-feeling. "Circumstances," said a New York writer, "have excited a spirit of envy at our prosperity, which has superadded a restless malignity of effort to increase artificially and aggravate the evils of an unfavorable balance. Whoever has attended to the uniform language of eastern men and eastern writers, cannot have failed to discover this spirit—they will not believe that I speak of its authors with undue severity."

The *apparent* prosperity of the Middle States was such as might well excite envy; but it was a wholesome adversity New-England was experiencing. Her currency could not, indeed, be called perfectly sound, for as appears from Mr. Crawford's report, many of the inconvertible notes of the other States found their way into her territory. But as the people had got them for less than their nominal value, they sustained no other loss except that which arose from the notes undergoing an additional depreciation while they remained in their hands. The standard of value by which contracts were regulated in New-England was not affected; and the Banks being prevented from suspending specie payments, were prevented from exciting a wild spirit of speculation in the people.

The natural consequence of the suspension of specie payments in the other States, was an influx of specie into New-England. That this was very great, may be inferred from the fact that the Massachusetts Banks which had $1,560,004 in specie in 1811, had in 1814, specie in their vaults to the amount of $6,393,718. It was useless to keep such an amount of specie lying dead. The abundant issues of treasury notes by the government afforded easy means of paying duties. There was enough, either of specie or of notes of different kinds in circulation, to supply all the wants of domestic trade. The specie was, therefore, exported with so much rapidity, that the amount in the Boston Banks, which had been $5,466,759 in June, 1814, was by June, 1815, or about five months after the return of peace, reduced to $2,125,076; or, if the amount in the Worcester Bank be included, to about $2,800,000. The exportation of specie did not stop till there was no more left than was just sufficient to support the credit of the notes in circulation: so that when the United States Bank commenced operations, the other States could derive no important supplies of metallic money from New-England.

From a combination of causes, the operations of the United States Bank were of limited extent in New-England. The channels of circulation there were fully occupied by local Bank notes which had never been discredited. The new institution had so little metallic capital, that it could not enter into competition with the local Banks; and all the funds it acquired as receiver of the public moneys at Boston, were wanted to support its operations in the south and west.

Hence, the reaction of 1819 was less sensibly felt in New-England than in other parts of the Union.

The ordinary operations of Banking in New-England, are, however, such as ought to make men lament that the system was ever invented. Expansions and contractions have, as we have before had occasion to remark, a more striking effect on the operations of manufacturers than on those of agriculturists. So facile is production with modern machinery, that a small rise of prices causes a great increase of manufactured articles. In a short time, the Banks are forced to contract. Then there is a scarcity of money and a glut of manufactures. Then the manufacturers petition for new additions to the duties on imports. The tariff is raised accordingly. Enterprise is again awakened. There is a demand for capital: and the Banks supply—credit. There is, however, no more solid ground for an extension of credit after the passage of a new tariff act than there was before. Not more than a year or two elapses before the necessary reaction commences. The manufacturers, again startled with the prospect of ruin, apply for additional "protection." It may be granted; but it is doubtful if any tariff that can be established, will, while this system of money dealings continues, be able to protect multitudes from ruin. We know some very zealous and very intelligent friends of the "American System," who are decidedly of opinion, that if there were no moneyed corporations and no paper-money in the country, the manufacturers would require no protecting tariff. If the excitement in relation to protecting duties were less violent than it is at this moment, we might invite particular inquiry into the effect paper Banking has on manufactures. We might illustrate our argument, by showing the effects expansions and contractions of Bank medium have had on manufacturing operations in England.

The multitude of Banks in New-England, makes it necessary for those concerned in them to resort to a variety of *expedients* to sustain them in their operations. Of these expedients none but the concerned could give a full account: but some idea of their nature may be formed from the disclosures which are occasionally made.

Mr. Niles, in his Weekly Register for September 8th, 1821, for example, gives the following quotations from the New-York Journal: —

"We observe by a notice in the 'Dutchess Observer,' that the farmers of Dutchess county have been *shorn* of all their wool by a most singular operation—or, in other words, that nearly all the wool in that county had been sold to J. Butler, cashier of the Litchfield Bank, who had recently failed, and assigned his factory, wool, &c. to the Bank, as security for his debts, leaving the farmers to suffer.

"The story, as told by one of the shorn, is briefly this: The Wolcotville Factory formerly belonged to Mr. Wolcott, who failed, being largely indebted to the *Bank.* As the Bank is prohibited from buying and selling property, their cashier, Butler, became nominally the proprietor. The belief that James Butler acted in behalf of the Bank, was so universal, that he obtained an unlimited credit. The agents for the factory have recently made large purchases of wool, in the usual manner, upon the notes of James Butler. A great proportion of the wool raised this year in Dutchess county has thus been purchased and carried over to Litchfield, and as soon as the same is well packed away, James Butler, the cashier, is discovered to be a defaulter to the Bank for some 16,000 dollars, and he assigns his factory, and the stock thus fairly and recently acquired, to the Litchfield Bank. The Bank is paid—the farmer has a *Litchfield shearing*—and James Butler, the cashier, is an insolvent."

The art of forming Bank capitals by discounting the stock notes of subscribers, appears to be as well understood in New-England as in Pennsylvania. The Kennebeck Bank, in Maine, had a nominal capital of 100,000 dollars; but an official investigation, in the year 1826, showed that 89,370 dollars of the whole amount consisted of stock notes: that the directors held nine-tenths of the stock, and that they were in debt to the

Bank not only for the amount of their stock notes, but in an additional sum of 34,400 dollars. For two years, this Bank divided 12 per cent. per annum.

CHAPTER XVIII

General View of Banking Operations from 1814-15 to 1820-21

In the tables appended to Mr. Secretary Ingham's Report on the Gold Coinage, the following is stated to have been the price of specie, at the dates and places below mentioned.

1814.	*Baltimore.*	*Philadelphia.*	*New York.*
September	20 per.ct.adv.		
October	15		
November	10		
December	14		
1815.			
January	20		15
February	5		2
March	5		5
April	10		5½
May	14	5	5
June	16	9	11
July	20	11	14
August	19	11	12½
September . . .	20	15	13
October	21½	15	16
November	15	16	12
December	18	14	12½
1816.			
January	15	14	12½
February	13	14	9
March	18	12½	12½
April	23	14½	10½
May	20	14	12½
June	20	16	12½
July	15	15	6
August	12	10	5
September	10	7½	3
October	8	9½	2
November	9	7	1¾
December	9	7	2¼
1817.			
January	3	4½	2½
February	2½	4	2¾

From the rates of exchange on London, in New York and Philadelphia, in the months in which there are blanks in the table, the price of specie appears then to have been a few per cent. less in Philadelphia than in Baltimore; and a few per cent. less in New York than in Philadelphia.

In the Appendix to the Report of the Committee of the Senate of Pennsylvania, the following table is given to show the *discount* on the notes of the country Banks—not as estimated in specie, but as estimated in Philadelphia paper.

