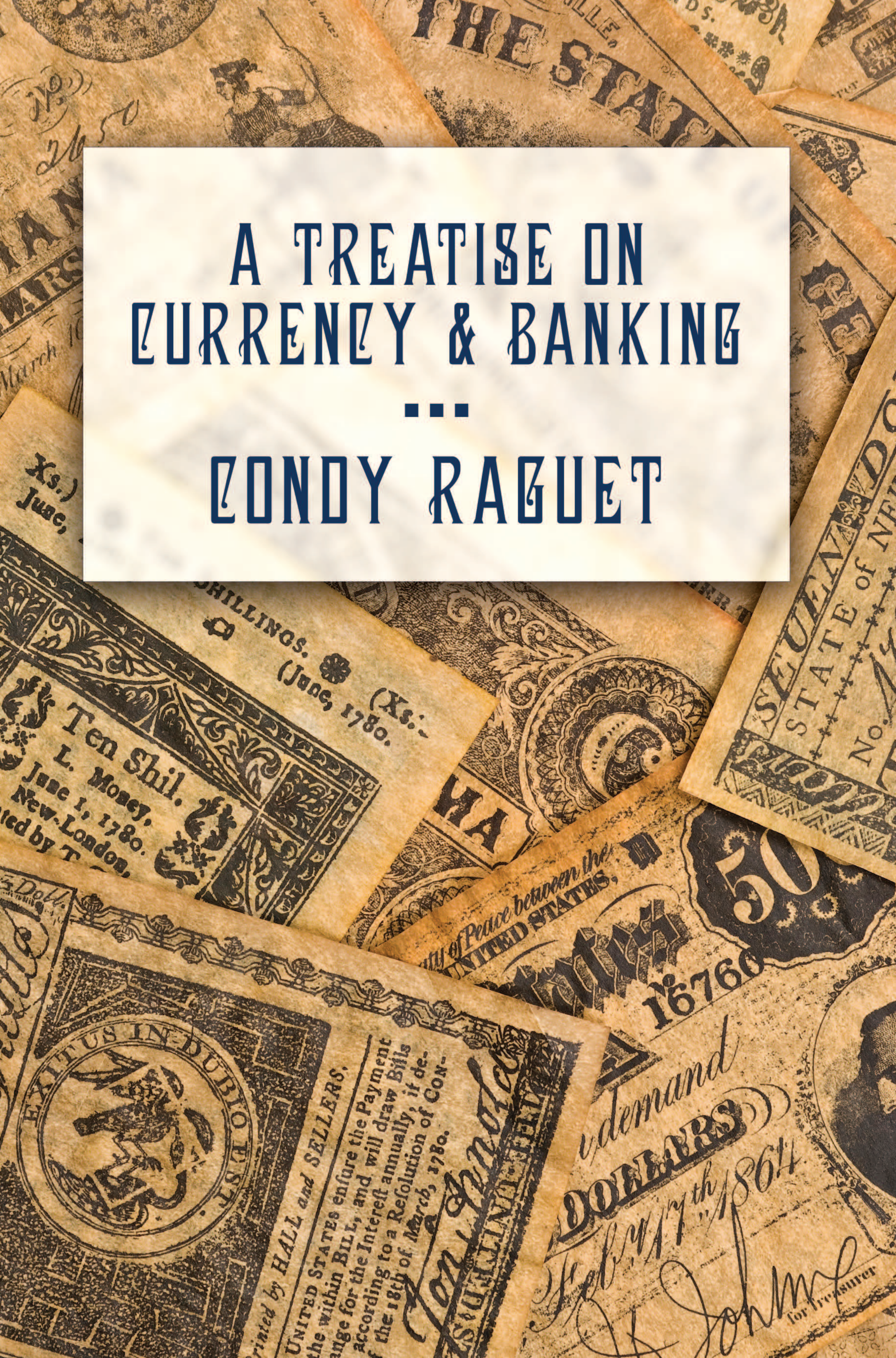
A TREATISE ON CURRENCY & BANKING

CONDY RAGUET



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CURRENCY & BANKING

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BY

CONDY RAGUET

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A TREATISE

ON

CURRENCY AND BANKING.

BY

CONDY RAGUET, LL.D.,

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"It is the interest of every country that the standard of its money, once settled, should be inviolably and immutably kept to perpetuity. For whenever that is altered, upon whatever pretence soever, *the public* will lose by it.
"Men in their bargains contract, not for *denominations* or *sounds*, but for the *intrinsic value*.—LOCKE ON MONEY.

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1840.

Entered, according to act of congress, in the year 1839,
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In the office of the clerk of the District Court of the Eastern District of Pennsylvania.

TO

CLEMENT C. BIDDLE, Esq.

AS A MARK OF RESPECT,

DUE TO AN ENLIGHTENED POLITICAL ECONOMIST, AND

AS A TESTIMONIAL OF A FRIENDSHIP,

COMMENCED IN CHILDHOOD, CONTINUED WITHOUT INTERRUPTION FOR MORE THAN FORTY YEARS, AND STRENGTHENED BY A HARMONY OF OPINION ON MOST OF THE POLITICAL SUBJECTS THAT HAVE OF LATE DIVIDED THE PEOPLE OF THE

UNITED STATES,

AND ESPECIALLY ON THOSE OF

CURRENCY AND BANKING,

THIS WORK IS, WITH SENTIMENTS OF THE

MOST AFFECTIONATE REGARD,

DEDICATED BY

THE AUTHOR.

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PREFACE.

THE suspension of specie payments by all the banks in the United States, south of New England, in the year 1814, and of all, with a very few trifling exceptions, in the year 1837, has strongly impressed the public mind with the belief that there is something defective in the present banking system of this country; and it is not, perhaps, venturing too much to assert, that there are now elements at work, which will ultimately overthrow the whole fabric, unless those who have the power to remedy the evil, shall introduce the reforms which can alone render a repetition of such a calamity impossible.

It must be evident to every observant mind, that a dislike to hear the truth, when opposed to one's interests or prejudices, is the principal cause of a large portion of the mischievous errors which so generally prevail. Men of education and capacity, who are best qualified to investigate and understand the important principles which belong to the science of public economy, are too apt to view them as of no account, or to despise them when they come in conflict with their purses, or with their political promotion; and hence that knowledge, which is the most entitled to regard, because most intimately connected with the prosperity of a country, is of all others the most neglected. I assert it, and, in so doing, I think I do not overestimate its value, that political economy is the most important of sciences; and if its practical branches were introduced as a study into all our colleges and principal schools, it would do more towards exempting the country from erroneous and destructive legislation, than any other study to which the attention of our youth could be directed.

Of these practical branches, the science of banking is one, but it is one, to the attainment of a knowledge of which there is no "royal road," any more than there is to any other species of learning. He who wishes to understand it, must study and reflect, and this not with the feelings of a partisan, but in the true spirit of philosophy, unbiassed by self-interest, or by any other consideration than a pure love of the truth. The rapid strides which the banking system has been making of late in France and other countries of Europe, accompanied, as it has been, by indications of unsoundness, in Belgium and elsewhere, gives just ground for apprehension, that the same spirit which has characterised the management of most of our institutions, as well as those of Great Britain, producing alternate expansions and contractions of the currency, to the great injury of the public, will also there extensively prevail. In such event, the check to over-issues in this country and England, which now exists from the reaction of the metallic currencies of continental Europe, would be greatly diminished, and in consequence of it, inflations and convulsions hitherto unknown in the commercial world, because extended over a wider field, would most certainly overtake us all. That the interests of a country are best to be promoted by a stable currency, precisely as they are by a fixed standard of weights and measures, will hardly be disputed; and if it can be shown, that a defective, or mismanaged banking system, produces exactly the same results upon the pursuits of industry, and the property of individuals, as would the decrees of a despot, who should alter, at his pleasure, without any previous notice, as often as he thought it expedient, the weight of the pound, or the length of the yardstick, it is to be hoped that there is not a patriot in the land, who would hesitate to assist in the entire eradication of such a monstrous evil. That such is the effect of our present system, as it has been of late conducted, must be obvious to all who have closely examined its operations, and hence the necessity, before it is too late, of an application of the appropriate remedy.

The author of this treatise in offering it to the public, has no private ends to promote. He has been for twenty years a student of the science which he proposes to discuss, and has during that time in some reports to the senate of Pennsylvania, and in many detached publications, presented his views in relation to currency and banking; and if in the present volume there should appear here and there an expression familiar to the reader from former acquaintance, he may be assured that not a phrase has been employed as original, which is not his own property. He knows that in his opinions respecting the influence and operation of banks of circulation, upon the public prosperity, he differs from some of his personal friends, and from many others engaged in the management of such institutions, for whose intelligence and purity of character he entertains the highest respect. But the truths of science cannot be forced to accommodate themselves to man's imperfection or interests. If what he advances be not such truths, they can be easily refuted, and he invites the severest criticism to be applied to his doctrines, in order that their solidity may be tested, and if found to be false or unstable, that their true character may be exposed. If, on the other hand, the principles which he asserts, be in reality, as he honestly believes them to be, incontrovertible truths, he will not do any of his readers the injustice of supposing, that they would reject them, because they are not profitable.

With these preliminary remarks, the author will briefly state, that the plan he has adopted, is one which he thinks the best calculated to simplify the subject to those who have not heretofore made it a study. He has divided the volume into four books. The first treats of the laws which regulate a currency composed entirely of the precious metals; the second, of those which regulate a currency composed of coin and convertible paper united; the third, of those which regulate an inconvertible paper currency; whilst the fourth treats of some miscellaneous matters, which could not have been well comprised under either of the former heads.

In the language and style of the work, the author has sought rather to render his positions intelligible to practical men, than to appear to be scientific, and hence the reader will find some familiar expressions, which have been purposely adopted, because every body could understand them.

April 15, 1839.

NOTE TO SECOND EDITION.

The stoppage of specie payments referred to above, in 1814, commenced in Baltimore about the 27th of August, soon after the battle of Bladensburgh and the capture of Washington, which events took place on the 24th of that month, and was followed by Philadelphia on the 30th, and by New York on the 1st of September. A general resumption took place on the 20th of February, 1817.

The second stoppage commenced at New York on the 10th of May, 1837, and was followed at Philadelphia on the 11th, at Boston and Baltimore on the 12th, and in all other places in quick succession. Resumption took place at New York on the 9th of May. In Boston, Philadelphia, and places further south it was delayed until the 13th of August.

Since the publication of the first edition of this book, all the banks in the United States, south of New York, which pretended to pay in specie, suspended payment again. This event took place first in Philadelphia, on the 9th of October, 1839, and was followed by the rest in rapid succession, leaving only New York and New England in the enjoyment of a convertible currency. This suspension has continued to this time, and is expected to continue until 1841.

June 1, 1840.

A TREATISE

ON

CURRENCY AND BANKING.

BOOK FIRST.

OF THE LAWS WHICH REGULATE A CURRENCY COMPOSED ENTIRELY OF THE PRECIOUS METALS.

ADAM SMITH, and other elementary writers on the science of Political Economy, have shown the principles upon which commodities must have been exchanged in that rude condition of society which preceded the use of metallic money, and it is not my intention to travel over the same ground, and occupy the attention of the reader in recapitulating details with which he is probably already familiar. Nor is it my intention to give a history of the various inventions to facilitate barter, which have been adopted at various periods in different countries, such as the use of cattle, cowry shells, tobacco, iron, and some other objects, each of which has been at some period employed to perform the function of what has been appropriately denominated "a medial commodity," by which the relative value of other things could be determined. I propose at once to enter upon the subject of currency as we find it at the present day in commercial nations, and shall first point out the laws by which commerce is carried on in a country where there are no bank notes or paper money of any kind, and where gold and silver alone constitute the currency; and, as it would be carried on in every country, if there did not exist paper money.

CHAPTER I.

OF THE INTRINSIC VALUE OF THE PRECIOUS METALS, AND OF THEIR ADAPTATION TO THE PURPOSES OF A CIRCULATING MEDIUM.

Gold and silver, it is well known, are produced in various parts of the globe, at the cost of labor and capital, precisely in the same manner that iron, lead, and other metals are produced; and with regard to all the mining countries, they constitute, if not the only, at least the most inviting product of industry to which a portion of the land, labor, and capital, of their inhabitants can be applied. As products, therefore, of industry, they possess an intrinsic value, like all other commodities, dependent upon the cost of producing them; that is, upon the amount of the rent paid to the owner of the land for the privilege of mining them, the amount paid for the wages of the laborers employed in digging and smelting the ore and in refining the metal, and the amount of the ordinary profits on capital invested in the enterprise. Were this not the case, it is evident that mines would not be worked, for no proprietor of land or capitalist would embark in an undertaking that would lead to certain loss, the object of mining not being to produce gold and silver, but to produce gold and silver of a value greater than that of the capital expended in its production. This much is premised, in order that the reader may have at the outset a clear view of this fundamental truth in political economy, that gold and silver being products of industry, possess a value a' real and substantial as that which belongs to any other commodities; not indeed founded upon the basis of convention, as some people imagine, but upon their well known applicability to various purposes of utility and ornament for which no other materials possess equal qualities, and which renders them on that account universally sought for. They are therefore not mere *representatives* of wealth as many persons fancy, but real *wealth* itself to the full extent of their value.

What proportion of the actual value of gold and silver, as exchangeable for other commodities, is due to their applicability to objects of utility and ornament, and what proportion to their fitness for the purposes of a circulating medium, now that they are applied to that purpose, it would not be easy to determine; nor is it at all necessary to this investigation that it should be determined. It is sufficient for us to know, that almost every individual who can afford a silver spoon, or a gold watch, or a plated or gilt ornament, will have one; and that if gold and silver were to be wholly disused as money, they would retain a large share of their present value for the purpose of being converted into plate and other objects of manufacture, and in process of time, would again rise to the cost of their production, which would be an indispensable requisite to ensure a future fresh supply.

It will, perhaps, remain for a future day to develope all the reasons why gold and silver have become so universally adopted by all civilised people as the medial commodity, that is, the commodity in exchange for which any other commodity can almost always be readily had. Those with which we are already acquainted, are the following:—

1. Their uniformity of value, varying from one year to another, and from one period of years to an-

other, less than any other known commodities, and therefore well adapted to be the commodities of contracts and obligations payable at a future day.

2. The universality of this uniformity of value, by which they serve not only as standards for comparing prices at different periods of time, but prices in different countries at the same time.

3. Their convenient portability, possessing a great value in a small bulk, and yet a bulk not too small for all practical purposes.

4. Their divisibility into pieces of any weight, and of the most exact quantities, and their convertibility by fusion back again into larger masses without loss.

5. Their malleability and toughness, which render them not liable to break.

6. Their susceptibility of receiving impressions as coins.

7. Their uniformity of physical quality, pure gold or silver being the same at all times and at all places, and thus unlike most other metals and commodities which have different degrees of excellence.

8. Their capacity of admixture with alloy which renders them as coins less destructible by wear and tear, and of their being again separated from it with very little loss.

9. Their durability, not being easily destroyed by fire, and not at all by rust.

10. Their clear sound when dropped upon a hard substance, by which they can be known from base metals, and be thus distinguished from counterfeits.

11. Their specific gravity, which differs from that of other metals of the same bulk, and thus renders the detection of counterfeits easy by a practised hand.

The beauty of the metals adds to their value for purposes of utility and ornament, but perhaps not to their value as money; and hence I have not embraced that quality in the foregoing enumeration.

CHAPTER II.

OF THE DISTRIBUTION OF THE PRECIOUS METALS THROUGHOUT THE COMMERCIAL WORLD.