BANKS.	1816 May 6.	1816 Nov. 4.	1817 May 5.	1817 Nov. 3.	1818 May 4.	1818 Nov. 3.	1819 May 3.	1819 Nov. 1.	1820 Jan. 31.
Bank of Gettysburgh,	10	9	6	3	4	3	3½	4	3
Harrisburg Bank,	pr	pr	6	5	4	pr	pr	½	1½
Carlisle Bank,	10	9	4	5	2½	3	3½	4	3
Bank of Chambersburg,	10	9	4	3	2½	3	3½	4	3
Westmoreland Bank,	10	9	6	5	2½	10	15	15	12¼
Lancaster Trading Company,	10	9	2	5	2½	3	3	2	2½
Marietta,	10	9	6	5	4	30	35	45	33
Centre Bank,	10	9	6	5	4	10	15	30	25
Farmers' Bank of Reading,	10	9	6	5	1½	2½	2½	15	8
Alleghany Bank,	10	9	6	5	4	10	15	50	50
Germantown,	10	9	6	5	4	pr	pr	pr	par
York,	9	10	6	3	2½	3	3	4	3
Farmers' Bank of Lancaster,	10	9	6	5	4	pr	pr	pr	par
Swetara,	10	9	6	3½	2½	3	4	4	3
Easton Bank,	pr	pr	pr	5	4	pr	pr	pr	par
Pennsylvania Agri. and Man. Bank	10	9	6	3½	2½	10	4		40
Bank of Washington,	10	9	6	5	4	10	15	50	45
Northampton Bank,	10	9	pr	5	4	10	pr	2½	2½
Juniata Bank,	10	9	6	5	4	10	15	50	40
Delaware Bank,	pr	pr	6	5	4	pr	pr	pr	par
Chester County Bank,	pr	pr	6	5	4	pr	pr	pr	par
Bank of Beaver,	10	9	6	5	4	10	15	60	50
Bank of Pittsburgh,	10	9	6	5	3	6	pr	5	4
Huntingdon Bank,	10	9	6	5	4	10	15	30	25
Monongahelia,	10	9	6	5	4	10	15	15	12½
North Western Bank,	10	9	6	5	4	10	15	50	35
Union Bank,	10	9	6	5	4	50	60	50	50
Northumberland, Union & Columbia,	10	9	6	5	4	2½	5	30	20
Bucks County Bank,	10	9	6	5	4		pr	pr	par
Farmers' & Mechanics' Bank of Pittsburg	10	9	6	3½	4	10		50	40
Farmers' & Mechanics' Bank of Greencastle,	10	9	6	5	2½	15	30	50	35
Montgomery Bank,	pr	pr	pr	5	4		pr	pr	par
Silver Lake Bank,	10	9	6	2½	2½	2½	2½	50	40

In his speech of Jan. 2d, 1815, Mr. Webster said, "the depreciation of the notes of all the Banks in any place is, as far as I can learn, general, uniform and equal." In looking through Grotjan's Price Current, we have found the quotations of Pennsylvania and Ohio notes to be, for months together, from five to six, and afterwards ten, per cent. discount, and those of Virginia and North Carolina two to three per cent. So general seemed to be the rate of depreciation for each part of the country, that the names of particular Banks were not given in the Price Current, for more than a year after the suspension of specie payments. While Philadelphia paper, the standard in which they were estimated, was always varying in value, as compared with silver, the notes of most of the country Banks had, as compared with one another, a singular equality of depreciation.

This equality lasted for some time after it became the custom to give regular quotations of the price of Bank paper. It will be seen, by inspecting the table, that in May, 1816, the notes of twenty-seven out of thirty-five country Banks of Pennsylvania, were at a discount of ten per cent. It will also be seen that the discount was diminished with a regularity approximating to uniformity, up to May, 1818. In the succeeding July, the United States' Bank commenced its curtailment: and then the great confusion in exchanges begun.

In other States the confusion was as great as it was in Pennsylvania. This may be seen by the following table.

PRICES OF BANK NOTES

	At New York. April 7th, 1819.	*At Baltimore. August 7th, 1819.*
New England notes,	par to 2 per ct. dis.	1 to 6 discount.
Philadelphia,	par	
Pennsylvania,		1 to 60
Delaware,	4 to 12½	1 to 8 and to 50
Baltimore,	1½	
Maryland,	2 to 20	1 to 40
District of Columbia,		1 to 60
Virginia,	2	1½ to 25
North Carolina,	2 to 3½	20 to 25
South Carolina,	1½	8 to 10
Georgia,	2 to 3	7 to 8
Tennessee,	7	
Kentucky,		15 to 25
Bank of Kentucky,	5	
Ohio Banks,	6 to 15	10 to 50
Unchartered Bank of Ohio,	25 to 75	
Louisiana,	6	
Indiana, Illinois, and Missouri,		15 to 60

Mr. Niles, from whom we have taken the items which form this table, says the prices of Bank notes varied several per cent. in the course of a week. The notes which were at par in one part of the country, were in other parts at a heavy discount. At the same time that exchange at New Orleans on New York was at from seven to ten per cent. discount, exchange at New York or New Orleans was at six per cent. discount. A

Bank's paying specie did not prevent its notes depreciating: for nobody knew how long any distant Bank would continue to pay specie. All the Banks whose notes were at a discount at New York of less than 5 per cent., and some of the others, were understood to pay specie on demand.

Of the increase and decrease of the local currency of Pennsylvania, the reader may form an idea from the following table.

NOTES IN CIRCULATION[20]

	City Banks.	Country.	Total.
Nov. 1814, . .	3,363,802	1,942,479	5,306,281
1815, . .	4,810,507	5,349,247	10,159,754
1816, . .	3,416,248	4,787,722	8,203,970
1817, . .	2,355,694	3,853,866	6,209,560
1818, . .	1,987,945	3,093,966	5,081,911
1819, . .	1,645,000	1,384,325	3,029,325

It will be seen that the great increase in circulation took place in the year after the war. Great as it was we ought not to wonder at it. The Government's receiving inconvertible paper in payment of duties, was quite as efficient a sanction of the continued suspension of specie payments as could have been afforded by an act of Congress passed with that express intent. What Government is willing to receive, individuals having payments to make to Government will not refuse. Institutions which are founded for private profit, must always be expected to take advantage of so many opportunities of acquiring gain as the policy of Government will allow, or its necessities compel it to afford.

In the year 1815, ten months and a half of which were months of peace, the Government issued twenty millions in treasury notes. As such of these as were of a less denomination than one hundred dollars bore no interest, they directly increased the amount of paper medium. The others, as has been shown in another chapter, indirectly increased the circulation of the Banks, as those institutions gave their own inconvertible notes in exchange for treasury notes.

In 1816 there was a reduction of about twenty-five per cent. in the circulation of the Banks of Pennsylvania, and a very great reduction in the circulation of the Banks of the adjoining States. Of the manner in which this was effected, we will let the Secretary of the Treasury speak.

[20]The returns of the Farmers and Mechanics' Bank, in 1814, were for August 2d: those of the Pennsylvania Bank for August 30, and those of the Philadelphia Bank for September 1st. The returns of the other Banks were for November. No return was made in any of these years of the circulation of the Bank of North America.

"At a moment when excessive importations of foreign merchandise had involved the mercantile and manufacturing interests in the greatest distress, and menaced them with impending bankruptcy, reason, humanity, and sound policy, all united against the curtailment of Bank discounts. Yet, so far as the knowledge of the Secretary of the Treasury extends, the reduction of the circulating paper has in no instance been attempted by the sale of the public debt held by the Banks. Curtailment of discounts has been the only process resorted to by them, where any efforts have been made to prepare for the resumption of specie payments. The disregard to individual suffering manifested by this procedure in the State Banks has been the result of a conviction, that when the national currency shall be restored by the efforts of the Government and the Bank of the United States, the public debt will be increased in value."

This is true. But when we establish institutions to which it is impossible to impart moral responsibility, we ought not to expect them to pay much regard to "reason and humanity." The Banks acted with sound "policy" in regard to their own interest, in pressing on the community and in holding on to the public stocks.