All the gold and silver annually produced in the four quarters of the globe, and not required for consumption in manufactures or for currency in the countries where produced, are in the constant course of distribution throughout the commercial world in exchange for commodities which are more desirable to the producers than the metals themselves; and when thus distributed, they are liable in common with that portion of the pre-existing mass which retains the form of coin and bullion, to such further changes of place as the wants and circumstances of each particular country may require. In these distributions, each country does not equally participate, but each draws to itself that proportion of the whole quantity which is called for by the extent of its wealth, its population, its commerce, and the state of confidence or credit existing amongst its inhabitants. A rich nation, *cæteris paribus*, will require more gold and silver than a poor one—a large population more than a small one—a nation carrying on much trade more than one which carries on little—and a nation where confidence and credit are circumscribed, more than one in which they are expanded. The first three of these propositions are self-evident. The fourth needs perhaps some illustration, and as I wish to leave nothing in dispute as I go along, I will state more plainly what is meant by it, which is, that in a country where no credits or comparatively few are given on the sale of property or merchandise, and where consequently payments are made entirely or chiefly in coin on the delivery of the articles sold, a larger amount of gold and silver is required, than in another country of equal wealth, population and trade, in which sales are usually or frequently made on credit.

What proportion the supply of the precious metals which each country secures to itself as a circulating medium bears to its wealth, its population, its trade, or, to the existing state of confidence or credit, it would not be easy to ascertain: nor is it indeed necessary that it should be ascertained, as far as any practical good can result from the knowledge. Those who carry on the operations of trade will take care that a country has neither too much nor too little of them, and it may be assumed as a safe position, that when the precious metals neither flow out from a country in which there are no gold or silver mines, nor flow into it faster than is incident to her additional share of the new annual production of the mines, she has her exact proportion. These proportions, when once attained as nearly as the nature of circumstances will permit, establish what may be called *the general level of currencies*, and it is to this level, as to a species of standard, that reference is made, when we say that money like water will find its level. It is true, that owing to the constant production of the mines, which may at times occasion unequal distributions, or, distributions other than through the accustomed channels, as was the case after the revolutions in Spanish America took place, which caused to be sent first to the United States or England, the metals which formerly all went to Spain, as well as to a great variety of other circumstances which disturb the currency of particular countries, this level may never be a perfect one. It is sufficiently so, however, for all purposes of reasoning upon it, and perhaps as much so as fully warrants the figure by which a fluid-like property is ascribed to the precious metals. The surface of the ocean is never free from undulation, and the daily operation of the tides is constantly interfering with its level, as well as with that of rivers. Moral causes, operating like the physical causes which influence the movement of the waters, operate upon gold and silver, in driving them from one place to another, but it is easily to be seen, that were the extent of wealth, population, commercial transactions, and confidence, in all countries to remain the same for a long period together, and were the new productions of the mines to be distributed in due proportions, and the old stock in each country to be diminished by consumption in an equal ratio, gold and silver would assume such a uniformity of exchangeable value, as to arrive at a perfect state of quiescence. Indeed, as it is, gold and silver are of all commodities the least likely to be exported from any country, except from those in which they are produced, and where of consequence they form a portion of the produce of the land and labor of the people, as iron and lead do in some other countries; or, from those which, in addition to their supply for the purpose of currency, have possessed themselves of an amount specifically intended for exportation to countries having products not procurable by any other means than by purchase with gold and silver.* We may therefore conclude, that a level does exist, created as will be seen hereafter, by the imports and exports of commodities other than the precious metals themselves, towards which the currencies of all countries have a perpetual tendency, and from which, if they do not precisely conform to it, they do not greatly depart.

* From the period of the Independence of the United States up to about the year 1823, nearly all their imports from China and India were paid for by an exportation of silver dollars, brought into the country in addition to the supply required for the currency. Since the year mentioned, the chief part of the China and India cargoes, are paid for by credits or bills on London, exports of manufactures, and by coin procured in Europe.

CHAPTER III.

ON THE RELATIVE VALUE OF GOLD AND SILVER.

Gold and silver, like all other commodities, have each their own peculiar value founded upon the immutable law of supply and demand, by which all values are determined. The scarcity of the one compared with that of the other, in connection with the difference in their respective costs of production, that is, of the expenses of mining and smelting the ore, and of refining the metal, establish between them a very wide difference as regards their relative value. An ounce of pure gold has always been, and probably always will be, worth more than an ounce of pure silver. But the ratio of this difference, it must be manifest, is not fixed by any law of nature, any more than the ratio between any two other commodities. Nature does not say, that an ounce of gold shall always be worth so many ounces of silver, any more than she says that a pound of copper shall always be worth so many pounds of iron, or a pound of cotton so many pounds of flour, and hence it is clear, that there is no law of nature applicable to gold and silver, which is not equally applicable to all other commodities.

What nature, however, has left undone, man in his limited wisdom has attempted to accomplish, by the enactment of laws fixing the ratio at which gold and silver shall be exchangeable for each other. These laws, when first enacted, were no doubt founded upon the observation of the fact, that in the general market of the commercial world, these two metals had, for long periods together, preserved something like a fixed proportion, and it was no doubt conceived, that chaining them together by statute, would prevent them from ever separating.

We learn from Adam Smith,* that prior to the discovery of the American mines, which first began to show its effects somewhere about the year 1570, in the diminished value of both the precious metals by the new and annually augmenting supplies which were derived from that fruitful source, the value of pure gold to pure silver was established in the different mints of Europe, at proportions varying from one to ten, to one to twelve; that is, one ounce of pure gold, was declared to be the equivalent of ten to twelve ounces of pure silver; and in their respective coinages these proportions were consequently observed. At about the middle of the 17th century, that is, about the year 1650, the ratio between gold and silver came to be regulated in the proportion of one to fourteen, and one to fifteen ounces of silver, no doubt occasioned by the fact, that although both metals had become more abundant in proportion to the demand, and had both been depreciated below their former value, yet silver had depreciated more than gold, to an extent that had created new proportions in the general market, which it was the design of the new laws to follow up.

From the period last mentioned, there does not appear to have been any material change in the relative value of gold and silver in the general market of the trading world prior to the beginning of the present century, when a further depreciation of silver in reference to gold began to show itself, so that by the year 1820, an ounce of gold came to be worth near sixteen ounces of silver, of which the consequence was, that all the gold coins of the United States, where the mint proportion had been fixed at one to fifteen, were exported from the country, to be exchanged for their proper equivalent.†

* Wealth of Nations, Book I. Chap. xi.

† In corroboration of this fact, the following statement of the

The author believes that he was one of the first, if not the first, writer in this country who called the attention of the public to this new change, and apprehensive at the time, that the legislative folly of attempting to establish by law what nature herself could not establish, would be repeated by a new enactment, he urged in December, 1821, upon the late Mr. Lowndes, a representative in congress from South Carolina, and chairman of the committee of finance, the expediency of abolishing the coinage of eagles and their fractional parts, and of substituting in their place new pieces, to weigh respectively an ounce, a half ounce, and a quarter of an ounce of standard gold, under the full conviction that they would soon be introduced into circulation at their proper equivalent, without involving us in the absurdity of having two legal tenders.* The arguments presented to Mr. Lowndes in conversation were at his particular request reduced to writing, together with answers to two points raised by him, and were published in the National Gazette of 26th January, 1822. A copy of this paper will be found in the Appendix, marked A.

The death, in the course of the last mentioned year,

coinage of Gold by the mint of the United States, at, and about the period referred to, is adduced.

1818,	. .	$242,940,
1819,	. .	258,615,
1820,	. .	1,319,030,
1821,	. .	189,325,
1822,	. .	88,980,
1823,	. .	72,425,
1824,	. .	93,200.

This diminution in the coinage of gold after 1820 arose from the circumstance that nobody wished to import gold into the country to have it coined into eagles at ten dollars each, when the gold contained in an eagle was worth more than ten dollars.

* The ducat of Holland is current all over the continent of Europe at its fair equivalent. Gold in France circulates at the market rate of premium, silver being the ordinary currency.

of Mr. Lowndes, who was one of the few individuals in congress who had studied the subject of the coinage, appeared to suspend the action of that body in regard to the alteration of the mint regulations, and although several propositions were at different periods subsequently submitted, yet nothing was done until the 28th of June, 1834, when the law usually known as the gold bill was passed. A short history of these propositions was drawn up by the author in the last named year, and as it may be of service to those who have a desire to study the subject, extracts therefrom have been placed in the Appendix marked B.

In connection with this subject, it may not be amiss to remark, that the proportion of one to fifteen or sixteen in the relative value of gold to silver, does not by any means warrant the inference that there is just fifteen or sixteen times as much silver as gold in existence. Adam Smith advances conclusive arguments to show that the quantity of silver at the time he wrote was far greater than the proportion which it bore to gold called for, and indeed any one may be convinced of this fact if he will reflect upon the very small value of gold compared with silver, that is consumed in plate and ornaments. The relative value of no two commodities determines their relative quantities, and it is easy to be perceived, that if a barrel of flour were worth ten dollars, and a box of Spanish segars twenty dollars, it would not necessarily follow that there were in existence only twice as many barrels of flour as there were boxes of segars.

CHAPTER IV.

OF THE BALANCE OF TRADE, OR OF THE CAUSES WHICH OCCASION THE TRANSMISSION OF THE PRECIOUS METALS FROM ONE COUNTRY TO ANOTHER.

In a preceding chapter, it was stated that the precious metals are distributed by the operations of commerce throughout the trading world, in such a way as to establish what is called a general level of currencies. I shall now proceed to show the mode by which this distribution is accomplished, which is according to the laws of what is termed the balance of trade.

It must be manifest to every observant mind, that even under the most perfect level which the currencies of all commercial nations can attain, that is, under such a state of things as may be imagined where no motive of profit could lead to the importation or exportation of the precious metals, except as relates to the annual production of the mines, the prices of other commodities will not be in all countries the same. Were this the case there could be no commerce, for the only object of commerce is to transport commodities from countries where they can be purchased for a comparatively small quantity of gold and silver; that is, at a comparatively low price; to other countries where they can be sold for a greater quantity of gold and silver; that is, at a higher price.* Any one can

* The reader will be pleased to keep in mind, that *price* in political economy is the value of a thing expressed in *money* only, and therefore differs from the term *value*, which expresses the worth of things as compared with other things than gold and silver. Thus we would say that five dollars is *the price* of a hat, where money is to be paid for it, but we would say that five pairs of shoes are the *value* of a hat, if the hat is to be paid for in that many shoes.

perceive that iron would not be imported into the United States from England unless it could be sold here at a higher price than it cost at the place of production, and that cotton would not be exported from the United States to Europe unless it could be sold there at a higher price than it could be purchased for here. The prices of different articles, it is self-evident, in every country, are regulated by causes peculiar to themselves, such as the soil, climate, wages of labor, degree of skill required, extent of population, capital, and taxation; and this it is which sets in motion the whole machinery of commerce. Even in the case of barter with savage nations, although gold and silver be absent, yet the trader has reference in his calculations to the metallic standard, in order to enable him to determine how much he can afford to give of what he has to dispose of, in exchange for the commodities which he is to receive in payment.

The foreign commerce of a nation is usually of two kinds. The *first* is that wherein the export and import trade are carried on by the same individual, in the same vessel, and in the prosecution of the same voyage. Such is the trade of the United States with most parts of the West Indies, South America, Africa, some parts of India, and some other countries. The imports from those regions consist of the articles purchased with the proceeds of the outward cargoes, and this trade is strictly an exchange of equal values, and although it may exhibit what is called a balance of trade on one side or the other, yet it calls for no payment. The same is true of the whale and other fisheries, wherein although the amount imported may far exceed in value the amount exported, yet no balance of trade is left to be paid, the difference being made up by the value of the labor expended by the crew, of the freight earned by the ship, and by the profits of the enterprise.

The *second* trade is that wherein the exports and imports are made by different classes of merchants, without any previous consultation or agreement with one another. Such is our trade with Great Britain and most of the other maritime nations of Europe. The exporters of cotton, rice, tobacco, flour, and the other commodities which form the bulk of our exports to Europe, are very rarely the same individuals who import the dry goods, hardware, and the infinite variety of other manufactures and productions which constitute the bulk of our imports from Europe. The former ship their cargoes to foreign countries, without any knowledge of the quantity or value of the commodities which the importing merchants intend to order from abroad, and the latter send their orders abroad for goods without any knowledge of the amount for which the exported cargoes will be sold. The former class, that is, the exporters, get paid for their cargoes by drawing bills of exchange upon the proceeds in the hands of their foreign correspondents; and the latter class, or the importers, pay for their goods by purchasing and remitting these same bills.

Under a course of operations carried on by so many independent traders, it would indeed be miraculous if the exports and imports should be so exactly equal as to leave no balance one way or the other. In truth, experience shows that the exports will sometimes exceed the imports, and that sometimes the imports will exceed the exports, leaving a balance of trade in the former case in favor of the country, and in the latter case against it.

Let us now suppose, that in a given country where the currency is at its proper level, where no gold or silver flows out or flows in, and where consequently exchange would be at par, an excess of imports should take place. What would be the first effect? The answer must be, a demand for more bills of exchange than are for sale in the market, the effect of which is a rise in the rate of exchange above par, which obviously holds out an inducement for the exportation of commodities for which a sufficient inducement did not previously exist. A rise in the exchange of one or two per cent. may sometimes determine shipments, which without such rise would not have been thought of; not that so small a profit would of itself induce shipments, but because one or two per cent. added to the profit which might have been made without such addition, would elevate the gain to the height of the average mercantile rate of profit requisite to warrant a shipment. A profit in advance is a powerful stimulus to exportation, especially where two thirds or three fourths of the capital employed in the purchase of the exported commodities can be immediately replaced by the sale of a bill of exchange. The additional demand, therefore for bills, to assist towards paying the balance is met, we will suppose, at once by additional exports, it sometimes even happening that the remitting merchant, to save, as it is called, the premium on bills, becomes himself an exporter.

Thus far it is manifest that the balance of trade occasions no exportation of the precious metals, and that consequently the general level ef currencies is not disturbed. But it may happen that the increased demand for exportable commodities arising from the augmented premium on exchange, may raise their price to an extent equal to the rise in the price of bills, and thus put an end to their exportation, by taking away the additional profit. A new expedient is then resorted to by capitalists to take advantage of the premium on exchange, which is to obtain a credit abroad upon which they may draw bills, under the calculation that at some future, not very distant period, they will be able to replace the funds at a lower rate of exchange, and thereby realise a profit by the operation. The transmission, too, of public securities, bank, railroad, and canal stocks, and the extension of credits by the consent of the foreign creditors upon allowing interest for the extended term, are all well known levers in the mechanism of trade, (to say nothing of bankruptcy), by which the tendency of an unfavorable balance of trade to cause an exportation of the precious metals is frequently neutralised. But it may happen, however, that all these measures combined will not keep down the price of bills of exchange to the rate which will render them more advantageous to remit than gold or silver. That an exportation of the precious metals will then commence is quite apparent, but compared with the whole balance that may be due, it will be exceedingly trivial, as I will proceed to show.

We will suppose ten millions of dollars to be the circulating medium of the supposed debtor country, and that *that* is the amount which is requisite to circulate her commodities and to maintain her currency at an equivalency with the currencies of other countries. No sooner does this quantity become diminished by the exportation of any part of it, than a scarcity of money begins to be felt. A scarcity of money invariably occasions a fall in the prices of commodities, as every body knows, and that fall operates as an incentive to exportation, inasmuch as domestic products, which were before too high to export, will now afford a profit. A fall in the price of cotton of one cent a pound has sometimes occasioned the exportation of immense quantities in a short period; and it is very clear that there is a price at which almost any article might be exported to advantage, and that a gradual diminution of the currency, if continued long enough, will eventually establish that price. It is idle to say that possibly the debtor country may not have on hand a sufficiency of products to discharge the debt, and that therefore she must be drained of her precious metals to the last dollar. This can never be. If her wealth or her powers of production had not been commensurate to her demand for foreign commodities, she could not have had sufficient credit to run deeply into debt. At all events, she would have on hand a large portion of the foreign commodities in the purchase of which the debt was incurred, and a scarcity of money might even bring down prices so low as to render the exportation of foreign commodi ties a profitable trade. It might even be an object to send back to the place of production the very commodities, the importation of which created the unfavorable balance. * It is quite probale that a very small reduction of the amount of coin would produce such a fall in the prices of commodities as would lead to their exportation to an extent adequate to keep down the price of bills so as to prevent any further exportation of the precious metals; but if this should not be the case, and if the scarcity of money should continue to increase, those who had remittances to make would either become bankrupt and make no remittances at all, or become so embarrassed as to default in their punctuality, either of which events would diminish the demand for funds abroad, and stop *pro tanto* the exportation of gold and silver. † And here it may be remarked by the way, that a real scarcity of money is always accompanied by an artificial scarcity which aggravates the effects of the former. If, for instance, a million of dollars in coin be exported, so as to produce an outcry about scarcity of money, timid people and speculators will withhold another million from circulation; the former because they are afraid to lend it, and the latter because they expect to profit by forcing down the prices of property and commodities to a still lower point, the effect of which would be to diminish the demand for the exportation of coin by reducing the prices of commodities.