In 1817, there was a further reduction in the circulation of the Pennsylvania Banks, but the deficiency was supplied by the issues made by the United States' Bank. The returns of the Pennsylvania Banks, for 1818, were made some months after the Bank of the United States had begun its grand curtailment.

The local Bank mania may be said to have raged with more violence in Pennsylvania in the year 1815, than at any other period: but, if we take the Union throughout, the mania did not reach its height till the spring of 1818, or three years after the close of the war. It was in this year that Vermont, which had been without Banks since the grand New England explosion of 1808-9, began to revive the system: and the passion for multiplying paper issuing institutions became so great, that Mr. Niles was forced to exclaim—"We see every where new Banks establishing or attempting to be established. Behold forty-three new Banks authorized in Kentucky—half a score in Tennessee—eight in Ohio—a mob in little Rhode Island—some in Virginia, Massachusetts, &c.—sixteen petitioned for in New York—and some wanted in Pennsylvania—half a dozen new ones in Maryland—and from fifty to a hundred more proposed in various parts of the United States."

Only three months after Mr. Niles had indited this paragraph, the United States' Bank was compelled to commence that course of measures, the effects of which have been narrated in our previous chapters.

The author of the pamphlet signed "A Friendly Monitor," says, "Every inquiry I have made has entirely convinced me, that every formidable difficulty with which the Bank has had to contend, has been produced by its agency for the Government, and particularly by the too rapid reduction of more than eighteen millions of the public debt, between the months of June 1817, and November 1818, and the utter impracticability of converting in due time any reasonable portion of the specific public deposits into such funds as the public creditors were entitled to demand, without hazarding the prostration of many respectable institutions."

As Banks are the creatures of Government, all the evils they produce must be ascribed to the Government. It is to afford opportunities for speculation to themselves, their personal friends and their political partisans, that our law-givers establish Banks. It was through the attempt to carry on the war by means of Bank notes and Bank credits, that the suspension of specie payments was produced. It was through the connivance of the Government, that the suspension of specie payments was so long continued. It was through the issue of treasury notes, that the amount of Bank notes in circulation was immediately increased. It was that a large amount of public stock might be absorbed, that a Bank was instituted with a capital of thirty-five millions, when there was not room for a credit Bank with a capital of thirty-five thousands. No doubt, also, the disinclination of the Government to suffer the Bank to retain the eighteen millions of public moneys, mentioned by "A Friendly Monitor," had its effect. If the Government had been content to continue to pay the interest on a corresponding amount of public debt, and to let the Bank keep eighteen millions of the public money for its own uses, the crisis might have been—we will not say averted, but it might have been delayed. If it had been delayed, the evil would have been increased. The notion of the early administrators of the Bank of the United States, appears to have been, that the Bank should do a business bearing the same proportion to its great capital, that the business of the local Banks bore to their small capitals. If the payment of any portion of national debt had been deferred to suit their convenience, they would have made a corresponding increase in their business. Even as it was, we have found them complaining, in the spring of 1818, that they could not sign notes fast enough: and the report of the committee of Congress shows, that all the energies of the directors were exerted to increase the circulation, extend the general dealings of the Bank, and raise the price of the stock in the market.

Other men in their situation would probably have acted as they did. It is of very little moment whether it is Mr. WIGGINS or Mr. SPRIGGINS that is president of a Bank, of whether the JONES' or the GILES' are directors. *The fault is in the system.* Give the management of it to the wisest and best men in the country, and still it will produce evil. No new principles of action were introduced by the early administration of the United States' Bank. If the members of Congress who granted the charter did not know that the usual way of paying all instalments after the first is by discounting stock notes, they had not much acquaintance with either the theory or the history of Banking. As little credit must be given them for intelligence in respect to money corporations, if they did not know that the practice of those who wish to get the control of such institutions is, to divide their shares, as was done by certain gentlemen in Baltimore and others in Philadelphia. It was not, surely to be expected, that men who associated with the professed design of making profit for themselves, and who admitted the Government as a partner, should trammel themselves with restrictions which the Legislature had, either through design or oversight, failed to impose. If the courts of law have not absolutely decided that whatever is not expressly forbidden is granted in a charter, the Banks find it very convenient to act on such an assumption.

The history of the country from 1814 to 1818, exhibits nothing more than the natural results of Banking by corporations, and with paper-money, while the Government, embarrassed in its fiscal concerns, wanted the inclination or perhaps the ability to apply an adequate remedy. The reaction of 1818-19 was only the natural result of the different operations of the preceding years. The irregular Banking in the South and West in subsequent years, is only a link a little lower down in the same chain of consequences.

It would appear as if the suspension and resumption of specie payments might have been productive of little embarrassment, comparatively speaking, if the Government had, immediately on the close of the war, refused to receive inconvertible notes in payment of duties. The few Banks which then existed in Ohio and Kentucky had suspended payment only a month or two. The Bank of Nashville actually maintained specie payments. The dealings of the Banks in the Southern States were of moderate extent. The new Banks of Pennsylvania were not yet in full operation. The principal part of the over-issue was by the Banks of the great cities of the Middle States, and these Banks might, by a sale of the public stocks they held, have obtained the means of redeeming their excess of paper.

If this had been done we should have escaped the particular evils recorded in the foregoing chapters, but we should probably have experienced evils proceeding from the same source in another form. It was four or five years before the war, that Banking in New-England produced consequences similar to those felt in the other States four or five years after the war. As the mania spread through New York, into Pennsylvania, and thence South and West, Banks were established without those restrictions which experience in New-England had proved to be necessary.

To impose such restrictions would, in fact, have been hardly in accordance with the philosophy of the day. A ruling principle in this was, as may be seen by the quotations we have given from the writings of various eminent men, that inconvertible Bank notes, if they were not quite as good as gold and silver, were very little inferior to them as a circulating medium. Many of our readers may smile at such notions now; but perhaps if they had lived in those days, they would have thought as their neighbors thought. Perhaps the present popular notions on the subject of Banks, will, some twenty years hence, be regarded in the same light as those notions of the anti-bullionists are at the present period.

That "*love* of money which is the root of all evil," and which, operating through the medium of incorporations and paper bills, is productive of so much evil, would have brought on the nation great calamities, if we had remained at peace. The war, and the measures consequent thereon, gave that evil its particular form and feature. It is that same "love of money" which now gives plausibility to the sophistry by which the present Banking system is supported, as well in the minds of those who suffer as in the minds of those who are benefitted by the system. Hence it is that the former are so easily persuaded that what is gained by the use of paper money is so much gained by the nation, and not so much gained by *one part* of the nation from *another part.* It is so hard for any man, be he merchant, or be he drayman, to be content with his earnings—we are all so anxious to become rich in a hurry, that we readily become the dupes of one another, and sometimes in our haste we dupe ourselves.

CHAPTER XIX

Of Banking from 1820-21 to 1825-26

To tell of all the expansions and contractions that have occurred since the first grand curtailment was made by the United States' Bank, would require a large volume. Our country is so extensive, and the causes that affect Bank medium are so various, that, while one part of the Union is suffering all the evils of scarcity of money, another may be in the height of that apparent prosperity which is produced by an increasing paper currency. It is by no means unusual for a contraction to begin on the sea-board, before the full effects of the previous expansion have been felt in the interior; or for expansions to recommence on the sea-board, soon after the inland Banks find the necessity of restricting the issues.

Each Bank has its own sphere of operation, within which there may be contractions and expansions not sensibly affecting any but those within that sphere. But, from desire to increase their profits, the different Banks not unfrequently encroach on each other's spheres, by which more extensive disorders are produced. The action of the Banks among themselves has been compared to that of so many drunken men passing along the street together, occasionally supporting one another, and occasionally knocking one another down. Their motion is vacillating, tottering. It is seldom in a straight line.