But independent of the tendency of the causes above

* British goods have frequently been sent back from the United States to England, as affording the best market for them, and it is a very common thing for vessels to bring back from the West Indies part of their outward cargoes, owing to their being worth more at home than they could be sold for abroad.

† All the propositions here laid down, have recently been fully established as practical truths in the United States, and especially at New York even to the reshipping of British goods to England.

enumerated, to restrain the exportation of specie, another operation simultaneously takes place, which adds to their efficiency. This is, the cessation of fresh imports, owing to the fall in prices of foreign commodities, occasioned by the existing scarcity of money. This cessation, even though it be but for a short period, affords time for the exportation of the products of the country which had not previously been brought into market; and although the tendency of an unfavorable balance of trade is unquestionably to drive the precious metals from a debtor country; yet in point of fact it does not effect it, for the reasons above stated, beyond a very limited extent. But were this, however, not the case, an outward stream would soon be met by an inward one. The low prices of domestic products would soon invite the attention of foreigners, who, to obtain them, would bring into the country, not foreign commodities, which from their low price could only be sold at a loss, but the precious metals.* Whilst gold and silver would be flowing out of the country in some directions it would be flowing into it from others, and sooner or later the equi-

* During the panic of 1834, when the scarcity of money greatly lowered the prices of commodities, the amount of specie imported into the United States for the purchase of cotton at the low price of the period was very great, as will appear from the following official table.

Table of Imports and Exports of gold and silver coin and bullion from 1821 to 1838, each year ending on 30th of September.

	Imported.	Exported.		Imported.	Exported.
1821	$8,064,890	$10,478,059	1830	8,155,964	2,178,773
1822	3,369,846	10,810,180	1831	7,304,945	9,014,931
1823	5,097,896	6,372,987	1832	5,907,504	5,656,340
1824	6,473,095	7,014,552	1833	7,070,368	2,611,701
1825	6,150,766	8,797,055	1834	†17,911,632	2,076,758
1826	6,880,966	4,663,795	1835	13,131,447	6,477,775
1827	8,151,130	8,014,880	1836	13,400,881	4,324,336
1828	7,489,741	8,243,476	1837	10,506,414	5,976,249
1829	7,403,602	4,924,020	1838	17,747,116	3,513,565

† A part of this amount was the result of the passage of the gold bill of 28th of June of this year, and to the same bill is to be ascribed the large importations of 1835 and 1836.

librium would be restored, and the double current arrested.

It may here be remarked, that the accounts current between nations in their commercial dealings, that is, between the individual merchants of one country and those of another, which is the only sense in which we speak of commercial transactions between nations, are not periodically settled like the accounts between individuals of the same country, which are generally settled by the actual payment of the balance. National accounts current are never settled. The balance may be one way to-day and another way to-morrow, and as there is no general pay day, like the first of January, upon which a general balance is struck, facilities are afforded for warding off such a pressure on the bill market as would exist if a periodical punctuality were rigidly enforced.

Having thus given a detail of the operations which would take place under an unfavorable balance of trade, I will say a few words upon those which would occur under a favorable balance. And in doing this, we will take for illustration the same country that we have just been considering, and will suppose that an excess of exports should take place. Of such a state of things, what would be the first effect? The answer must be, a fall in the price of bills of exchange in the market. More money would have to be drawn for than the amount required to pay for the imports, and the competition of the bill drawers might reduce the rate of exchange down to the point at which it would be more profitable for them to import gold and silver from abroad, than to draw bills. Still the quantity that would be thus imported, would be comparatively limited. The very existence of a foreign balance in favor of the country, would be proof of the ability of the nation to consume an additional amount of foreign commodities, and the gain which could be made by the importing merchants of one or two per cent. on the exchange, by buying bills below par,in addition to the usual profits, would invite to more extensive importations. Additional importations would in fact take place, and the supply of these new commodities would be met by a corresponding demand on the part of those whose means of consumption from extraordinary crops or extraordinary profits on their business, had thus become augmented.

But a fall in the price of bills would have a tendency to discourage the exports of domestic products, and this discouragement, in its turn, would have the effect of raising the price of bills by a diminution of the supply in the market, and thereby of removing the motive for the importation of the precious metals. The importation of gold and silver, however, should it commence, would make money plentier than before, and thus raise the prices of commodities, foreign as well as domestic. This rise in price would encourage the importation of foreign commodities, because they could be sold at an increased profit, whilst it would discourage the exportation of domestic products, by which means a part of the specie previously imported would again be exported, in preference to the domestic products, which could only be procurable at an augmented price. It thus appears, that a favorable balance of trade, although it has a tendency to bring the precious metals into a country, yet in point of fact it does not effect it beyond a limited amount, resembling in this particular, the former case of an unfavorable balance; two streams might be flowing, one into the country and one out of it, and sooner or later the equilibrium would be restored, and the level regained.

Thus it would be impossible to retain in any country any more than its true share of the aggregate mass of the gold and silver of the trading world, or to exclude from it any portion of that share. No human contrivance or legislation could possibly effect either, and hence all the efforts which have been made in all parts of the world to alter what the natural laws of commerce have decreed, by prohibiting the exportation of the precious metals under heavy penalties, or by attempting to encourage their importation by protective or prohibitory duties on merchandise, or, by resorting to any other expedient, have proved utterly futile. Money, as has been said, like water, will find its level, and although the former like the latter, may for a period be forced into unnatural channels, the deviation cannot long continue.

And here, I will take occasion to remark, that in forming an estimate of the comparative value of the exports and imports of the United States, the custom house returns, as they appear in their aggregates, are but imperfect guides to determine the balance of trade. The value of the exports given is their value at the time and place of shipment, as furnished by the shippers under oath, in the form of manifests. The value of the imports, is their cost abroad, as ascertained by the invoices, also furnished under oath, subject to such revision by the custom house appraisers as may, in case of suspected fraud in the valuation of goods chargeable with *ad valorem* duties, be deemed right and just. These foreign invoices embrace the cost of the articles, and what are called the shipping charges, that is, the charges without the payment of which they could not be put on shipboard, but include no frieght, or insurance; and where they are made out in Brazil, Buenos Ayres or other countries, where a depreciated paper currency exists, due allowance is made for the depreciation.

Now, as cargoes shipped abroad from the United States, are burthened with the expenses of freight and insurance, their value at foreign ports must generally be augmented by the amount of these expenses and the profits on the voyage, and consequently the nett proceeds of their sales must always furnish a fund adequate to the purchase of foreign commodities to a greater value than their cost at home. On this account it necessarily follows, that where the trade of a country is profitable, its imports will always exceed its exports, and this too, just in the degree that it is profitable, and nothing is clearer than that if the voyage out and home does not give a greater amount of imports than of exports, the trade would be abandoned. Of this proposition there can be no dispute, and it is quite probable that an export of a hundred millions of dollars would purchase abroad as many commodities as would show an import on the custom house books of a hundred and twenty or more millions of dollars, thus overthrowing the theory of that class of reasoners who maintain that the balance of trade is against a country when it imports more than it exports, and who consequently believe that a nation is growing poor when she is in reality growing rich.

But to make this matter perfectly plain, I will illustrate it by a practical case that every body can understand.

A merchant in Philadelphia purchases one thousand barrels of flour at eight dollars per barrel, and ships it to the West Indies. The custom house books in this case would show an export of eight thousand dollars. On the arrival of the cargo abroad it sells for twelve dollars per barrel, and after paying freight, duties, commissions, and all other charges, leaves the nett proceeds ten thousand dollars. This sum is invested in coffee, and brought home, where it is entered upon the custom house books as an import of that amount. Here, then, we would have an export of eight thousand dollars and an import of ten thousand dollars, showing a clear gain of two thousand dollars, without leaving any balance due one way or the other. A stronger illustration than this even, is to be found in the operation of our whaling ships. A vessel with a cargo consisting of nothing but provisions sufficient to feed a crew for a voyage, and as many staves, hoops, and headings, as will make casks enough to hold a cargo of oil, clears out at New Bedford for the South seas. The custom house books show an export of ten thousand dollars, perhaps, and when the ship returns with a cargo of oil, they give us an import of fifty thousand dollars, thus showing what the superficial reasoners above referred to would call a balance of trade against the country of forty thousand dollars, but which is a clear evidence of a gain to the owners and crew, and consequently to the country.

But even if the custom house books were to furnish accurate statements of the nett proceeds of the sales of the cargoes exported, as well as of the foreign cost of the homeward cargoes, they would not be sufficient to enable us to form a correct estimate of the real balance of trade. Debits and credits are created in the foreign trade of every country, which never appear on the custom house books. Specie is imported and exported by emigrants and passengers in their trunks, or secretly shipped by merchants to avoid penalties or odium, or, exposure of their operations. Goods are smuggled, and others are purchased with funds earned by vessels abroad, engaged in the carrying trade, and thereby augment the imports, whilst ships are frequently sold abroad, and thereby augment the exports. Large amounts of property are also exported from some countries for which no proceeds are to return, or at least, to return at an early day, such as happens in the case of foreign subsidies, the maintenance of troops and navies abroad, the transmission of revenues to non-resident capitalists, and funds for the expenses of travellers in foreign countries. To these may be added losses at sea, or by fires abroad, the bankruptcy of the persons to whom the exported commodities are sold, and investments in foreign loans and joint-stock companies. In most of these cases property of some kind or other is sent abroad which appears on the custom house books amongst the exports; and, although in many of them the actual transmission for these specific objects may be in the form of bills of exchange, yet it is manifest, that these bills could only be drawn upon shipments of property.

In the foregoing remarks it has been laid down as an axiom, that the price of bills of exchange is determined by the balance of trade. Strictly speaking, however, this is not always the case, for this balance is liable to be modified by what is called the balance of payments; and in truth this latter principle it is which regulates the daily rate of the exchanges. If all the merchandise exported and imported was to be immediately paid for at the time of its changing hands, the balance of trade and the balance of payments would be identical. But, in the intercourse between nations we know that this is not always the case, and that circumstances occur to prevent the immediate influence of the balance between imports and exports from acting directly upon the exchanges. Amongst these circumstances are the following:—

1. Where the imported articles are bought on a credit, and are to be paid for at a distant time, whilst the exported articles are sold for cash, or *vice versa.*

2. Where in the case of both imports and exports the sale is on credit, but the credits are not of the same length.

3. Where the articles shipped abroad from one of the countries should not meet with a ready sale, and should be kept on hand for a length of time without being drawn upon, whilst on the other side a prompt sale is made, and bills drawn for the proceeds.

In either of these cases, the operation of the balance of payments on the exchanges might be such as not only to neutralise for a time the operation of the balance of trade, but to turn the exchanges against the country which had the balance of trade in its favor. A case in point can readily be referred to.

If an account current were to be made out of the past state of debits and credits between the United States and Great Britain, it would no doubt be found, that from the date of planting the first British colony in this hemisphere, we have owed a balance of trade that has never been discharged, and which at times may have amounted to a hundred millions of dollars or more; and yet, owing to the credit that has been extended to us, by which the pay-day has been deferred, the exchange has not always been against us, but has, on the contrary, been so controlled by the balance of payments as frequently to have been in our favor.*

CHAPTER V.

ON THE PRINCIPLES OF EXCHANGE.

Bills of exchange are those commercial instruments by which a merchant in one country or place directs money which is subject to his control in another country or place to be paid over to a third party. In the commercial transactions of every nation, some of the merchants become indebted to other merchants in foreign countries for commodities purchased there upon credit, whilst some others have funds in those foreign countries arising from the sale of cargoes disposed of there. If bills of exchange did not exist, the debtor class of these merchants would be obliged to incur the expense and risk of transporting coin or bullion to foreign countries in discharge of their debts, and the creditor class would also be obliged to incur the same expense and risk in importing coin or bullion in payment of their cargoes sold abroad. By this double transmission, the merchants, and consequently the nations to which they belonged, would be losers to an amount equal to all the expenses and risks so incurred, together with interest on their capitals for the time they were out of their reach. Nor could this be avoided unless the importers and exporters were always the same identical individuals, in which case the merchandise purchased

* For a table of Imports and Exports of the United States from 1789 to 1839, see Appendix F.

abroad would be paid for by the proceeds of the merchandise sold. By the operation, then, of bills of exchange, the necessity of this double transmission is entirely avoided, and the funds abroad, instead of being sent home, are transferred to those who have debts to pay abroad, and who are thus exempted from the expense and risk of sending coin or bullion in payment of their debts.

But this benefit, in which the whole nation participates, is not limited to the mere application of funds in any given place to the payment of a debt due in that place. It matters not whether the fund and debt both stand on the books of merchants at the same place, or whether the debt be due at Manchester and the fund be at Paris. The magic power of bills of exchange transfers the payer and receiver both to London, the great seat and centre of British and indeed of European commercial operations.

But the merchants who make remittances of bills of exchange to foreign countries, to pay for merchandise purchased there, do not, it is manifest, procure those bills of exchange for nothing. They must purchase them from those who have funds abroad to draw for, and in doing this they will endeavor to procure them at as cheap a rate as they can. It is, on the other hand, the interest of those who have bills for sale, to secure the highest price for them they can, and it is this competition between buyer and seller that determines *the market price*, which, like the market price of commodities, must always depend upon the proportion which the supply bears to the demand. If bills of exchange are scarce, their price will be high. If they are plenty, their price will be low. There is, however, one peculiarity belonging to a bill of exchange, which is not common to any commodity, and which ought always to be kept in mind in discussing this subject. It is, that if it cannot be sold at a price that will suit its owner, he has it in his power to avoid the necessity of a sale at great loss by importing his funds in coin; and if it cannot be purchased at a price that will suit a purchaser, the latter can avoid the necessity of a disadvantageous purchase by exporting coin in payment of his debt. The existence of this peculiarity places a limit upon the fluctuations in the rate of exchange, which cannot for any long period together fall and remain below par, or rise and remain above par, to a greater extent than to an amount equivalent to the expense of transporting the precious metals from the debtor country to the creditor country. For, if a merchant owes a debt abroad, and cannot procure a bill of exchange at an advance above par equal to the freight, insurance, commission, and brokerage, and to the value which he attaches to that *certainty* of punctuality in the fulfilment of his engagement abroad, which *a set of bills* of undoubted credit, sent by two or three different vessels affords, but which a shipment of coin cannot always furnish, how solvent and prompt soever might be the underwriters in settling in case of loss, he will unquestionably transmit coin as being the most economical mode of making a remittance.* And so, on the other hand, the drawer of a bill, if he cannot sell at a price which will yield him as much money as the importation of coin would do, taking into the account, besides the charges of importation, the interest for the time he must wait before his money can arrive, and if money be scarce, the inconvenience or loss he would sustain by the delay, he will undoubtedly order his funds to be shipped to him in coin, as the most advantageous mode of getting them into his possession.

Of the correctness of these positions there cannot

* Specie was shipped from New York to England, at a loss, in October, 1839, in preference to bills at par, owing to the apprehended difficulty of getting them discounted under the pressure of the London money market. Other shipments were made, at the same time, of specie, under the impression that the Bank of England was about to stop cash payments, in which event, the specie would have commanded a premium in London. The cost of freight and insurance on specie from the United States to Europe, may be computed at one per cent.

be a doubt, and whenever the market price of exchange differs from these rates, it must have its cause in one of the following circumstances.