An attempt to enumerate all the vibrations of Bank medium, would therefore be idle. But, from a careful inspection of files of the United States Gazette for 1821 and 1822, and of the Philadelphia Gazette for subsequent years, we are able to give the following view of variations of the money market, embracing all the most important expansions and contractions.

1821. Business dull in the beginning of the year. The effects of an expansion apparently commenced in the Spring, begin to be felt in June or July, and by October the spirit of speculation is tolerably active.

1822. A reaction commences in May, the effects of which are felt through the rest of the year.

1823. The Bank of the United States receives the notes of all its branches, and begins to extend its operations.

1824. The Banks increase their issues, and the spirit of speculation becomes excited.

1825. The consequences of the great reaction of 1818-19 are not over in the interior: but on the sea-board the effects of the expansion, begun in 1823 and continued through 1824, are felt in the rise of property and general briskness of business. In July or August a violent reaction commences.

1826. The effects of the reaction are felt through the greater part of the year.

1827. Money plenty. The United States' Bank commences issuing Branch drafts for small amounts.

1828. Sudden and alarming scarcity of money in May, and again in September.
1829. Money is scarce till July. It afterwards becomes plenty.
1830. Money plenty.
1831. Money very plenty till October. Then a reaction begins.
1832. Money scarce. Towards the close of the year, the pressure abates in Philadelphia: but it is not apparently diminished in some other parts of the country.

In the Middle States are placed the United States' Bank, and some of its most important branches, and here are collected and disbursed the greater part of the public revenues. The heart of the Banking system is here, and while it is affected, in a greater or less degree, by whatever affects the extremities, it, in its turn, has a powerful operation on the remote parts of the Union.

In the years 1820 and 1821, the Banks of the Middle States settled down into what Mr. Niles calls a state of regularity. The notes of many of them became mere broker's merchandise, and the discount on those which remained current, did not exceed the cost of transporting specie from the place where they were issued to the place where they were circulated.

A fair field was then first opened for the credit operations of the Bank of the United States. But by this time confidence was destroyed, and the spirit of enterprize was chilled. "There is now," says Mr. Niles, on the 3d of February, 1821, "little demand for money, except to answer the current purposes of life, and pay old debts, for either of which it is difficult enough to get, though apparently abundant enough." The capitalists of New York made great complaints in March of the difficulty they found in investing their funds: though at this very time, the country papers were teeming with advertisements by the sheriff; and three hundred and fifty persons in Baltimore made application, in the month of May, for the benefit of the insolvent laws of Maryland. A tradesman in Philadelphia advertised for a shop boy, and fifty applications were made for the place in three days. The building of a new ship excited quite a sensation, as something out of the common order of things. The fear of moneyed men to embark in new enterprizes, left many laboring people without employment. Solvent men had little disposition to borrow, for they could not tell if prices had yet reached their lowest limit, or form a satisfactory conclusion as to the state of affairs in coming years.

In the interior of Pennsylvania, the people were clamorous for the establishment of a State Loan Office. Nor is this to be wondered at. In the month of June, the Sheriff of Bedford filled two newspaper columns and a half with his advertisements: and the Sheriff of Berks offered for sale 3000 acres of land, besides town lots. In August, fifty-seven farms were advertised for sale by the Sheriff of Westmoreland, sixty-three pieces of property by the Sheriff of Northampton, and thirty-seven by the Sheriff of Mifflin. In October, the Sheriff of Cumberland advertised for sale 2,380 acres of land, besides twelve town lots with handsome improvements: and in December, the Sheriff of Berks offered for sale the property of forty persons. From the state of things in six of the fifty-two counties of Pennsylvania, the reader may form some idea of the condition of affairs generally.

In April or May, 1821, as nearly as can be ascertained, the city Banks began to expand, and the effects of this expansion were sensibly felt in August, and still more sensibly in October. Tired of a protracted state of inactivity, many men began to employ their capitals and their credit, at a risk rather than on calculation. For some months things wore a pleasing aspect: but in April and May, 1822, the prospect was again clouded over. Some kinds of imported goods fell 15 per cent. in Philadelphia; and United States' Bank stock, which had been held at 115 in February, was sold in New York on the first of May at 102, and fell before night to 98½.

Other kinds of public securities experienced a depreciation, but the fall in United States' Bank stock being greatest, naturally attracted most attention. It was attributed by some to the machinations of brokers, and by others to a loan of five millions made by the Bank to the Government, and to the quantity of stock hypothecated to the different Banks and insurance offices in New York and other places.

It is certain that the evils produced by paper-money Banks, are greatly increased by the dealings of these institutions with Government. The transactions are so large as usually to derange the regular train of mercantile operations. The heavy deposits of Government enable the Banks, at times, to extend their discounts further than is proper. Their payment of these deposites, and the making of heavy loans to Government, usually compel them to curtail their accommodations to men of business.

But it is of less moment for us to know what particular operations of the Banks caused the sufferings of 1822, than to know that these sufferings were the consequences of over-trading produced by over-banking. That there was an excess of paper issues in part of 1821 and 1822, is evident from the fact that, according to the official returns, the exports of specie in the year ending September 30th, 1822, amounted to

10,781,933 dollars, and those of bullion to 28,248, while the imports of specie for the same period amounted to only 2,958,402 dollars, and those of bullion to 411,444. A Boston paper says that from the 1st of January to the 1st of June, 1822, the imports of specie into that port amounted to only 70,000 dollars, while the exports, in the same period, to the East Indies, Brazil, England, and Cuba, amounted to one million two hundred and five thousand five hundred and six dollars. At one time in 1821, there were 2,434,000 dollars in specie in the vaults of the Boston Banks, and by June, 1822, this amount was reduced to 430,000. In the same period, the specie in the vaults of the United States' Bank and its branches was reduced from 7,643,140 to 3,334,452 dollars.

On the 29th of June, Mr. Niles remarked that forty-two merchants of Boston had stopped payment within the period of a month; and on the 3d of August, he made a quotation to the following effect from a Salem paper: "We regret to learn that failures continue to take place almost daily at Boston, some of them of persons extensively engaged in commerce. We are informed that within the last two months, there have been more than eighty failures in that city. The embarrassment, distress, and alarm, which such a state of things must necessarily produce, are indeed a serious calamity." The amount of these failures, for the last two months, adds Mr. Niles, is said to be more than three millions of dollars.

There were also failures in New York, and many of the operative manufactures of Philadelphia were deprived of employment.

Throughout the year business was very vacillating. In the latter part of it, there appears to have been another sudden shock given to trade; for it is mentioned in the United States Gazette of December 13th, that some species of cotton and woollen goods had fallen fifty per cent. in the course of a few weeks.

Bills on London, which were at 111½ a 112½, in February, 1822, were quoted in the Philadelphia Gazette of May 14th, 1823, at 104½. The true par being, according to Mr. Gallatin, seven per cent. above the nominal par, the foreign exchanges were decidedly in favor of the country. A combination of causes compelled the Banks to be cautious this year in their operations. The condition of things in the Southern and Western parts of the Union, prevented the United Sates' Bank from extending its dealings as far as it desired. The Pennsylvania Banks felt the uncertainty of their fate. The charters of many of them were about expiring, and applications for a renewal of them, made to the Legislature in the sessions of 1821-22, and 1822-23, had been defeated. The city of New York was flooded with the notes of a number of small institutions in the country parts of that State, and of other States. These notes, though they were not on a par with specie, constituted the principal medium of retail trade.

The Bank interest was very powerful in the Pennsylvania Legislature in the session of 1822–23; but the dominant party feared to pass a bill to extend the charters of the Banks of 1814, as it might have an unfavorable effect on the election for Governor in October. When the election was over, the chief obstacle to the operations of the Banking interest was removed, and a bill was passed in March, 1824, for re-incorporating *every one* of the Banks of 1814 which had applied for a renewal of its charter.[21] About the same time, the Bank mania broke out afresh in some of the other States, and it seemed, in the latter part of 1824, and the beginning of 1825, as if the days of 1815 and 1816 were about returning in America, and those of the South Sea bubble in England.

The infatuation, if we may be permitted to call it by so mild a name; was most violent in New York. The speculators of that city, not content with such privileges as their own Legislature could bestow, prevailed, by means of bonuses, on the Legislature of New Jersey to establish a string of small moneyed corporations along the shore of the North River; and, in defiance of the statutes of Pennsylvania, took possession of coal lands within her limits, under the color of charters granted by another State. Their own Legislature they besieged in every possible form. During the session which commenced in January, 1825, application was made for charters for new Banking, Insurance, and other companies, with nominal capitals of the amount of *fifty-two million dollars.*

Money was never more abundant, if a judgment could be formed from subscriptions to the stock of such companies as succeeded in their applications for charters. Three million dollars were subscribed in one day, in January, to the stock of the New Jersey Lombard and Protection Company, though its capital, as fixed by law, was only three hundred thousand dollars. Nine million dollars were subscribed in April to the New York Water Works Company, and by some contrivance its script was raised in the market to thirty per cent. above par. Thirteen million were subscribed in May to the stock of the Delaware and Raritan Canal Company. Between the 5th and the 16th of February, the stock of the New York Gas Company advanced 28 per cent., and was sold at 178.

It was not alone in dealings in the stocks of chartered companies that great activity prevailed. More commercial business was said to have been

[21]The Silver Lake Bank is perhaps an exception. Its charter was renewed, but we are not certain whether it was at this or at a succeeding session.

done in Philadelphia, in the month of February, than in any one month of the preceding ten years. The Banks were liberal in their discounts, and the spirit of speculation showed itself in various forms.

While the public mind was in this state, seven expresses arrived at Philadelphia from New York in one day (April 9th) with news of a great rise of prices in the markets of Liverpool and London. The effect was electric. Twenty-seven cents were offered for Upland cotton, and refused, though the holders would, a week before, have been happy to obtain twenty cents. Cotton yarn, No. 15, rose from 35 to 45 cents. Muscovado sugars advanced a dollar a hundred. St. Domingo coffee rose from 17½ to 21 cents a pound. Quercitron bark rose from 27 dollars a ton to 35 dollars. The rise in the prices of tobacco, drugs, and spices, was very considerable.

Every body was in haste to grow rich: and the cotton dealers were regarded with special envy. It was currently rumored that such a man had made 20,000 dollars in one day; such another, 30,000; such another, 40,000, and such another 50,000. Some firms, if reports were to be believed, had realized 100,000; while the computed or prospective gains of others were swelled to nearly half a million.

In New York, the speculations were carried to a much greater extent than in Philadelphia; and despatches sent to the South spread the infection through all that region. The Charleston Patriot, to show the state of feeling, mentioned that "the same parcel of cotton had changed owners six or seven times within a week, without leaving the hands of the factor." It was in this year, that the growing crop of corn was rooted up in some parts of the Southern States, to make room for new plantations of cotton.

The cotton mania continued to rage, with more or less violence, through the months of May and June. But in July news was received of a decline of 3d. a pound in the price of cotton at Liverpool, and a pressure for money was soon felt in New York. In the next month, the pressure increased, and between August and December, there were fifty failures in New York, and thirty in the Southern cities. Towards the close of the year, the pressure for money in Boston was very alarming. Exchange on England, which was at five per cent. in the spring, rose to ten per cent. in September. New Orleans notes, which were at two or three per cent. discount at Philadelphia in the spring, fell on the 21st of September to fifteen per cent., and were quoted on the 28th of the same month, at fifty-six per cent. below par. On the 4th of December, the same notes were quoted at only four per cent. discount, exhibiting a remarkable example of rise and fall in the space of a few months.

Many of the Banks were in great difficulties. Several of them broke. And such were the straits of the United States' Bank, that one of the directors talked publicly on the Exchange at Philadelphia of the expediency of suspending specie payments.

Mr. Biddle, the President of the United States' Bank, says, "The fall of 1825 was probably the most disastrous period in the financial history of England. It was then that the wild speculations in the American mines, and the still wilder speculations in American cottons, recoiled upon England, and spread over it extensive ruin. In the midst of this suffering, it required little to produce a panic, and accordingly there ensued a state of dismay, which, for a time, threatened to involve all interests in confusion. There was, probably, at no period of English history, so intense and general a distress as there was in December, 1825.

"Now, the very same storm which thus broke on England, passed over this country a few weeks before: it was on the eve of producing precisely the same results; and certainly I have never felt any uneasiness about the Banks of this country except on that occasion. Just as the difficulties were commencing, the Government paid off, on the 1st of October, a loan of seven millions, of which $3,366,761 64 were payable in Philadelphia. The payment of this sum by the Bank, of course diminished its means for active business, and brought it largely in debt to the State Banks both of Philadelphia and New York. It became, therefore, an object of extreme solicitude to prepare for the relief of the community, and provide for the danger which was obviously approaching.

"The first object of the Bank was to relieve itself from the debt which the payment of the seven millions threw upon it. Accordingly, it began by making sales of its funded debt and Bank stock at New York, and Boston, and Philadelphia, amounting, in the month of October, to $1,828,210 19 in funded debt alone, and by husbanding all its means till it could place itself in a state of perfect security.

"By the first of November, the Bank was extricated from debt, and continued daily to strengthen itself. In the midst of the difficulties of the community, two circumstances contributed to increase them: the one was a heavy demand for specie for the use of the British army in Canada; the other was a similar demand for specie, to pay the instalments of a new Bank then recently established at New Orleans. This want was to be supplied before any ease could be extended to the community, and it was pressing with extreme urgency. The effect of it was to inspire a general distrust and alarm, and, by the middle of November, all the indications, which it was impossible to mistake, denoted an approaching panic, which would have been fatal to the country. If the strength and wealth of England could not withstand such an alarm, its effects on this country would have been incalculable. That moment seemed to me to be the very crisis of the country, to be met only by some decided and resolute step, to rally the confidence of the community. In such a situation I did not hesitate on the course which my duty prescribed. I went immediately to New York, where I sought the gentleman who was preparing to draw specie from the Banks of Philadelphia, in order to send it to New Orleans, and gave him drafts on that city. These drafts were not given to protect the Bank itself, which was then a creditor of the Philadelphia Banks for more than the amount of them, but they were employed to arrest from these city Banks a drain which could not fail to embarrass them. I then endeavored to ascertain the real state of things by separating the danger from the alarm, and having done so, on the 22d of November, the letter annexed was addressed to the Branch at New York, suggesting the propriety of increasing its loans.

"From this moment confidence revived, and the danger passed. I then thought, and still think, that this measure, the increase of the loans of the Banks, in the face of an approaching panic, could alone have averted the same consequences, which, in a few days afterwards, were operating with such fatal effect upon England. I have never doubted that the delay of a week would have been of infinite injury, and the prompt interposition of the Bank was the occasion of protecting the country from a general calamity."