If the exchange be *above*, it must either be that the merchants who have remittances to make are ignorant of their business, and therefore pay more for a bill than it is worth, or that small profits are not worth their attention, or that there is a penalty or a degree of odium attached to the exportation of coin which they are not prepared to encounter, or that the punctuality which is expected of them by their correspondents abroad is of a character that would not justify the hazard of a miscarriage by a single ship.

If the exchange be *below*, it must be because the owner of the funds abroad cannot afford to wait the time requisite for the transmission of the coin, or because in the actual state of the money market, money is worth to him more than the ordinary interest, or because there exists a penalty or a degree of odium attached to the exportation of coin in the country from which his fund is to be drawn.

It must, however, be remarked, that it sometimes happens that bills are sold below the limits here designated in the following cases, viz:

1. Where the commanders of ships of war on foreign stations have occasion to draw bills upon their government, at ports of limited trade, or at which the course of trade does not call for such bills. I have known a bill on the navy department drawn at a port in South America to be sold at twelve per cent. below the true par.

2. Where masters of vessels and supercargoes, at such ports, have not merchandise enough to fill up their vessels, and on that account find it for their interest to sell bills at a great discount, for the purpose of buying bulky commodities to bring home, and thereby earn a freight more than equivalent to the loss sustained on the bills.

3. Where masters of vessels enter such ports in dis-

tress, and are obliged to draw bills upon their owners for necessary repairs.

In wealthy countries, however, where bankers are prepared with large capitals devoted to speculations in bills of exchange, great fluctuations from the par are not likely to take place, inasmuch as bills can always be bought from or sold to them, by allowing a small profit beyond the expenses of exporting or importing coin. The trade of a banker in Europe is to study the exchanges not only between the place at which he resides and all other places, but also between all those places and each other, by which means he is generally enabled, by a combination of operations, by selling bills on one place and by buying them on another, not only to raise the fund with which he deals, but to realise a profit. Thus, for instance, if he reside at London, and can sell a bill on Hamburgh at half per cent. premium, and buy one on Paris at half per cent. discount, and with the latter buy one through his correspondent at Paris on Hamburgh at par, he will have realised one per cent. by the transaction, without the employment of any capital; the bill remitted from Paris to Hamburgh arriving in time to meet the bill drawn upon his correspondent at the latter place.

Having in the foregoing remarks spoken of the par of exchange, it is proper that the meaning of that term should be explained.

Exchange is an operation, which, strictly speaking, has relation only to the precious metals, and every bill of exchange is in reality a mere order for the delivery, on a certain day, of a given quantity of gold or silver. Exchange is at par or equality, when a merchant in one country can purchase with an ounce of pure gold, or an ounce of pure silver, a bill at sight upon a foreign country, which will there put him in possession of an ounce of pure gold or an ounce of pure silver, and the coins of full weight of the two countries which are the respective equivalents of an ounce of pure gold or an ounce of pure silver, will express that par. This is an axiom in political economy, and should never be lost sight of, whatever appearances to the contrary may at times be presented. Exchange is *above par* when a greater quantity is required for the purchase of a bill that will command an ounce of pure gold or pure silver; and it is *below par* when a less quantity is required. Now, if all the trading nations of the world were to use only one of those metals as their currency, and if their coins were of the same standard as to purity, and of the full mint weight, the science of exchange would be as simple as the plainest calculations in arithmetic. But this not being the case, each nation having its own standard of fineness, and its own particular coins, some having one metal and some the other, and some both, to constitute their currencies; and the coins of some countries being worn by wear and tear more than those of others, without being prohibited from passing by tale, and there being in some countries a seignorage charged on the coins, whilst in others there is none, the subject is involved in an obscurity which very few persons are disposed to take the trouble to penetrate, and indeed which very few persons have the means of penetrating. This has been particularly the case in reference to the exchange between the United States and England, which, being for many years past, up to the present day, quoted in all the newspapers, prices current, and correspondence, upon false principles, has occasioned a wide-spread error, the origin of which will now be explained.

By an act of congress, passed on the 31st of July, 1789, it was declared, that the British pound sterling (which, although not at that time a coin, was the equivalent of the quantity of gold contained in a guinea, *less the one and twentieth part*, the guinea being twenty-one shillings) should be taken as of the value of four Spanish silver dollars and fourty-four hundredth parts of a dollar in estimating *ad valorem* duties upon British merchandise at our custom houses. This estimate was founded upon the circumstance, that at that period, the Spanish dollar, the only coin of that denomination in circulation in the United States, was the well known equivalent in the British market, of four shillings and sixpence sterling, and very nearly such equivalent at the British mint.*

By another act of congress of 2d April, 1792, establishing the mint, and authorising a coinage for the United States, it was provided, that there should be silver dollars coined, "each to be of the value of a Spanish milled dollar," to contain 17dwt. 8 grains of standard silver; and that the proportion which the gold and silver coins should bear to each other, should be that of 1 to 15, that is, that one ounce of pure gold should be the equivalent of fifteen ounces of pure silver.†

But there is no natural proportion between gold and silver, as has been observed on a former occasion, any more than there is between lead and iron, and it is therefore very manifest that no law can permanently fix a par of exchange between them. When any change in their relative value takes place in the market of the trading world, whether it be by an in-

* The mint price of silver at that period, as well as at the present, was 5*s*. 2*d*. per ounce. The weight of the dollar was 17dwt. 8 grains, but somewhat inferior in quality to the British standard, so that if sent to the mint, it would have produced about 4*s*. 5½*d*. As an exportable foreign coin, it was probably worth in the market an additional ½*d*., there being at that time a prohibition against the exportation of British coins.

† The adoption of this proportion was probably the result of a sort of average, founded upon the comparison of the mint proportions of several different countries. What they were at that precise date, I cannot say, but, by some tables that I have seen, it appears that the mint proportions in 1810, at the places named, were as follows, and probably had been so for a long period.

Paris,	1 to 15.65-129.	Venice,	1 to 14 88-100.
Cadiz,	1 to 16.	London,	1 to 15 13-62
Lisbon,	1 to 15.7-10.	Bengal,	1 to 14 861.
Naples,	1 to 14.5-10.	Madras,	1 to 13 872.
Genoa,	1 to 14.53-100.	Bombay,	1 to 15.
Leghorn,	1 to 14.53-100.	China,	1 to 14 296.

Amsterdam, no regulation: market rate, about 1 to 14 7-10.
Hamburgh, no regulation: market rate, about 1 to 14 83-100.

creased or diminished supply, of one or the other metal, or, by an increased or diminished demand for one or the other, the par becomes changed. This event did in reality take place, and in process of time, an ounce of gold, as has been already stated, became gradually worth more than fifteen ounces of silver, and finally reached the proportion of one to sixteen. With this gradual change in the relative value of gold and silver, the silver dollar ceased to be the equivalent of four shillings and sixpence sterling, and consequently the pound sterling became the equivalent of more than four dollars and fourty-four hundredth parts of a dollar, for the simple reason, that any person who possessed the quantity of gold represented by the pound sterling before the coinage of the sovereign, and now actually contained in that coin, could obtain for it more than four dollars and forty-four hundredth parts of a dollar in silver. But the mercantile usage did not conform to this change. The merchants adhered to the old par, as if a pound sterling was the equivalent of four dollars and forty-four cents by some unchangeable law of nature, and for many years continued to ascribe the nominal premium on sterling bills of exchange, which was the mere exponent of this change in the relative value of gold and silver, to the influence of the balance of trade. The delusion was partly removed by the act of congress of 14th July, 1832, which raised the value of the pound sterling for the calculation of *ad valorem* duties at the custom house to $4.80, and by two subsequent acts, one of 28th June, 1834, by which the British sovereign was made the equivalent in American gold coins of $4. 87.075+, and one of 18th January, 1837, by which it was made the equivalent of $4.86.65+, *which is now the true par on London*, corresponding within a very small fraction to 9½ per cent. premium on the old computed par.* I say

* The sign + at the end of the figures in this sentence, and wherever it occurs, denotes that there is a fraction still remaining.

"partly removed," because, strange as it may appear, there are thousands of persons at this very day, who have no other belief on this subject, than that the nominal premium quoted on exchange, is a real advance which takes so much money out of their pockets. To remove, however, the vestiges of this deep rooted error, the Chamber of Commerce of New York, early in the year 1839, recommended to the merchants of that city, to quote the exchange on England in dollars and cents for the pound sterling, instead of designating the per centage above or below par; a recommendation which was soon after followed up by the Chambers of Commerce of Philadelphia and other places, and will perhaps in time be generally adopted.*

* Since the appearance of the first edition of this book, the author has been politely furnished, by Joseph Perry Esq., of the General Post Office at Washington, with a very detailed statement of the value of the sovereign in American currency under the different acts of congress, ascertained by algebraical calculations, from which it appears, that the par of the pound sterling, was

By the act of 2d April, 1792—$4.5657+ which was $2\frac{7}{10}$ per cent above the computed par of $4.4444.

By the act of 28th June, 1834, commonly called the gold bill—$4.87075+ which was 9.591875+ or within a small fraction of $9\frac{3}{5}$ per cent. above the same computed par, and

By the act of 18th January, 1837, now in force—$4.8665+ which is 9.496+ or very nearly $9\frac{1}{2}$ per cent. above the same computed par.

The British mint price of standard gold is £3. 17*s.* $10\frac{1}{2}$*d.* per oz. and consequently the weight of the sovereign, the coin of one pound sterling is 123.2744+ grains. The British standard of gold is, 22 carats fine, that is, 11 parts pure metal and 1 part alloy, and consequently the quantity of pure gold contained in a sovereign is 113.001 grains.

The standard of gold in the United States by the existing act of 18th January, 1837, is 21.60 carats fine, that is 9 parts pure metal and 1 part alloy, and the weight of the eagle, the coin of ten dollars, is 258 grains standard, or 232.2 grains pure gold.

Now as the sovereign of full weight and standard purity contains precisely as much pure gold as is contained in

4.866563+ parts of an eagle, it follows that the true par of the pound sterling is \$4.866563+ that is \$4.86 and a fraction of nearly $\frac{2}{3}$ of a cent.

But it appears by the Report of the Director of the Mint of the United States of March 19, 1839, that by the latest assays made by him of the British gold coins, their standard does not exceed 915$\frac{1}{2}$ thousandths, whereas by the British mint regulations, it ought to be 916$\frac{2}{3}$ thousandths, which is equal to 22 carats. Taking this then as the true standard of the sovereign, it contains when of full weight only 112.8577 grains pure gold, and consequently the par of the pound sterling thus found, is but \$4.860366, that is \$4.86 and a very small fraction, equal to 9.35+ or 9$\frac{7}{20}$ per cent above the old computed par.

But this is not all. The act of congress of June 28, 1834, entitled "An act regulating the value of certain foreign gold coins within the United States," declares that the sovereign when of standard purity, shall be a legal tender, at the rate of 94$\frac{8}{10}$ cents per pennyweight. By this act which has never been altered, a sovereign of full weight and of the legal standard is worth in our gold currency the same as by the gold hill of 1834, above referred to, that is \$4.87 and a fraction, thus presenting the anomaly of foreign coins having a higher value attached to them than their intrinsic worth in the coins of the country.

It so happens, however, that many of the sovereigns that reach this country, have been somewhat worn, and on this account, no doubt, in connection with the deficiency of purity above referred to, they have been received and paid out by the banks at \$4.85.

For the benefit of practical men, the following documents are submitted.

PRESENT VALUE OF THE POUND STERLING IN DOLLARS AND CENTS AT DIFFERENT RATES OF EXCHANGE ON THE COMPUTED PAR OF \$4.4444.

RATE.	Above par.	RATE.	Above par.
Par.	4.4444	$\frac{3}{4}$	4.5666
$\frac{1}{4}$	4.4555	3 per cent.	4.5777
$\frac{1}{2}$	4.4666	$\frac{1}{4}$	4.5888
$\frac{3}{4}$	4.4777	$\frac{1}{2}$	4.6000
1 per cent.	4.4888	$\frac{3}{4}$	4.6111
$\frac{1}{4}$	4.5000	4 per cent.	4.6222
$\frac{1}{2}$	4.5111	$\frac{1}{4}$	4.6333
$\frac{3}{4}$	4.5222	$\frac{1}{2}$	4.6444
2 per cent.	4.5333	$\frac{3}{4}$	4.6555
$\frac{1}{4}$	4.5444	5 per cent.	4.6666
$\frac{1}{2}$	4.5555	$\frac{1}{4}$	4.6777

RATE.	Above par.	RATE.	Above par.
½	4.6888	¼	4.8555
¾	4.7000	½	4.8666
6 per cent.	4.7111	¾	4.8777
¼	4.7222	10 per cent.	4.8888
½	4.7333	¼	4.9000
¾	4.7444	½	4.9111
7 per cent.	4.7555	¾	4.9222
¼	4.7666	11 per cent.	4.9333
½	4.7777	¼	4.9444
¾	4.7888	½	4.9555
8 per cent.	4.8000	¾	4.9666
¼	4.8111	12 per cent.	4.9777
½	4.8222	¼	4.9888
¾	4.8333	½	5.0000
9 per cent.	4.8444	¾	5.0111

The Par of Exchange on Foreign Countries.

Extract from the Report of the Secretary of the Treasury of 28th May, 1838, on Exchanges.

The quotations of exchange on France, are so many francs and centimes, (*or hundredth parts of a franc,*) payable in France for a dollar paid here. According to the regulations of the French mint, the silver franc should contain 69.453 troy grains of pure silver, equivalent to 18.708-1000 cents in silver currency of the United States, (*not quite 18¾ cents.*) The quantity of pure silver in an American dollar, is equal to that in 5 francs 34.534-1000 centimes. But as foreign coins are not a legal tender in France, and as a seignorage of about 1½ per cent is charged on silver coinage at the French mint, American dollars, when sold as bullion in France, are said to bring on an average not more than 5 francs 26.25-1000 centimes. This is, by some writers assumed as the par of exchange on France. Other writers assume 5 francs 34 centimes as about par.

The quotations of exchange on Holland, are so many cents a guilder; on Hamburgh, so many cents a mark banco; and on Bremen, so many cents a rix dollar.

The exact value of the guilder of Holland, is 39.97-100 cents of United States silver currency; but 40 cents are usually assumed as the par of exchange.

The mark banco of Hamburg is a money of account, equal to 35.144-1000 cents United States currency.

The rix dollar of Bremen is a money of account, equal to 80 cents and a very small fraction United States currency.

FROM TATE'S CAMBIST.

The par of exchange between London and

Paris,	is 25 francs, 22 centimes per £ *stg.*	in gold.
"	is 25 " 57 " "	in silver.
Amsterdam,	is 12 guilders, 09 centimes "	in gold.
"	is 11 " 97 " "	in silver.
Hamburgh,	is 13 m'cs banco, 10½ schillings, "	
Bremen	is 609¼ Rix dollars for 100 £ *stg.* in gold.	

CHAPTER VI.

ON THE STEADINESS OF TRADE IN COUNTRIES EMPLOYING A METALLIC CURRENCY.

IF the principles laid down in the preceding chapters be sound, as it is believed they are, it must necessarily follow that the operations of commerce in countries employing a metallic curency, are as regular and as little liable to fluctuations as the nature of things will admit, and more than this can no where be looked for. That there will be occasional over-trading and over-speculation wherever there is credit, is too self-evident to require proof, and hence no country in which credit exists, can be entirely exempt from individual bankruptcies. Foreign wars, domestic disturbances, extensive conflagrations, storms and hurricanes, the failure of crops, the insolvency of foreign debtors, and a variety of other causes, may produce individual or even extensive commercial embarrassment. Too much credit may even lead incautious men into extravagance of expenditure, which may bring on their ruin, but in none of these cases is the currency chargeable with the catastrophe. The mischief, whatever it may be, can only be ascribed to the operations of credit; but as credit, when properly regulated, is far more influential in producing good than evil, as will be shown hereafter, it is not to be annihilated on account of the misfortunes or imprudence of a comparatively few individuals.

Such being the theory of this branch of my subject, I have the satisfaction to state in regard to the practice under it, upon the testimony of a respectable American merchant, who resided and carried on extensive operations for near twenty years at Gibraltar, where there has never been any but a metallic currency, that he never knew during that whole period, such a thing as a general pressure for money. He has known individuals fail from incautious speculations, or indiscreet advances, or expensive living; but he never saw a time that money was not readily obtainable, at the ordinary rate of interest, by any merchant in good credit. He assured me, that no such thing as a general rise or fall in the prices of commodities, or property was known there; and that so satisfied were the inhabitants of the advantages they enjoyed from a metallic currency, although attended by the inconvenience of keeping in iron chests, and of counting large sums in Spanish dollars and doubloons, that several attempts to establish a bank there were put down by almost common consent.

Upon this same subject, in reference to the city of Havanna, more satisfactory evidence still, because in an official form, and more in detail, can be adduced. N. P. Trist, Esq., consul of the United States at that port, in a letter addressed to the secretary of the treasury under date of 19th October, 1838, and laid before the senate on the 21st of January following, annexed to a report from the committee of finance, communicated many valuable particulars in reference to the practical working of a metallic currency.

After describing the trade and importance of Cuba, Mr. Trist employs the following language:—

"These are tolerably sure evidences of a state of active industry and prosperous credit. Nor are they less *steady* than active. They exhibit no alterations of feverish excitement and prostration; now rising to the energy of delirium, now sinking to correspondent enervation. The sudden stoppage of the current business in all, or in any one of its branches, is a thing as absolutely unknown in this island as the freezing of one of its rivers; and its inhabitants possess as little knowledge of the one phenomenon as they do of the other. Nay, less: for they not only read and hear of the freezing of our waters, as they do of those monetary prodigies in which the streams of industry and credit become arrested in the same way, and with equal suddenness; but, by means of the ice which our country sends hither, they can form a clear conception of the one wonder, and of all the horrors of navigation among its whirling and crushing masses, while no such means of knowledge can be brought home to their feelings in regard to the other.

"I am here indulging in no exaggeration. It is the *literal* truth; and for the proof that it is so, I refer to the testimony of the leading merchants *of all nations* established here, which forms a portion of the documents accompanying this letter. It is *strictly* and *literally* true, that such a thing as a monetary convulsion is *absolutely unknown* in any part of this island, which covers an area of about forty-three thousand square miles; has a line of sea-coast of about sixteen hundred miles; has nine ports open to foreign commerce, one of which is 'a commercial city, second to none in the new world, New York only excepted;' has a population amounting to about one million of souls, who, in the last year, maintained a foreign exporting and importing business exceeding *forty-three* millions of dollars, after paying taxes to an amount which, in the year 1827, (when its exporting and importing business fell something short of *thirty-two* millions,) exceeded *fourteen* millions, and the rate of which has not since decreased; and the government of which is an absolute monarchy, maintained by the bayonet.

"This is the country the inhabitants of which actually have not the slightest knowledge of what a monetary convulsion means; where a general or an extensive stoppage of its commercial movement, (using the words in their most comprehensive sense, embracing all branches of business,) not only has never spontaneously occurred, but has never, for one single instant, been experienced at all; where the utmost effect that any foreign disturbing cause, however terrific its ravages at home, has ever been able to produce, has been a *momentary* pause—momentary *only*, and merely prudential—in regard to the particular branches of business, or rather the particular individuals, intimately and directly connected with the scene of the earthquake.

"This, I again repeat, is true to the very letter. The recent convulsion, in which the whole business of our country, from the city of New York to the remotest village in the west, exhibited the spectacle of chaos come again, was literally *unfelt* here. None but the mercantile class knew that any thing had happened; and of that class, it did not occasion a moment's uneasiness to any, except those whose stability depended upon the punctual fulfilment of engagements by merchants in the United States or in Great Britain. Beyond these, and the few others who may have depended upon credit facilities from them, I do not believe that the business of a single man in the island was so much as sensibly slackened by it for a single day, or that a single individual received or spent one dollar the less, or so much as ever dreamed that any thing was the matter.

"For evidence upon this point, from persons far more competent to give it than I can be, I again refer to the accompanying documents. They afford proof of the fact. To estimate the force of that fact, it is necessary to take into consideration the extent and intimacy of the commercial connection between the two countries. Of this a conception may be conveyed in a few words. Of the *two thousand five hundred and twenty-four* vessels of all nations, Spanish included, which entered the ports of the island from other parts of the world, during the last year, *one thousand three hundred and nineteen* were Americans.

"Here then, are the facts. Here is flourishing industry, flourishing credit; above all, flourishing *commerce*, if such a thing exists under the sun. These are facts, the reality of which is beyond all question."

Not wishing, however, to rest his statements upon his own evidence alone, Mr. Trist addressed a circular to a number of foreign merchants of the highest respectability residing in Havanna, in which he propounded to them a number of inquiries, the answers to five of which he above alludes to as the documents accompanying his letter.

From these answers the following particulars are gathered:—

First. That the imports into the Havanna are mostly on account of the foreign shippers, perhaps a third or a fourth being on home account.

Second. That these imports are mostly sold on credit, varying from one to ten months, upon promissory notes without endorsers, which are paid at maturity with great punctuality.

Third. That the rate of interest fluctuates according to the season.

One of the answers says,—

"The usual rate of interest for good paper is $\frac{3}{4}$ per cent. a month, and the extreme points may be placed at $\frac{5}{8}$ to 1 per cent.; but the latter rate is unusual."

Another says,—

"In spring, when the bulk of the crops is shipped, it is sometimes difficult to get money for notes at $1\frac{1}{2}$ per cent.; and in autumn, when shipments are of comparatively small amount, and foreign exchanges high, the rate of discount sometimes falls to $\frac{1}{2}$ per cent."

The third says,—

"The discount varies in ordinary times between $\frac{3}{4}$ and $1\frac{1}{4}$ per cent. per month. For signatures in good repute, the current rate scarcely ever exceeds 1 per cent."

The fourth says,—

"The discount is 1 per cent. a month, and frequently $\frac{3}{4}$ on first rate paper of merchants or retailers, but very often the notes of planters cannot be cashed at less than 2 per cent. a month."

The fifth says,—

"The ordinary discount upon good paper is from $\frac{3}{4}$ to 1 per cent. I have sometimes known the discount in our market to be $\frac{5}{8}$ per cent., and rarely above $1\frac{1}{4}$. It may be said that there are every year two rates of discount in our market; the one from January to June, when the rate is from $\frac{7}{8}$ to 1 per cent., the other from July to December, when it is from $\frac{3}{4}$ to $\frac{7}{8}$."

Fourth. That at the market rate of discount there is never any difficulty to obtain money.

Fifth. That bills of exchange can always be sold at the current rate.

Sixth. That no such thing as a general scarcity of money is known.

Seventh. That individuals occasionally fail, but that such a thing as a general discredit may be said not to be known. The only exceptions were in 1836, occasioned by local speculation on sugars, and in 1829, when there was an extensive failure of the "retail dealers in dry goods, who had formed themselves into companies, the individuals of which made up for each other's deficiencies. In this way they acquired great credit, and were enabled to make purchases with long terms of credit, extending from six to twelve months. The less regular trusted to the more, insomuch that the latter, after a series of increasing abuses, denied their liability for the former, and an almost general suspension of payments took place among them."

Eighth. That the ordinary derangements of commerce in foreign countries produce no effect, except upon the parties immediately connected with it, as drawers or endorsers of protested bills. A violent and general commercial crisis, however, such as that which took place in the United States in 1837, exercises a temporary influence. That crisis was felt in Cuba, as it was, in fact, almost over the whole commercial world, although the answers differ in regard to its intensity, one affirming that it did not "shake credit and confidence to such a degree as to stop the current business in those branches on which it weighed the most directly."

CHAPTER VII.

OF THE DIFFERENT KINDS OF DEPRECIATION TO WHICH A METALLIC CURRENCY IS LIABLE.

In discussions upon a metallic currency, the term depreciation or diminution of value, is frequently employed, and as it is necessary that the reader should be acquainted with the different kinds of depreciation to which reference may be had, they will be here pointed out.

The *first* is that general and gradual diminution in the value of the precious metals, which has resulted, and which may possibly hereafter result, from the discovery of new mines, or from the discovery of economical modes of extracting and refining the ore, by which the aggregate mass of gold and silver in the commercial world has been, or may be, augmented faster than the demand. The most remarkable depreciation resulting from this cause that has ever taken place, was that which commenced with the discovery of the mines of America about the middle of the sixteenth century, and which has been generally considered to have regularly continued, with some occasional interruptions, down to the present period.*

The *second* species of depreciation is that to which the metallic currency of a country may occasionally be for a short time subject, by an extraordinary importation of coin, not in the course of its regular distribution throughout the commercial world, but by some unusual event. A memorable example of this species of depreciation occurred in the United States somewhere about the year 1805, at which time there was war between Great Britain and Spain. The Spanish government, not finding it easy to evade the British cruisers in the Gulf of Mexico, which closely watched the exports of coin from Vera Cruz, made a special contract with the house of Hope & Co. of Amsterdam, of whom it had obtained a loan, by which authority was furnished to that house to receive in Mexico large amounts. In order to procure this coin, bills on Vera Cruz were sold in the United States by Hope & Co. through their agent, David Parrish, upon terms favorable to the purchasers, with the privilege of importing cargoes of merchandise into Mexico, to a class of responsible merchants, who fitted out fast sailing vessels, which could elude the British ships of war, and by means of that arrangement, many millions of Spanish dollars found their way into the United States, not called for in the ordinary course of trade, and not merely *in transitu* on its way to Europe, for most of it was here exchanged

* Those who are desirous of being particularly informed on this subject, are referred to Smith's Wealth of Nations, Book I, chap. xi, Part III, where they will find the matter examined with great care and ability.

for coffee and other merchandise, and thus entering for a time into the circulation of the country, occasioned a depreciation of the currency to an extent plainly discernible.

A *third* species of depreciation is that which results from the wear and tear of the coins of a country, by which they lose in weight, and consequently in value. In some countries this diminution in the weight of the coins has been permitted to exist to such an extent before a new coinage has been ordered, as materially to affect the rate of exchange, the par of which calls for ounce against ounce, and consequently in such cases, the true par has differed from the nominal par, precisely to an extent equal to the depreciation.

A *fourth* species of depreciation is that which arises from the frauds of governments, by which their coins, whilst they retain the same denomination, are diminished in weight or in purity, or in both, so as to contain a less quantity of gold or silver in them than before, whilst they are declared to be legal tenders for the discharge of a debt for an equal number of pieces, contracted before the alteration took place. Many discreditable transactions of this species of fraud might be enumerated, amongst which are the following:—

The successive frauds in France by which the *livre* or pound of silver has been reduced to the *livre* or franc, equivalent to less than one-fifth part of a Spanish dollar.

The successive frauds in England, by which the *pound* of standard silver, originally coined into twenty equal parts, called shillings, has been coined into sixty-six equal parts, also called shillings, of which twenty are made a legal tender for the payment of a debt contracted at a time when twenty shillings contained a pound of silver.

The recent fraud practised in the United States by the act of 28th June, 1834, by which the gold coin called the eagle was reduced in weight and deteriorated in purity. Prior to that year the eagle contained 247½ grains of pure gold. By that act it was reduced to 232 grains of pure gold. Prior to that act its standard was twenty-two carats, that is, eleven parts of pure metal to one of alloy. By that act its standard was reduced to about 21.58 pure metal to 2.42 of alloy, the two operations reducing its value 68 cents, that is, from ten dollars to nine dollars 32 cents, whilst it was made a legal tender for all debts contracted before the 28th of June, 1834, as well as for those contracted after that date for ten dollars. By the act of 18th January, 1837, this fraud was slightly rectified, by augmenting the weight of pure gold in the eagle to 232⅕ grains, as will be seen in the first note to Chapter 2, Book 4.

Changes in the intrinsic value of the coins of a country made in the manner here referred to, necessarily show themselves in the rate of the foreign exchanges. A palpable example is now before our eyes, in the case of the late alteration of our gold coinage, by which the par of exchange on England, when measured by gold, became altered to the whole extent of the diminished weight of pure metal in the eagle. As for example: prior to the 28th June, 1834, the British sovereign, which is the metallic pound sterling, if coined at our mint, would have produced $4.56½ and a fraction in gold currency, and consequently the latter would have been the true par of one pound sterling measured by gold. Under the present coinage, the same British sovereign can be converted into $4.86 and a fraction in gold currency, and consequently the latter is now the true par of one pound sterling, as was particularly shown at p. 32.

A *fifth* species of depreciation is that which results from the creation of paper money as a substitute for gold and silver, which operates upon the value of the total existing mass throughout the commercial world, precisely like the discovery of new mines. It will be shown in the proper place that the introduction of paper money into any country necessarily drives out a portion of its metallic money, and thereby augments the quantity previously existing in other countries, the inevitable effect of which is, to depreciate it there below its previous value.

I am aware that the term *fraud* as applied to the reduction of the weight of pure gold in the American eagle, is not an acceptable term to many people. It is certainly a harsh expression, and Congress might have avoided the imputation conveyed by it had it enacted that the laws of the 28th of June, 1834, and the 18th of January, 1837, should have had no application to contracts made anterior to the former date, thus leaving the rights of all creditors unimpaired. It is true that up to this time, creditors have not sustained any material injury from the operation of these laws, inasmuch as debtors have generally found it as profitable to pay in silver, which creditors have at all times been obliged to receive, as in gold; but this is an incident which could not have been positively foreseen, and which may, in fact before long cease to operate, for under the new proportions between gold and silver, the banks find it more advantageous to pay in gold than in silver, the quantity of gold contained in the eagle of the present coinage, being worth in the markets of Europe, less than ten silver dollars. That this is the case, may be inferred from the fact, that where our merchants import specie from Europe, they give a preference to gold, and where they export specie they give a preference to silver, which would not be the case if the legal proportions established an exact equivalency.

That this position, may not, however, rest upon mere inference, I will establish it by proof which cannot be disputed.

The price of Mexican dollars in London within the last two years has fluctuated between 4*s*. 9¾*d*, and 4*s*. 10½*d*. per ounce. They were quoted on the 27th

February, 1838, at the former rate, and at the end of December, 1839, at the latter. Since January, 1840, to the date of the last advices, (the 10th of April,) the price has been 4*s*. 10$\frac{1}{4}$*d*, and as American dollars are of the same standard as the Mexican, that is, nine parts pure silver to one of alloy, the same value may be attached to them. Now as the weight of the American dollar is 412$\frac{1}{2}$ grains, its value in British money is at this period 4*s*. 2*d*., and consequently, the value of ten silver dollars is £2 1*s*. 8*d*.

But the quantity of gold contained in the eagle, if sent to England and coined into British currency would only be worth £2 1*s*. 1$\frac{1}{6}$*d*, as may be ascertained from the fact that the eagle contains 232$\frac{1}{5}$ grains of pure gold, and the sovereign, or pound sterling, 113$\frac{18}{11214}$ grains.

For (omitting the fraction,) if 113 grains are equal to £1, 232$\frac{1}{5}$ grains are equal to £2 1*s*. 1$\frac{1}{6}$*d*.

This difference of near seven pence sterling, equal to about fourteen cents, upon ten dollars, shows that a gold eagle is now worth one and four tenths of one per cent less than ten silver dollars in England, and if it has not shown itself in the United States, it is simply on account of their *legal forced equivalency*, by which silver is undervalued as compared with gold, precisely as gold was undervalued as compared with silver, prior to the 28th of June, 1834.*

* If it be said that American dollars would not be as saleable in England as Mexican dollars, although of equal intrinsic value, on account of the greater notoriety of the former, I would reply, that this may be the case, and on that account I have no objections, if the reader chooses, to reduce the estimate of the undervaluation of silver, one quarter or one half per cent. which has been the premium in New York upon Mexican dollars, when paid for in American silver or gold, from January, until May of the present year, remarking at the same time, that during the same period, the weekly quotations of "The Philadelphia Price Current" of Mexican dollars, and American half dollars in Philadelphia depreciated paper currency, have been uniformly the same.