It is very possible that the means taken by Mr. Biddle were the only ones by which a panic could be prevented: but, what ought we think of a system by which the pecuniary salvation of the country is made to depend on one man's hurrying by night from Philadelphia to New York, to prevail on another man to accept drafts on New Orleans in place of specie? The establishment of a new Bank is, in the United States, an event of every day occurrence: and the business is so well understood, that the amount of specie required for such a purpose is very trifling. What sum was wanted for the use of the British army in Canada, is not mentioned; but as the British Government must have given an equivalent for it, it diminished, in the same amount, the demand for remittances to England. If there had not been the two particular demands mentioned by Mr. Biddle, there would have been demands for something else.

There is what Mr. John Quincy Adams calls, "a galvanic sympathy" between the paper-money Banks of different countries: and it is certainly no small objection to our present system that it makes us liable to be affected injuriously by every derangement in the currency, commercial concerns, or financial affairs of Great Britain. So intimate and so manifold are the connections of the two countries, that an expansion or contraction never takes place in England, without being accompanied or followed by an expansion or contraction in the United States. We have, also, expansions and contractions independent of those of Great Britain: but when the causes of the variations of Bank medium operate simultaneously in both countries, the effects are very striking.

The state of confidence between man and man, and the state of the currency in some parts of the Union, were not such as to admit of as great an increase of Bank medium in the United States as took place in England in 1824 and 1825. The effects of the great reaction of 1818–19 were not yet over. In Kentucky, society was in a state bordering on anarchy. In Alabama and Tennessee, the paper of the local Banks was much below par. Ohio, Indiana, Illinois, and Missouri had not recovered from the effects of the relief system. The currencies of Georgia and North Carolina were very vacillating. The city Banks of New York had for two years, beginning with the summer of 1823, been endeavoring to restrict the petty Banks of their neighborhood, and in so doing had limited their own circulation. In New-England there was a war between the allied Banks of Boston and the country Banks, which caused a great pressure for money in the Eastern States, in the month of May, or at the very time when there was so much commercial activity in the southern cities. In the interior of Pennsylvania. the sheriffs had not yet got through the duty of selling the estates of those who had been made bankrupt by the operations of the years 1818 and 1819.[22]

While the country was in this condition, it was impossible for Banks maintaining specie payments to make any great addition to their issues. In point of fact, the actual increase of Bank currency in 1824 and 1825, appears not to have been very great: but the state of affairs was not such as to admit of any increase of credit dealings, without jeopardizing a great variety of interests. It was owing to this, that, though the expansion was

[22]The Sheriff of Adams County advertised thirty-three estates for sale in the month of May. The Juniata Gazette, on one day of July, contained thirty-two advertisements by the Sheriff. The Sheriff of Fayette, in the month of June, offered for sale 118 tracts of land, containing 45,000 acres, or one-eleventh part of the county. Most of this was the property of one person. In the same month the Sheriff of Bedford offered for sale twenty-three estates, and the Sheriff of Westmoreland, twenty-six. In December, 48 estates, containing together 3342 acres of land, with farm houses, barns, grist mills, and other improvements, belonging to thirty-one different persons, were offered for sale by the Sheriff of Berks.

such as might under other circumstances have been regarded as inconsiderable, the effects of the necessary reaction were felt through the greater part of the year 1826, in a general dullness of business. In the Southern States, the consequences were most trying, as the high price of cotton had led to an over-extension of the culture of that article, and as the planters, encouraged by the demand for their staple, had plunged themselves in debt to support their style of living. The manufacturers of cotton were, also, great sufferers. Cotton cloth which it cost 18 cents a yard to import in 1825, was imported in the spring of 1826, at 13 cents. It was said that of four thousand weavers employed in Philadelphia in 1825, not more than one thousand had employment in May 1826.

It must be admitted, however, that the reaction was attended with one good effect, and that was in checking the operations of the New York speculators. Unaffected by all the disasters which the community were suffering, they made application to the Legislature, at the session commencing in January, 1826, for charters for *twenty-seven* new Banks in the city of New York, with nominal capitals of 22,500,000 dollars, for *thirty-seven* new Banks in the other parts of the State, with nominal capitals of 13,250,000 dollars, for *twenty-six* other joint stock companies in the city of New York, with capitals of 14,350,000 dollars, and for *thirty-three* in other parts of the State with capitals of 5,437,000 dollars, making in all 123 Banking and other joint stock companies, with nominal capitals of the amount of 55,537,000 dollars. The Legislature having at its previous session incorporated *twenty-two* Banks and loan offices, and *twenty-six* insurance companies, prudently refused to extend the system any further for the present.

The wisdom of this course soon became manifest. In April, 1826, the Marble Manufacturing Company, a newly instituted, bond-issuing concern, became bankrupt. This was followed in July by the bankruptcy of the Dundaff and New Hope Banks of Pennsylvania, the Jersey City Bank and Paterson Bank of New Jersey, the Green County Bank of New York, the United States' Lombard, the Franklin Manufacturing Company, the Hudson Insurance Company, and the New York Life Insurance Company; these were again followed, in August and September, by the bankruptcies of the New York Mount Hope Loan, the Sun Fire Insurance, the Greenwich Insurance, and the Protection Fire Insurance Company.

When an injunction was issued in the case of the Tradesman's Bank, a run commenced on all the Banks of the city of New York. It is probable that if they had been exposed to such a run twelve months sooner, very disastrous consequences would have ensued. But by this time the foreign demand for specie had abated. The exports of gold and silver from the port of Philadelphia in the months of June and July were only 500,501 dollars, against 2,136,151 in the corresponding months of 1825. Credit dealings having been diminished, and the amount of spècie in the country having been increased, the New York City Banks were enabled to save themselves, and thereby to save all the Banks from Maine to Louisiana; for a stoppage of payment by them, would have produced a run on all the Banks in the Union.

The bankruptcy of some of the New York moneyed corporations, revealed secrets to the public which led to a legal investigation, and as it is always the practice of the world to punish unsuccessful villainy, some of the concerned were severely dealt with. Previous to passing sentence on them, Judge Edwards made following observations: "During the trials which have taken place at the present term of this court, we have witnessed displays of depravity on the part of the agents of moneyed institutions of the most appalling nature. As common as crimes are in all great cities, yet this community was not prepared to expect from the *class of society* to which the perpetrators of the crimes belonged, a *burst* of such iniquity. Their offences have been characterized by breaches of official and personal confidence; by a course of misrepresentation and deception systematically pursued, and by injurious and crafty devices which no ordinary prudence could guard against. Nor was this all. Among the actors in those scenes were some of the principal agents in the management of moneyed institutions, and they have been found actually combining and conspiring together for the accomplishment of their nefarious purposes.

"From combinations of men of so much talent, availing themselves of their high standing, it is not surprising that they should have swept society with the besom of destruction. When crimes of such character, attended with such destructive consequences abound, it behooves the tribunals of justice to gather themselves up to meet the occasion, and to extend, as far as in them lies, the protecting arm of the law."

The court sentenced two of the persons who were convicted to imprisonment for two years, and two others for one year.

A writer in a New Hampshire paper, says, after briefly relating these facts—"In some of the other States, justice has too long slumbered. The guilty have escaped with impunity, but the innocent and unsuspecting have been plundered without redress."

CHAPTER XX

Of Banking from 1826-27 to 1828-29

Mr. John F. Watson, the Cashier of the Bank of Germantown, in his "Annals of Philadelphia," gives the following testimony of an ancient lady, respecting the manner in which commercial affairs were conducted previous to the Revolutionary War. "If a citizen failed in business, it was a cause of general and deep regret. Every man who met his neighbor, spoke of his chagrin. It was a rare occurrence, because honesty and temperance in trade were then universal."