It matters not that at this day the difference is of a comparatively trifling amount. If it be but the tenth part of one per cent. the charge is established. But how do we know that in the course of time the proportions between gold and silver may not fall back to one to fifteen as they stood forty years ago, in which case not a debt would be discharged in silver, and consequently, creditors on all contracts, such as bonds, ground-rent deeds, annuities, state, city, and county loans as well as the loans of rail road, canal, and other corporations, contracted before the 28th of June, 1834, would be defrauded by law of six per cent of the amount of their debts? This is a grave question, and one in relation to which more will be said in the chapter "On the impolicy of adhering to our present mint proportions between gold and silver," in Book the Fourth.*

CHAPTER VIII.

ON THE "CREDIT SYSTEM," OR THE INFLUENCE OF CREDIT IN PROMOTING NATIONAL WEALTH.

Much has been said in the United States of late years in reference to the important agency of what is called the "credit system," in promoting national wealth, but few persons comparatively have examined the subject with sufficient minuteness to enable them to form a clear conception of its mode of operation. As the subject is one, however, which deserves to be thoroughly understood, I will endeavor to present it to the reader in such a way as cannot fail, I trust, to be intelligible.

* See also Appendix A and B.

The term *credit* is applied to that confidence reposed by one individual in another, which induces the former to permit the latter to have a portion of his capital, to be used as he may think proper, without the immediate transfer of an equivalent, but upon his stipulating to pay such equivalent at a future period, together with a compensation for the use of the capital during the time it is not under the control of its owner. Where the credit is given on a delivery of capital in the form of money, it is called a loan, and the charge which is made for the use of it is called interest. Where the credit is given on a delivery of capital in the form of other commodities or property than money, it is called a sale, and the charge which is made for the use of it is called profit. In both cases the credited party is placed in possession of something possessing intrinsic value, upon which industry can be employed, or by which it can be sustained; for even in the case where the capital consists of money, it must be exchanged for merchandise, raw materials, utensils, food, or clothing, before it can be productively employed by the borrower.

In countries where confidence between individuals does not extensively prevail, the credit system is but partially known. Happily for our country, this confidence has always existed amongst us, and for ages, amongst those from whom we are descended, and it is known to all who are acquainted with the history of the American colonies, that a system of credit was commenced by the mother country with the landing of the first pilgrim on our shores, and has never ceased to be continued to the present day. The United States owe a vast share of their prosperity to the credit system, and so manifest has this become to every well informed mind, that there are few persons with notions so antiquated as not to confess, that credit, when regulated by the rules of prudence, and not abused, is one of the most powerful stimulants to the production of national wealth.

The first subject for inquiry now is, how does credit operate in the production of national wealth? As this can best be shown by a practical illustration familiar to most people, I will explain it somewhat in detail.

We all know that a very large proportion of the settlers of our western country reach their tracts of land with no property in the world except an axe, a spade, a hoe, a gun, a cow, a few household utensils, and a change or two of clothing. They have paid a hundred dollars cash for eighty acres of land, the government price for some years past, or they may have bought it on a credit from private individuals, at a higher price; but the land is generally covered with timber, and is of no use in its present condition, for purposes of tillage. In this destitute condition, they find it absolutely impossible to commence the clearing of their lands, unless somebody will trust them with the articles of which they stand in need, until they produce a crop of some kind or other. They go to a neighboring merchant and satisfy him that they are industrious, economical and honest, and that if he will let them have on credit some of his capital, in the form of sugar, tea, coffee, flour, corn, potatoes, seed, salt provisions, winter clothing, and such other things as are absolutely indispensable for their subsistence, and for protecting themselves against the weather, they will pay him as soon as the land produces. The merchant, who has located himself in this spot for the very purpose of supplying the wants of the settlers, consents to the request, and agrees to give to his new neighbors, credit for fifty or a hundred dollars worth of things. With this borrowed capital each settler begins his labors, and when the crops are harvested, the merchant is paid in grain and other productions, and the settler finds himself, by the aid of this credit, in possession of a surplus, sufficient in part to support his family for another year, which he could not possibly have possessed, had the merchant refused to give him credit.

Here we see at once the agency of credit in creating a new capital. The settler without the credit, would have perished, or have dragged out a wretched life, whilst the merchant might have had a dead stock lying unemployed, producing nothing for its owner, or for any body else.

What has been here described in reference to the poorest class of settlers, is equally true of those who emigrate to the western country with a moderate share of wealth. There is scarcely an individual amongst them, who for the purpose of extending the culture of his land, or adding to his improvements, does not, at some period of the year, purchase goods or implements on credit of the neighboring merchants, in anticipation of his next crop, thereby acquiring the means of augmenting the products of his farm, and consequently of creating a capital which could not have existed but for the credit he obtained. Most especially is this true, in regard to a large proportion of the planters of the cotton growing states. These planters, it is well known, are in the practice of obtaining large supplies of clothing and subsistence for their slaves, and of every article for their own consumption, upon credit from the neighboring merchants, in anticipation of the next year's crop; and it is hence manifest, that the wealth of those states is eminently promoted by the operation of credit.

And now, whilst I am on this subject, it may not be amiss to trace to their source the further operations of credit, by which the country merchants have been enabled to aid the settlers and planters in augmenting the national wealth. Few or none of these traders, have a capital of their own adequate to carry on business to the extent they do. They are themselves obliged to obtain most of their supplies upon credit from the wholesale merchants of the large interior towns and the Atlantic cities, whilst these in turn avail themselves more or less of credit with the European manufacturers. This, it is true, is not the case at the present day, as much as it formerly was, owing to the gradual accumulation of domestic capital; but, nevertheless, it not unfrequently happens that a settler in the remotest region of Missouri ploughs his land and produees his crop by means of credit obtained, it may be, through three or four successive links, from a manufacturer of hardware in Birmingham, or of one of dry goods in Manchester. And yet, with such facts before our eyes, there are still to be found amongst us, a few remains of that weak-minded prejudice against foreign capital, which was at no very distant day so universal, that it was deemed by many of the states unwise to borrow foreign capital at five per cent., that could be productively employed at a profit of ten per cent., upon the ground that it would drain the country of specie equal to the interest. Happily, however, new views have broken in upon the minds of most of our legislators, and although there are still laws prohibiting the free introduction of foreign capital into some of our local investments, yet foreign loans upon the security of public stocks and of those of improvement companies, and banks have of late been carried to quite a sufficient extent.*

It is not, however, to those engaged in agriculture alone, that credit is beneficial. The merchant frequently undertakes a voyage with a cargo purchased on credit, which, when successful, adds to the national wealth. The manufacturer, too, who has physical power applicable to the production of commodities, but no raw materials to work upon, finds himself, by

* It is computed that at this period (1840) upwards of a hundred millions of dollars of European capital, chiefly British, are invested in such securities. Many persons estimate the amount at near two hundred millions, but that is probably an over estimate.

the aid of credit, enabled to procure the raw materials of other people, to which he adds a value by the application of his labor, and consequently also augments the national wealth. The same remark may apply to mechanics and even to day laborers, and there is hardly in the community an individual engaged in any species of business who has not at some period found himself benefitted by the exercise of credit.

With such advantages resulting from the use of credit, so palpable and so well known to every body, it is not extraordinary that the "credit system" should be so much extolled. It is indeed a great moral power, without the employment of which our country could never in so short a period of time have attained to its present advanced state of wealth and prosperity. Whilst seeing and acknowledging, however, this important truth, we must not lose sight of another truth equally important, which is, that nothing but *capital*, that is, something which possesses an intrinsic value, can possibly be the means of enabling the person who obtains it on credit to produce a new commodity or a new value, and we must be particularly careful to remember that the credit system thus extolled, is not the banking system, as some would endeavor to inculcate in their speeches and writings.

CHAPTER IX.

ON THE LAWS WHICH REGULATE THE HIRE OF CAPITAL, AND ON THE IMPOLICY OF USURY LAWS.

When a person has more capital than he wants to employ in his own particular business, he very naturally prefers to let other people have the use of it, to permitting it to lie idle and unproductive, and for this use he will charge such sum per annum as the competition of the market will enable him to obtain. If his capital consist of lands or houses, the compensation which he derives from its use is called *rent.* If it consists of ships, it is called *freight.* If it consists of horses and carriages, it is called *hire.* If it consists of railroads, bridges, or canals, it is called *toll.* If it consists of commodities, it is called *profit;* and if it consists of money, it is called *interest.* In all these cases except the two last, the specific things loaned or hired are returned to their proprietors. In the case of commodities, a sum of money equal in value to the commodities purchased, with the seller's profit added, is the uniform mode of replacing this species of hired capital. In the case of money, another sum, though not consisting of the identical pieces of coin, equal in value to the amount of the sum loaned, with the interest, is the uniform mode of replacing this species of hired capital.

In all countries where the competition of the market is permitted to operate without legislative restrictions, it is evident that the charge for the use of capital in any of its forms can never be permanently or materially higher or lower than that medium which presents the common ground upon which it is the interest of the capitalist and the person with whom he deals, to meet. If lands, houses, horses, wagons, railroads, bridges, and canals, be abundant in proportion to the demand, the charge for the use of them will be proportionally low. If they be scarce, it will be proportionally high. The same is true of commodities, under which head is included merchandise and produce of every description, and which, with the metallic money, constitute what is called the circulating capital of a country, without which neither lands, houses, ships, horses, wagons, railroads, bridges nor canals, would be of any immediate value.

Now although metallic money constitutes one of the forms in which capital is hired by persons who wish to employ capital in any industrious pursuit, yet, as observed in the last chapter, it is never the identical thing that is wanted, except indeed by gold and silver ware manufacturers for the purpose of melting. Money is merely hired as the instrument by which raw materials, agricultural produce, or merchandise, are more conveniently to be obtained by the borrower, or by those in his employ to whom he has paid it away as wages; and it must therefore be very evident, that as a component part of the total mass of the circulating capital, it is governed by the same laws as those by which the rest of this mass is governed. In other words, the rate of interest in a country is determined by the aggregate quantity of circulating capital, metallic money itself included. If that be abundant, interest will be low, as in England and Holland; and if that be scarce interest will be high, as in all the new states of our Union.

The unfortunate existence, however, in many countries, and amongst them our own, of laws restricting the charge which the owner of capital in the form of money shall derive from its hire, disturbs in some degree the natural operation of things, and prevents that uniform relation which profit and interest would otherwise invariably bear to each other. By imposing a penalty upon loans at a higher rate of interest than six per cent. per annum, for example, the most usual rate established by our state laws, capital is either driven out to more favored quarters, or prevented from flowing in, in either of which events the mass of the circulating capital is diminished, and consequently the hire for its use augmented. In addition to this, too, a burdensome tax is imposed upon the industry of the country, by compelling those who have not the best security to offer, which embraces a large portion of the industrious classes, to resort to lenders, who in addition to the fair value of the money, and a reasonable allowance for the risk of loaning on personal security, which would be the uniform market price in the absence of usury laws, must be paid for the odium and risk they incur by violating the laws of the land. There is no sound reason why the charge for the use of money should be fixed by law, that would not equally apply to fixing by law the rent of lands and houses, or the freight of ships, the hire of horses and carriages, or the profit on merchandise sold. The lending of money for a year is nothing but selling capital upon a credit for a year, and so convinced of the absurdity of discriminating between a sale of money, and a sale of goods is a large proportion of the capitalists of every country, that evasions of the usury laws are every where practised by expedients which it is not easy to prevent. Some of these expedients will be treated of in a future part of this work, but a very common one is that practised almost daily on the stock exchanges of New York and Philadelphia, whereby under a fictitious purchase of stock for cash, and a fictitious sale on credit of the same ideal stock, through the agency of a broker, money is loaned at a rate as far above the legal rate as covers the risk of trusting to personal security, as well as the charge for the odium and hazard incurred by an illegal transaction.*

These remarks on the value of money, as a component part of the circulating capital of a country, it will be observed, have reference to that general and

* This operation is thus performed: A borrower is willing to give 12 per cent. per annum for the use of money, and he agrees to give $112 at twelve months' credit for a stock worth in the market only $100, and stipulates with the broker, that contemporaneously with the purchase he is to sell the stock at $100 cash. The broker finds a lender who has money but no stock, but who is willing to give $100 cash for stock, if he can contemporaneously sell it at $112 for an approved note at twelve months credit. The broker manages the negotiation, and thus two persons are made to buy and sell what has no real existence. Such transactions, however, are clearly illegal, but cases rarely occur in which an appeal is made to the law.

enduring state of things, which covers a period of years. Thus, I would say, that capital is more plenty in the United States in the year 1840 than it was in the year 1798. In the latter year the Federal government could not borrow money at less than eight per cent. It could now borrow at five per cent., and has even, at one period since the year 1815, borrowed at four and a half per cent. Most of the Atlantic states, and some of the western states, have of late years borrowed money at five per cent., and it may be remarked, that although the market price of public stocks may be temporarily affected by various causes, yet no permanent influence can be exerted upon them, unless a diminution of the aggregate mass of the circulating capital of the country, that is, of the national wealth, should take place.* The fluctuations in the money market of merchants and stock-jobbers, and even at times in the market of mortgages, by which sometimes a high rate of interest is paid for capital, are generally of a temporary nature, and to be accounted for upon the principle that wherever there is credit, and especially if there be banks, there will at times be over-trading and over-speculation. The rate of interest upon capital must in the long run be governed by the rate of profit to be made by its employment; whilst for short periods, it will depend upon the ratio of the supply to the demand, and upon the security offered in the money market.

* Since the first edition of this work was published, a great depression has taken place in the English and American markets in the price of state stocks, putting an end for the present to the possibility of obtaining loans at five per cent.

CHAPTER X.

EXAMINATION OF THE COMMON OPINION RESPECTING THE SINKING OF CAPITAL.

THERE is a subject intimately connected with that of money, which deserves a passing notice in a work of this kind. I allude to the common notion, that a community sustains no injury from the construction of public works or improvements that turn out unproductive, inasmuch as they afford employment to many people without occasioning any loss of capital, the money not being sunk, but merely having changed hands. To this error, which is more widely spread than many people imagine, may be ascribed the loss of tens of millions of dollars of property in the United States, and if not eradicated, it will lead to the loss of tens of millions more. Immense expenditures are annually made by the federal government, by all the state governments, by counties, townships, cities, towns, boroughs, and villages, by private corporations of every description, and by institutions established for every imaginable purpose, literary, charitable, and religious, which would never be made if this matter were perfectly understood; and as it is one that can be made plain by a very simple illustration, I will present such a one to the reader.

In a former chapter it was shown that metallic money was never employed as capital for the carrying on of any branch of industry, except that of the manufacture of gold and silver ware, but was the mere instrument by which capital, consisting of other commodities, could be conveniently transferred from hand to hand. The function, therefore, which money performs in the business operations of the community, may be compared to the function performed by carts, wagons, ships and railroad-cars, in transporting from one possessor to another the commodities which he needs to carry on his business. Now every body can perceive, that in performing the business of transporting commodities, the vehicles here mentioned are not destroyed or sunk until they are worn out, so neither is the money which performs the function of conveying the commodities from the possession of one person to that of another, destroyed or sunk. It is, therefore, clear, that although the common mode of expressing a loss by an abortive undertaking is that "money has been sunk," yet it is easy to be seen, that no money can ever have been sunk, but that the sinking has been of something else than money. What that something else has been will now appear.

In Pennsylvania, as well as in other states, there have been at times extraordinary excitements in reference to internal improvements. Turnpike roads, bridges, canals, and railroads, have each in their turn commanded popular favor, and have been extensively constructed, without a due examination of their cost and of their probable results. The consequence has been, that some of these enterprises have proved wholly abortive, and have been abandoned without being completed, or, if completed, have been useless as a source of income, and have consequently occasioned to their proprietors a loss equal to the whole expenditure. Now in all such cases, what has been the capital that has been sunk? I answer, the raw materials of which the works were constructed, such as stone, lime, wood, timber and iron, the food and drink, clothing and fuel of the laborers employed upon the same, (for the procuring of which the money paid to them as wages only served as the instrument,) the vehicles, implements, and tools worn out or deteriorated by the work, and the food consumed by the horses and cattle employed. All these articles, being forms of accumulated capital, possessing a value equivalent to the sum in money paid for them, constitute the capital sunk, and they are said to have been sunk, because after they have been used or consumed, there is nothing of value to be shown in their place. The process which has in reality taken place has been the mere transmutation of stone and lime, wood and iron, from a form in which they possessed a value into one in which they possess no value, and the conversion of a large quantity of bread and meat, whiskey and rum, butter and milk, sugar and coffee, coats and jackets, coal and wood, hay and oats, into roads and canals, without the possibility of a reconversion to those original elements.

But it may be said, that even admitting all this to be true, still a vast number of people will have been employed. Granted; but employed in producing nothing of value, so that their industry has been of no more benefit to the community than if it had been employed in turning grindstones where there was nothing to grind, or in digging ditches merely to fill them up again. It would hardly be argued that had it not been for this employment, these people would have remained idle. This would have been impossible. The identical capital consumed in the abortive enterprise would have been seeking for laborers in some other pursuit, and these laborers would have met it on the way, or have taken the place of those who did. These remarks, it will be observed, have reference to cases where the whole enterprise has failed, such as happened many years ago, with a total sinking of large capitals, in the construction of the Philadelphia and Susquehanna, and the Chesapeake and Delaware canals. They are, however, equally applicable to partial failures of enterprises as far as they go, and the only true test of the result of an improvement, is to be found in its nett income. If that be *greater* than the amount that could have been derived from the employment of the same capital in some productive branch of agriculture, commerce, or manufactures, the investment will have been a profitable one. If it be merely of an *equal* amount, it will have been an indifferent investment, and if it be of *less* amount, it will have been a positive loss to the community as well as to the proprietors. The truth of this proposition can easily be seen by any one who will apply it to the case of a single farm. If a farmer, who has a thousand dollars which he can lend at six per cent., or cause to produce him six per cent., by grazing cattle or tilling more ground, should lay it out in making a new road to facilitate his intercourse with the market, by which he should only save twenty dollars a year in the reduced transportation of his produce, it is clear that he would not be as well off by forty dollars a year, as if he had continued to use the old road, and employed his capital in one of the other modes. An entire state is but a large farm, and what is true of one is true of the other.

But there is an argument which may here be urged with some apparent force, and it is one that is entitled to consideration. It is that in estimating the value of a road or canal, the whole benefit to the community resulting from it is not to be measured by the mere income which the owners or stockholders derive from it. A part of the benefit is shared by the public, that is, by the producers and consumers of the commodities which pass over the road or canal, and by the persons who travel over it. It may, therefore, very well happen, say the objectors, that whilst the stockholders of the road get only three per cent. dividends on their stock, the advantages which the community gain may be equal to three, five, or seven per cent. more. Let us analyse this argument, which appears to possess so much plausibility, and see to what it will lead us.

The interest of money or capital is that sum which is paid to the owner of money or capital for its use, and is, as we have shown in another place, that rate which is established by the competition of the market. When persons borrow capital for employment in any productive branch of industry, whether connected with agriculture, commerce, or manufactures, it is always with the expectation that they can make out of it a sum beyond that which they pay for its use, and the average rate of interest may be considered to be the rate which all judicious applications of capital ought to produce. In the Atlantic states of the Union, where capital is more abundant than in the western states, the annual net profits of capital, after defraying all the expenses of wages, rent, superintendence and other charges incident to the enterprise, may be estimated at about six per cent.,* and six per cent. may therefore be considered, in the region of country mentioned, as the profit which ought to be produced from capital, and consequently in those cases, where a road or canal does not produce a benefit to the stockholders, equal to six per cent. upon the outlay, there will have been a sinking of capital equal to the principal sum that ought to have yielded the deficiency; and for this reason, that six per cent. would have been the profit derived from the employment of the capital in other pursuits.

The next question then which presents itself is this. Can it be, that the public shall derive a benefit of three, five or seven per cent. per annum from the construction of a road or canal, whilst the proprietors of the improvement derive only a profit of three per cent?

It is a possible case, that a charter of incorporation may have fixed the rates of toll on a road or canal so low, without any power on the part of the company to raise them, as that the income arising therefrom shall not be more than equivalent to three per cent. upon the expenditure. In such an instance, it might happen that the public should enjoy an advantage

* The laws of New York establish the rate of interest at seven per cent. In all the other Atlantic states it is fixed at six per cent.

equal to what has been named and even more. But, I apprehend, that no such cases exist in the United States; and I think I am warranted in saying, that no company has ever accepted of a charter which does not allow a chance for a revenue exceeding six per cent., besides reserving a sum adequate to keep the works in repair and pay all other expenses. When, therefore, the income of a road or canal falls short of an average of six per cent., it must be, and can only be, in consequence of its not being used to a sufficient extent, that is, in consequence of a sufficient portion of the public's not finding it to be for its interest to pay the toll, rather than to transport their commodities or their persons on some other route. The only conceivable mode of ascertaining the utility to the public of an improvement, is by the amount they are willing to pay for its use; and if this amount be equivalent to not more than three per cent. of the capital expended, it may be considered as an indisputable point, that the present loss to the community by the investment is equal to at least one half of the capital. Whether this shall have resulted from a bad location of the improvement, from the limited quantity and number of commodities and passengers that are transported over it, from an excess in the cost of the work over the estimates, from extraordinary damage or obstruction from freshets or droughts, or other causes, or from the road or canal being superseded or interfered with by a rival improvement, it matters not. The effect is precisely the same in either case. The stockholders, and consequently the community, have not only failed to reap the usual profit on a portion of their capital, but have seen it transmuted into a form wherein it can never again be rendered capable of producing that profit.

But it may be said that roads and canals increase the value of the lands through and near which they pass. This may be sometimes true, but it must not be forgotten that they also diminish the value of other lands through which they do not pass, by drawing off a part of their population, and of the travelling which used to frequent old routes.* But after all, there is no real value conferred upon the country at large by a road or canal in an economical point of view, but what is to be measured by the actual reduction in the expense of transporting its produce to market and obtaining its distant supplies, and in the facilities afforded to the conveyance of passengers. Where the aggregate of these benefits is to the parties concerned of such value as to induce them to pay to the capitalists who have constructed the improvement for them, the same interest for the use of their capital, that they could have obtained by its employment in other pursuits, then, and then only, has the expenditure been beneficial to the country. It is no doubt true, that turnpike roads or rail roads are very convenient and advantageous to those who reside on their route, and that they may all be willing at times to pay for the privilege of passing over them. But even the value of this convenience and advantage has its limits. The turnpike road from Philadelphia to Frankford, a distance of six miles, is extremely convenient in the winter season to all those who reside

* The following article is taken from a late English newspaper as being quite in point.

Effects of Railroads upon Tavern Property.—Previously to the opening of the Great Western and the Southampton railroads there were eighty-two long stages passed through the town of Egham daily, nearly all of which changed horses at the several inns in the town. Now, the eighty-two are reduced to *four*. Some of the inns have been closed, and several others are about to be shut up. The following is a proof of the great reduction which has taken place in the value of tavern and public house property:—Three years ago the *Catherine Wheel Inn* Egham, which makes up thirty beds, and to which are attached an acre and a half of garden ground, a bowling green, large barns, sheds, coach house, and stabling for upwards of thirty horses, let for 250*l.* a year. It then carried on a profitable trade, and the proprietor realised a handsome living. The same property was let, a few days since, at 50*l.* a year.

on its border and in its vicinity; yet as they prefer other roads in summer, and are not willing to pay for its use in winter an aggregate sum equal to the interest on the capital expended in its construction, it is manifest that the existence of the road is not considered to be worth to them that amount. Who could doubt that the investment of a thousand dollars in an omnibus to run from the Delaware to Schuylkill would be a loss to the community as well as to the owner, if the public for whose benefit it was established, would prefer to walk rather than to pay for its use more than thirty dollars a year over and above the expenses and repairs? I say "loss to the community," because, had it not been for this misapplication of capital, sixty dollars might have been obtained for it on loan by the proprietor, and consequently the aggregate wealth of the community would have been augmented to the additional extent of thirty dollars.

There is still, however, another popular error very prevalent on this subject, which ought not to be passed over without notice. It is, that although roads and canals may not produce to their proprietors at the very moment of their completion, an income equal to the ordinary interest on capital, yet that they will do it at some future period, say, three, five, or ten years hence. If a farmer were to expend a hundred dollars to-day in the purchase of a wagon, which he did not expect to use for three, five, or ten years, he would be a very bad calculator, if he did not know that the interest on a hundred dollars or the profit he could have made on that sum for that number of years, would add to its cost an amount precisely equal to that interest or profit, and that the whole of this amount would be an uncompensated loss to him, besides what he might lose by the deterioration of the wagon. The same is true of all other investments made in anticipation of future periods. One million of dollars expended on a road, that should not be wanted for eleven or twelve years, would cost two millions of dollars *at the expiration of that term*, because money at compound interest of six per cent. per annum, doubles in about eleven years and eight months, and that sum would have been the amount in the hands of the capitalists had they employed it in any branch of productive industry.* If repairs should also be required, the amount would make a further addition to the cost of the road, unless they were met by the receipt of a corresponding amount of tolls; and hence it is evident, that those who leave out of view in their estimates of the judiciousness of investments, the accumulating power of capital at compound interest, are very unsafe counsellors. It is true, that nobody would be so unwise as purposely to construct a road or canal, a long time before it was wanted at all, and hence so strong a case as the one above supposed, has probably never occurred. Still, the principle here laid down is true as regards every investment made in advance, to the extent of that portion of the capital that does not yield the ordinary income. A regular interest account current would show the true amount of the cost of the improvement, and if reference were had to this test of productiveness more frequently than it is, it would be found that many investments which have been usually considered productive, have been upon the whole losing transactions.

* *The present value* of a million of dollars payable eleven years and eight months hence, is five hundred thousand dollars, which of course would be the *present loss*, or sinking of capital in the case supposed. If ten per cent. were taken as the annual profit that could have been made on the employment of the capital, (a profit which capital will earn in some parts of the Western country,) the result would of course be much more unfavorable to the community.

BOOK THE SECOND.

OF THE LAWS WHICH REGULATE A MIXED CURRENCY COMPOSED OF THE PRECIOUS METALS, AND OF PAPER CONVERTIBLE INTO COIN ON DEMAND.

In the former part of this work I pointed out the principles by which a currency composed entirely of the precious metals is regulated. I come now to speak of the laws which regulate a currency composed of coin and convertible paper, and here I wish it to be distinctly understood, that by convertible paper, I mean notes issued by banks, payable to bearer in coin on demand. Paper money issued by governments, like the paper of the North American colonies before the revolution, or like the continental money of a subsequent period, or like the assignats of France, or the actual paper money of some of the nations of Europe, not being payable in coin by the issuers at the pleasure of the holder, belongs to another category, and is governed by laws peculiar to itself.

CHAPTER I.

OF BANKS OF DEPOSITE, OF BANKS OF DISCOUNT AND OF BANKS OF CIRCULATION.

Of banks there are three distinct kinds, wholly different from each other, in their constitution, their uses, their operations, and their influence upon the public prosperity, viz. *banks of deposite, banks of discount*, and *banks of circulation*, or, as some express it, *banks of issue*, of each of which I will speak in its turn.

A bank of deposite is an institution established solely for the safe keeping of the coin and bullion of individuals, which would otherwise have to be kept in iron chests or less secure receptacles, and for facilitating mercantile payments by the transfer upon its books by checks or drafts of the various amounts standing to the credit of the depositors, thus saving the labor of repeated countings, and the expense of repeated transportations of the precious metals from house to house, accompanied at the same time by a diminished risk from fire or pillage, and a diminished wear and tear of the coins by friction. Such a bank, it is manifest, is more appropriate for a community using a currency of coin alone, than for one employing a mixed currency; and accordingly, we find such a bank as having formerly existed at Amsterdam, and at the present day at Hamburgh, in which latter city, a deposite of standard silver of the weight of a marc, entitles the depositor to the credit of an amount denominated a *marc banco*, which is the unit of the currency of Hamburgh, in which all bills of exchange and mercantile debts are payable, and which the party who holds the credit may draw out at his pleasure in marcs weight, or transfer to others. As regards the operations of this particular species of banks, the reader will perceive that they add nothing to the existing amount of the currency, and that they take nothing from it. The credits on their books represent certain quantities of bullion ascertained by weight, placed there for safe keeping, without any authority on the part of the administrators of the bank to lend it, or to apply it to any purpose whatever, until called for by its owners, or transferred by them to other persons; and hence it is clear, that such banks exercise no influence whatever over the currency, by contracting or expanding its amount.

A *bank of discount* is an institution possessing a capital in money, which the proprietors, for there are usually several, associated in part for the sake of maintaining a survivorship, lend to merchants and others by discounting acceptances and promissory notes, originating in the sale of merchandise and other property, having short periods to run. It also receives on deposite, either by allowing interest or not, as the agreement may be, the money of other people, repayable at fixed periods or on demand, which it also lends with its own capital in discounting commercial securities. Of this description of banks, are all the establishments in London, (except the Bank of England,) and many of those of the principal cities on the continent of Europe known as private bankers. Several bankers of the same description, but better known as extensive brokers, have also at different periods in New York and Philadelphia, carried on the business of lending their own capitals and the capitals of others deposited with them, and it is probable that in every commercial community there are establishments of the kind upon a larger or a smaller scale. As such banks do nothing more than lend the money which actually exists in the community, it is evident, that they, like banks of deposite, exert no influence whatever over the currency, in expanding or contracting its amount, and that consequently they produce no effects different from those which would result if the same money had been loaned out by its individual proprietors, through the agency of brokers.

Some persons indeed suppose that where the money of depositors is repayable *on demand*, an expansion of the currency takes place to the whole extent of such deposited sums, in case they have been loaned to others, inasmuch as the depositor as well as the person to whom his money has been loaned, has each the power to make purchases in the market for the same amount, the right possessed by the former to draw money out of the bank, giving him the same command of funds as the actual possession of money by the latter confers upon him. But this is an error, for, if the depositor's money has been loaned out, it can in no possible way be paid back to him, but by the bank's requiring the borrower or some other of its debtors to refund an equal amount, by which process the aggregate mass of the currency is preserved the same as before. Banks well administered, do not, however, place themselves in the condition of being obliged in order to meet the sudden demands of depositors, to call unexpectedly on their debtors. They keep on hand an amount of money unemployed, sufficient to meet any probable calls that may be made upon them, before the bills receivable held by them fall due, and like the mill pond which is supplied with water from the stream above, just as fast as it is discharged through the mill race below, they preserve a uniform level in the currency. Nor is the matter at all changed by the fact that bank credits or deposites are transferable by means of checks, from the account of one person to that of another, for it is clear, that if by such transfers, one person becomes possessed of the command of funds, another parts with it to the same amount, and consequently, there is but one power of purchase in the market at any one time, with the same money.

A bank of circulation is an institution established solely for the purpose of lending *credit*, which is performed by exchanging its promissory notes payable to bearer on demand in coin, or giving transferable credits on its books, also payable on demand in coin, for the promissory notes of individuals, payable at a future fixed day, the latter paying a per centage per annum equal to the interest on a loan of capital, for the advantages they consider themselves as enjoying by dealing in the market with the credit of the bank instead of their own. The operations of such a bank, it will be perceived, are different from those of the two preceding ones, inasmuch as the currency by the introduction into it of paper money and paper credits, createable at will, in addition to the coin which before constituted the entire currency of the country, admits of expansion and contraction, and consequently of fluctuations such as are unknown under a metallic currency.