In another part of his book, Mr. Watson speaks of the changes which have in this respect taken place, within his own short period of observation. "When I was a boy, as none got suddenly rich by monopolies, they went through whole lives gradually but surely augmenting their estates, without the least fear of misfortune or bankruptcy. When it did rarely occur, such was the surprise and general sympathy of the public, that citizens saluted each other with sad faces, and made their regrets and condolence a matter of common concern. An aged person has told me, that, when the proprietor of that large house, formerly the Post Office (now the National Hotel) at the corner of Chestnut Street and Carpenter's Court, suddenly failed in business, the whole house was closely shut up for one week, as an emblem of the deepest family mourning, and all who passed the house instinctively stopped, and mingled the expressions of their liveliest regret. Now how are changed matters in those particulars."

They are so changed, that a certain number of bankruptcies and insolvencies in the course of a year, are regarded as being as much within the order of nature as a certain number of deaths. Periodical redundancies and scarcities of money are looked for as naturally as cold in winter or heat in summer. If a great storm occurs, or a pestilence sweeps over the land, the journalists record it: and so they record great pressures for money, but they think no more of noting the effects of ordinary "expansions" and "contractions" than of noting the ordinary variations of the weather.

A gentleman who resided for twenty-five years in the town of Barcelona, a town which does most of the import and export business of the fertile and industrious province of Catalonia, has told us that during the whole period of his residence there, but one bankruptcy occurred. It may be difficult for many Americans of the present day to conceive such a state of things to be possible. But it is possible; and a faithful relation of the pecuniary vicissitudes of one of our ordinary years, might be received as incredulously by many plain Swiss and Hollanders, as some Americans receive accounts of countries and cities where bankruptcies and insolvencies are events of rare occurrence.

But, to return to our narrative. By September, 1826, the violence of the reaction which followed the expansion of 1824-25, had subsided: and through the year 1827, things went on smoothly. The two first months of 1828 also passed over without any convulsion: but in the beginning of March, a sudden and unexpected scarcity of money was felt in Philadelphia.

If we were engaged in frequent wars, or if the state of the world at large was such as it was in the twenty years which followed the French Revolution, ingenuity might be able to give a plausible view of the causes of the frequent scarcities of money, independent of the operations of Banking institutions. But we have enjoyed peace for seventeen years in succession. Most other commercial countries have been in the enjoyment of peace. It has, therefore, become impossible to conceal from observers, the effects which paper money Banking institutions have on commercial affairs. That the scarcity of money in 1828 was owing to their operations, was so evident, that no body doubted, nobody disputed it. No other cause could be assigned for it. And Mr. Biddle, the President of the United States' Bank, published an essay in the National Gazette, on the 10th of April, in which he gave the following elegant and lucid exposition of one of the causes of the evils the community was then suffering.

"The question is, what is the cause and the nature of the present scarcity of money?

"The answer is easy.

"The currency of the United States consists of coin, and of Bank notes promising to pay coin. As long as the Banks can always pay the coin they promise they are useful, because, in a country where the moneyed capital is disproportioned to the means of employing capital, the substitution of credits for coins enables the nation to make its exchanges with less coin, and of course, saves the expense of that coin. But this advantage has by its side a great danger. Banks are often directed by needy persons, who borrow too much, or by sanguine persons, anxious only to increase the profits, without much pecuniary interest or personal responsibility in the administration. The constant tendency of Banks is, therefore, to lend too much, and to put too many notes in circulation. Now, the addition of many notes, even while they are as good as coin by being always exchangeable for coin, may be injurious, because the increase of the mixed mass of money generally occasions a rise in the price of all commodities. The consequence is, that the high price of foreign productions tempts foreigners to send a large amount of their commodities, while the high price of domestic productions prevents these foreigners from taking in exchange a large amount of our commodities. When, therefore, you buy from foreigners more than they buy from you, as they cannot take the paper part of your currency, they must take the coin part. If this is done to a considerable extent, the danger is that the Banks will be obliged to pay so much of their coin for their notes as not to leave them a sufficient quantity to answer the demand for it, in which case the Banks fail, and the community is defrauded. To prevent this, a prudent Bank, the moment it perceives an unusual demand for its notes, and has reason to fear a drain on its vaults, should immediately diminish the amount of its notes, and call in part of its debts. So, on a large scale, when the Banks of a country perceive such a demand for coin for exportation as diminishes too much the stock of coin necessary for their Banking purposes, they should stop the exportation. This they can always do if their affairs have been well managed: and here lies the test of Bank management.

"The law of a mixed currency of coin and paper is, that when, from superabundance of the mixed mass, too much of the coin part leaves the country, the remainder must be preserved by diminishing the paper part, so as to make the mixed mass more valuable in proportion. It is this capacity of diminishing the paper which protects it. Its value consists in its elasticity—its power of alternate expansion and contraction, to suit the state of the community; and when it loses its flexibility, it no longer contains within itself the means of its own defence, and is full of hazard. In truth, the merit of a Bank is nearly in proportion to the degree of this flexibility of its means. If a Bank lends its money on mortgages, on stocks—for long terms, and to persons careless of protests, it incurs this great risk, that, on the one hand, its notes are payable on demand, while, on the other, its debts cannot be called in without great delay—a delay fatal to its credit and character. This is the general error of Banks, who do not always discriminate between two things essentially distinct in Banking, a debt ultimately secure, and a debt certainly payable. But a well-managed Bank has its funds mainly in short loans to persons in business—the result of business transactions—payable on a day named, which the parties are able to pay and will pay at any sacrifice, in order to escape mercantile dishonor. Such a Bank has its funds, therefore, constantly repaid into it, and is able to say whether it will or will not, lend them out again.

"A Bank so managed, if it finds too much demand for its coin to go abroad, begins by not lending more than it receives every day, and then goes farther, by not lending as much as its income, declining to renew the notes of its debtors, and obliging them to pay a part or the whole: making it a rule to keep its discounts within its income. The operation proceeds thus: by issuing no new notes, but requiring something from your debtors, you oblige them to return to you the Bank notes you lent them, or their equivalents. This makes the Bank notes scarcer—this makes them more valuable—this makes the goods for which they are generally exchanged less valuable—the debtor, in his anxiety to get your notes, being willing to sell his goods at a sacrifice—this brings down the prices of goods, and makes every thing cheaper. Then the remedy begins. The foreigner, finding that his goods must be sold so low, sends no more. The American importer, finding that he cannot make money by importing them, imports no more. The remainder of the coin, of course, is not sent out after new importations, but stays at home, where it finds better employment in purchasing these cheap articles; and when the foreigner hears of this state of things, he sends back the coin he took away. He took it away merely because your own domestic productions were so high that he could not make any profit in his country by taking them. But when the news reaches him that his productions are very cheap in our country, he will also learn that our productions are cheap too, and he sends back the coin to buy these cheap productions of ours. We, therefore, get back our coin by diminishing our paper, and it will stay until drawn away by another superabundance of paper. Such is the circle which a mixed currency is always describing. Like the power of steam, it is eminently useful in prudent hands, but of tremendous hazard when not controlled; and the practical wisdom in managing it lies in seizing the proper moment to expand and contract it—taking care, in working with such explosive materials, whenever there is doubt, to incline to the side of safety.

"These simple elements explain the present situation of the country. Its disorder is over-trading, brought on by over-banking. The remedy is to bank less, and to trade less.

"During the last year, money was very abundant—that is, the demand for coin being small in proportion, the Banks distributed freely their discounts and notes. This plenty concurred with other causes, especially the expectation of a new tariff, to induce an increased importation of foreign goods, and, at the same time, furnish great facility for procuring them on credit. For instance, in the difficulty of procuring profitable investments, there were found capitalists who exported the coin of the country, and sold their bills for it on credit—thus obtaining a small profit on the shipment, and a greater on the discount of the notes taken for their bills. This fraction of a per centage on the shipment of coin, seems to be a trifling gain for the great inconvenience to which it often subjects the community; but the profit, though small, is lawful, and no odium should attach to the agents, for the operation is often a wholesome corrective of excessive issues of paper. The effect was, that by the month of February, the exportations of specie to France and England had become unusually large, amounting, probably, in the preceding twelve months, to between four and five million dollars; and great importations were constantly arriving, and which, when sold, would require remittances to Europe. Hitherto, at this season, the demand for exchange had been supplied by the bills drawn on the produce of the South, when shipped to Europe; but this year the crop, and with it the bills produced by it, has come tardily into the market, so that the demands of exchange for the proceeds of the arriving shipments were directed immediately to the exhausted vaults of the Banks. Such an effect was to be averted without loss of time. The directors of the Bank of the United States, as was their natural duty, were the first to perceive the danger, and the Bank was immediately placed in a situation of great strength and repose. The State Banks followed its example. They began by restraining their loans within their income, and gradually and quietly decreasing the amount of them, and more especially directing their retrenchments on those whose operations were particularly connected with the exportations they desired to prevent. The course of business has been this: A merchant borrows from the Banks and sends abroad $100,000 in coin, or he buys bills from one who has shipped the coin. With these he imports a cargo of goods—obtaining a long credit for the duties—sends them to auction, where they are sold, and the auctioneer's notes given for them. These notes are discounted by the Banks, and the merchant is then put in possession of another $100,000, which he again ships, and thus he proceeds in an endless circle, as long as the Banks, by discounting his notes, enable him to send the coin, and tempt him to do so, by keeping up prices here by their excessive issues. The Banks, therefore, begin by diminishing or withdrawing these artificial facilities, leaving the persons directly concerned in this trade to act as they please with their own funds, but not with the funds of the Banks. The immediate consequence is, that the auctioneers can no longer advance the money for entire cargoes—that they no longer sell for credit, but for cash—that the price of goods falls—that instead of being sold in large masses, they are sold slowly and in small parcels, so that the importer is not able to remit the proceeds in large amounts. This diminishes the demand for bills and for specie to send abroad. In the meantime, the importer, finding the prices of his goods fall, imports no more; and the shipper of coin, finding less demand for exchange, and that he can make more of his money by using it at home than by exporting it, abstains from sending it abroad. Time is thus gained till the arrival of the Southern exchange, which will supply the demand without the aid of the coin, and then everything resumes its accustomed course.

"This is the point to which the present measures of the Banks are tending. The purpose must be accomplished, in a longer or shorter time, with a greater or less degree of pressure, but the effect must and will be produced."

This account, *mutatis mutandis*, will serve for a history of Banking in almost any year. "*Such is the circle a mixed currency is always describing.*" The only difference is, that the circle is sometimes wider and sometimes narrower.

"*The constant tendency of Banks is to lend too much, and to put too many notes in circulation.*" Sometimes it is a demand for specie to establish a new institution at New Orleans, that compels them to diminish their issues; sometimes it is a demand for specie for the use of the British army in Canada, sometimes the crop of cotton comes in tardily—sometimes it is something else: but a year seldom passes without some cause of this kind occurring, and it is impossible in the nature of things that such causes should not occur.

It would seem from Mr. Biddle's statements in another part of this essay, that, though every thing appeared very smooth on the surface in 1827, great danger lurked beneath. Speaking of the State Banks, he says, "what interest has the community in propping up many of these institutions? Let any sedate man look at the returns made this winter of the state of the Banks in various parts of the United States, and then answer whether they need further exemptions from the necessity of accommodating their business to their means. . . . In the present and immediate example, no man can fail to perceive that, but for the warning restriction imposed by the Bank of the United States and the leading State Banks, the events of the last six weeks would have brought many of them to the verge of insolvency, whence they could only escape by some sudden shock to the community."

In 1825, the immediate danger was to the Banks, and through them to the community. In 1826, the United States' Bank and the leading State Banks placed themselves "in a situation of great strength and repose," but the sufferings of the community were not the less severe on that account. It was, in fact, by producing sufferings in the community, that the Banks placed themselves in that situation from which they regarded what was going on around them with so much complacency. The people implored them for relief, but the President of the United States' Bank replied, "It is in the order of nature, that if men or nations live extravagantly, they must suffer till they repair their losses by prudence, and that neither men nor Banks should impose on the community by promises to pay what they cannot pay. The laws of trade have their own remedy for such disorders, as infallible as the law of animal life, which enables the human system to relieve itself from its own excesses. Both must have their course. But the Bank of the United States is invoked to assume that which, whoever attempts, deserves the ruin he will suffer. It is requested to erect itself into a special providence to modify the laws of nature, and to declare that the ordinary fate of the heedless and improvident shall not be applied to the United States. Our countrymen are to be indulged without restraint in the utmost extravagance of the luxuries of Europe, on credit from the Banks; and when the day of payment arrives, the debtor shall not be called upon for payment—the Banks shall not be incommoded to pay their own notes, for the moment any inconvenience is felt, the Bank of the United States will certainly interpose and pay the debt. But if the Bank of the United States blends any sense with its tenderness, it will do nothing of all this."

This reply, though not very consoling, would have been unanswerable, if it had not been that "the disorder of the country was over-trading, *brought on* by over-banking."

The Banks continued to diminish mercantile facilities, in the month of May. In September there was another pressure on the community; and in December a great scarcity of money was felt in Boston.

The President of the United States' Bank, in a letter to the Secretary of the Treasury, dated July 18th, 1829, says the office at Portsmouth, "last year was nearly prostrated in the general ruin which spread over that country. Out of 460,000 dollars of loans, 148,000 dollars was thrown under protest: still further protests were expected, and the actual loss sustained there will not be less than 112,000."

In March, 1829, there was a pressure in Philadelphia: and in the following months great apprehensions were entertained in New York for the safety of the country Banks in that and the neighboring States. A writer in the United States Telegraph endeavored to show that the Banks of that city were also in a perilous condition. The difficulties appear to have been greatest in that city about the beginning of June. In the middle of the month, it was announced that the money market was becoming easy. Many New York merchants were, however, compelled to make compromises with their creditors: and many mechanics were deprived of employment.

The greatest distress in this year, appears to have been in Rhode Island. The Providence Literary Subaltern, as quoted by the Philadelphia Gazette, on the 26th of June, says—"The embarrassments which have been realized in this immediate neighborhood for the last ten days, have had no parallel in the history of the Republic. Men of reputed capital, who have withstood the shock of former changes and times; men who for the last forty years have stood firm, erect and undismayed before the tempest of the times that have assailed them, are now tottering on the verge of bankruptcy and ruin. Their fall bears excessively heavy on the poor and laboring classes, who, by the way, are in reality the principal sufferers. Deprived of employment, destitute and friendless, they are thrown upon the world, and know not how to obtain a livelihood. Within the last ten days, within the circle of the ten adjacent miles, upwards of twenty-five hundred people have been suddenly and unexpectedly thrown out of employment, and the distress that such an event has produced, can be far better imagined than described."