In the nine hundred banks and branches which now exist in the United States,* all the operations of these three distinct institutions are combined; and it is owing to this combination, by which dissimilar things are confusedly mixed together, that the public mind has been led into so much error upon the subject of banking. An analytical examination can alone enable any one to understand the true merits of this important subject.

From the foregoing definitions it will be seen that banks of deposit and banks of discount are of positive advantage to every country in which they are established. The former protects the gold and silver of the community from the danger of robbery and fire, as well as from loss by abrasion, as has already been remarked, and at the same time greatly facilitates the operations of commerce by the convenience of payments in checks instead of payments in coin. The latter keeps the money of the community in constant employment by lending it to one borrower, as fast as it is paid back by another. But it will be readily seen, that such institutions do not hold out sufficient temptations for their frequent establishment, as corporations. To maintain a *bank of deposite*, a fund must be provided by government or individuals to defray its expenses, inasmuch as no number of

* According to the report of the secretary of the treasury of April, 1840, the number was 901, with a paid up capital of near $360,000,000. See Appendix C.

persons would assume the responsibility of taking care of other people's money, and of keeping their cash accounts, without compensation, and in regard to a *bank of discount,* it would scarcely be worth while for a company to become incorporated or to pay the rent of a banking house, and the salaries of a number of officers, to do that which the individuals could do themselves or by the employment of brokers at a much less expense, or, indeed, at no expense at all, as the brokerage is usually paid by the borrowers, unless a comparatively large amount of deposites could be relied on, at a low interest or at no interest at all. *Banks of circulation* have, therefore, been resorted to, as presenting the only certain, or apparently certain, prospects of emolument; and as the credit requisite to give confidence to the paper could not be established without having for its basis a capital, more or less extensive, they have in every case been consolidated with a bank of discount. To secure the popular favor too, as well as to derive a profit from the lending of the money of others, they have also taken upon themselves, without charge to the public, that part of the duties of banks of deposite which relates to the keeping of cash accounts with individuals, and transfers of credits on their books, but not that part which guarantees the safe keeping of the coin and bullion of depositors, except in the few cases where an agreement for special deposites is made.

But *banks of circulation* are themselves, when properly conducted, and when their operations are confined to *the legitimate objects of banking,* and when their liability to comply with their contracts is strictly enforced by the public, capable of conferring benefits upon a country. By the creation of paper money they enable the merchants to export a part of the metallic money which was previously required to circulate its commodities, and thereby convert it into active capital, yielding an annual income equal to the average profits of trade. The mode in which this is effected, I will endeavor to illustrate in detail in the succeeding chapter.

CHAPTER II.

OF THE OPERATIONS OF BANKS OF CIRCULATION.

In a former part of this treatise* it was shown, that under a metallic currency, it is not possible to retain in any country, for any length of time together, a larger amount of coin than that which is requisite to place its currency upon a level with the currencies of other countries; and it was also shown, that if by any extraordinary cause a greater amount should at any time be brought into any country, it would continue but for a short time, and would gradually disappear by exportation, in the manner there described, until the equilibrium should be restored.

What is true of a metallic currency, is equally true of a mixed currency, consisting of coin and paper exchangeable for coin on demand. The aggregate amount of the two component parts cannot exceed for any great length of time, the amount of coin which would circulate if there was no paper, as I shall now proceed to show.†

Let us suppose that, in a particular country, enjoy-

* Book I. Chap. 4.

† This expression must be qualified thus. Every emission of a paper currency in any country drives out a portion of its coin, and augments the total amount of the currency of the world, in the same manner that an additional quantity of gold and silver from the mines would do it; and hence an emission of paper money any where must augment the currency every where, after time has been afforded for the distribution.

ing a metallic currency, the quantity of coin requisite to circulate its products and commodities, and to maintain its currency upon a level with the currencies of other countries, is *ten millions of dollars*, and that the balance of trade and payments is such at the time of our supposition, that the exchange is *at par*. A bank of deposit, discount and circulation is established upon the corporate or joint-stock principle, with a capital of one million of dollars in coin, which amount is of course to be taken from the ten millions in circulation. We will suppose this capital all to be paid in before the bank commences its operations. The effect of this would be a temporary pressure for money, by withdrawing one million of dollars from circulation. This pressure, however, would be gradually relieved, as the bank commenced discounting, and would wholly disappear after it had loaned out a million of dollars.* Now it is manifest, that up to the period at which the loans of the bank do not exceed one million of dollars, its operations have been simply those of a bank of discount, for it has only loaned the amount of its capital, that is, of money previously existing. It may indeed, have issued notes, or given credits on its books for loans made, instead of paying out the identical gold and silver received from the stockholders; or, it may have given notes, or credits, on a deposit of coin for the convenience of the public; but such notes and credits in such cases would be mere certificates that corresponding amounts of gold and silver were lying in the vaults of the bank, belonging to the owners of such notes or credits, held subject to their order, precisely as in the case of special deposites. It might even happen, that millions of dollars in the form of notes and credits

* I am aware that the usual practice of banks is to call in their capitals by instalments, and to lend out those instalments as fast as received, which is undoubtedly the best mode, if the loans were not so apt to be made to needy or speculating stockholders, to enable them to pay up the subsequent instalments.

might be issued by the bank in exchange for specie, without thus far exercising one single prerogative of a bank of circulation, or influencing in the slightest degree the state of the currency, any more than the Bank of Hamburgh, already described, influences the currency of that city.

From this view of the subject, how clear is to be seen that what the bank has thus far performed, is nothing more than what the individuals who own the capital of the bank, could themselves have performed more cheaply, quite as securely, and perhaps more advantageously to the public, seeing that loans to unskilful and imprudent borrowers, of which individuals are not so apt to be guilty as corporations, lead to a diminution of the wealth of a country, whether it result from injudicious voyages, or from any species of enterprise which converts productive capital into property which is not equally productive, or, from improvident sales of merchandise to persons not entitled to credit. Incorporated or joint stock banks, it is thought, owing to their directors not having a deep personal interest at stake, and owing to their liability to be influenced as a board, by considerations which do not operate upon individuals, and especially owing to the absolute impossibility of their devoting any large share of their time to the investigation of the characters of all applicants for loans, cannot, in the nature of things, exercise the same discrimination in the choice of its borrowers, as individual capitalists do.*

The circulating principle is now put into opera-

* If it be objected to this proposition, that the losses of the banks in the United States are comparatively few, I would reply, that this result is to be ascribed to the absence of a general bankrupt law, which would prevent those partial assignments for the benefit of endorsers at bank, by which banks become preferred creditors in most cases of insolvency, and thereby get a larger share of the assets of their debtors, than other creditors.

tion by our supposed bank, by lending its credit in addition to its capital. In other words, without having any more money to lend, it undertakes to discount notes at short periods, by giving to the borrowers not coin, or notes or credits absolutely representing coin in its vaults, as in the case of its original loans, but notes or credits promising to pay gold or silver on demand, founded upon a presumption that no such demand will be made, until the notes, in the discount of which they were issued, or some of the other notes discounted by the bank, will be paid, and thus bring into its coffers an equal amount of specie. In other words, the bank lends its credit, and as this credit is just as valuable to any of the parties who are indebted to the bank for the first million, or for any subsequent sum loaned, as gold or silver, any of them will be willing to receive it in payment of debts or for merchandise sold, as readily as coin, and the notoriety of this fact, added to the right of conversion on demand, gives the notes and transferable credits of the bank a circulation with the public equivalent to coin. Every emission, however, of these bank notes and credits is an augmentation of the currency, and depreciates it below the general level.* Let us, for the sake of argument, suppose the amount of this augmentation to be extended in a given time to one million of dollars, that being the sum requisite, we will further suppose, to occasion the degree of depreciation that must exist before it is profitable to export coin. The amount of the currency will then be *eleven millions* of dollars, that is

* The depreciation of a currenny when it takes place must necessarily show itself in reference to every species of property and commodity, although it takes longer to reach some things than others, so as to occasion a change in their price. A depreciation of the currency, in reference to particular things only, cannot be supposed, any more than a rise of the tides in reference to some particular objects on the margin of a river, and not to all others.

to say, ten millions of coin, and one million of paper. The effect of this would inevitably be what is called a plenty of money. The prices of all commodities would rise, because there would be eleven purchasers in the market, where before there were but ten, or, what amounts to the same thing, because the former purchasers would possess one tenth more means to purchase with, than they possessed before. This rise of prices, operating upon foreign as well as domestic commodities, would lead to the importation of additional quantities of foreign merchandise. But no corresponding export of domestic products would take place, on account of their artificially high price, upon which bills could be drawn to pay for the foreign imports; and the consequence would be, that money would be sent abroad in their stead, as presenting the most profitable species of export. But of the money in circulation, it is evident that nobody would think of exporting the paper, which would have no value abroad, and consequently, all the exports that would take place, would be of coin.

The effect just described would as certainly take place as that water would find its level, and would continue until the export of coin was equal to the amount of the paper issued, that is, to one million of dollars, when the level would be again restored, owing to the fact of the aggregate of the coin and paper united being only ten millions of dollars, that is, nine millions of coin and one million of paper.* Further emissions of bank notes or credits might then take place with precisely the same results, and provided that the extent to which the issues are carried is not so great as to drive out of the country too great a portion of the metallic currency, by which the convertibility of the paper into coin in case of a sud-

* Strictly speaking, the export would not be quite equal to the amount of the paper issued, for the reason assigned in the second note to this chapter, page 73.

den panic occasioned by foreign war or domestic disturbance, or by fear of insolvency, might be endangered, the operations of the bank are decidedly beneficial to the country. It has disengaged from a comparatively unproductive employment, a capital capable of producing an annual profit to the nation equal to the average profits of capital, or, in other words, has substituted an expensive instrument of commerce by one costing less. And yet, by this operation, no permanent depreciation of the currency takes place, because the total quantity of coin and paper united is only equal to the quantity of coin that would have circulated had there been no bank.

From these positions two conclusions are self-evident: *first*, that banks of circulation are only beneficial to a country when they occasion the exportation of coin; and *secondly*, that paper is only beneficial when its quantity does not exceed the quantity of coin which has been removed from the currency by exportation. The actual extent to which this substitution may take place with safety to a banking system is a matter which cannot be determined by any fixed proportions. Some persons fancy that the extent to which a bank may loan without danger of reaction depends entirely upon the extent of its capital, and reason thus: if a bank with one million of dollars capital can with safety loan a million and a half, which is fifty per cent. increase, one with a capital of ten millions of dollars can loan to the extent of fifteen millions. Others imagine that the power of expansion in a bank always bears a fixed proportion to the average amount of its deposites and circulation; whilst others again entertain the idea that it depends upon the amount of coin it has in its vaults, and that if this be large, the amount of its issues may be proportionally large. All these hypotheses, however, are fallacious. The real truth is, as has been shown, that the channels of circulation will only hold, *without depreciation*, a certain quantity of paper in addition to the quantity of coin that must needs exist as the basis of the mixed currency, and this is equally the case whether the paper be issued by one bank or by one thousand. All attempts to increase that quantity *permanently* beyond the quantity requisite to preserve an equivalency with the general level, must, in the nature of things, be futile. If the channels are made to overflow, depreciation of the whole mass (for where convertibility exists the coin is involved in the depreciation in common with the paper) will necessarily take place, followed by an exportation of coin as a necessary effect from a cause, and all redundant issues of notes will return upon the issuers for payment, with the same unerring certainty as the fabled stone of Sysiphus rolled back upon the wretched struggler. It may, however, be here remarked, that the possible case might occur of a favorable balance of trade existing at the same time that an expansion of the currency has taken place, the consequence of which would be, that the former, by occasioning a low rate of exchange, would arrest the tendency of the depreciated currency to relieve itself by exportation. But such a state of things could not long continue, and it is merely referred to as presenting one of the phenomena which we occasionally witness, and which sometimes puzzle the heads of superficial reasoners so much that they deny the existence of all fixed principles in political economy.

There is, however, one circumstance connected with the corrective power of exportation, which is of vast importance, and which renders the paper currency of the United States more liable to excessive depreciation than that of any European country. I allude to the effect produced by a war with any powerful maritime nation, which by augmenting the rates of freight and insurance on specie, prevents the application of the remedy against over issues by the banks, at as early a stage of depreciation as would take place in time of peace. Thus in a time of peace, one per cent. would cover those charges between North America and Europe, whereas in a time of war, five or ten per cent. might be required, the inevitable result of which would be, that the paper currency, although convertible on demand into coin, might be depreciated to the extent of five or ten per cent. below the general level, and foreign bills of exchange might rise to that extent above the real par, before the merchants, having remittances to make, would find it advantageous to ship specie, and consequently before any reaction would be felt by the banks. This fact ought to have weight with our public men, as being one of the most fatal of the elements which make up the aggregate of national suffering, arising from a state of war, as may be well remembered by those who witnessed the suspension of specie payments in 1814 during our war with England, and its disastrous consequences.

CHAPTER III.

OF THE PRINCIPLES BY WHICH THE PROFITS OF BANKS OF CIRCULATION ARE DETERMINED.

From what has been said in the preceding chapter, how clearly is it to be perceived, that the profit to be derived from supplying the paper currency of a country, is *a limited amount*, and that if it be divided amongst a great number of banks, and distributed over the surfaces of many large capitals, its proportionate rate must be very small. To make this matter, however, more plain, for I consider a correct view of this branch of the subject as all-important in overthrowing the present errors of our banking system

I will illustrate it by reference to the case of the same country, which was above supposed to require a circulating medium of ten millions of dollars.

Without pretending to determine the precise extent to which its coin might be safely substituted by paper, I will suppose, for the sake of argument, that one half of the former shall be exported, and that consequently the currency consists of five millions of coin and five millions of paper. Under this state of things, the bank would be drawing interest on a sum five times as large as its capital, even allowing that it retained a sum equal to its whole capital of a million in its vaults in coin, to meet occasional demands. The profits of its business would therefore be very great on account of the small capital of which it was the income, and the consequence would no doubt be, as soon as the secret should become known to others, that a second bank would be established.

Few of the projectors, however, of this new bank would probably believe that the great profits made by the original bank were the result of a monopoly, and that they would not have been any greater in absolute amount, if its capital had been five millions instead of one; but under delusive notions that the same per centage of profit, or something near it, would attach to a large capital as to a small one, they would probably establish their new bank with a capital, let it be supposed, of two millions of dollars. Now to make a proportionate profit equal to that enjoyed by the original bank, paper must be issued to the amount of ten millions, and the bank accordingly commences its operations by a profusion of loans. But the channels of circulation are already full of the paper of the old bank, and there is no room for any more. Issues, however, go on until money becomes plenty, and the currency becomes depreciated below the general level, as in the case of the original bank. Prices of all commodities rise; foreign merchandise, by its high price, holds out inducements for importation; domestic products become too dear for exportation; bills of exchange rise, because the demand for them to pay for foreign commodities increases faster than the supply; and as soon as their price in the market exceeds the amount of the expense of transmitting gold and silver abroad, a portion of the remaining five millions of coin will be exported. Then is the new bank first reminded of its mistaken views. Its notes return upon it for payment in coin, to be sent out of the country, and its neighbor, too, the old bank, which has five millions of paper in circulation, feels the effects of this reaction, and both are obliged to call in a part of their loans, in order to avoid a worse state of things. The consequences would be, a general scarcity of money, and a temporary commercial embarrassment. The result, however, would be found to be, that as five millions of dollars was the total amount of paper that could be kept in circulation without depreciation, the profits of furnishing this amount are now to be divided between two banks instead of being monopolised by one, and in such proportions as the particular influence or management of each may be able to establish.

A similar effect precisely would follow the creation of every additional bank; and should the number increase to five or ten, the aggregate profit would still be the same; for although the paper currency of five millions would be occasionally augmented in quantity as each bank commenced its operations, as has been shown, yet in the long run it would settle down at the old amount. But, notwithstanding the certainty of this fact, there would still be a perpetual endeavor on the part of some of these banks to get the largest share of the profits of this supply of the paper currency by extraordinary issues. This, however, it could not accomplish, if the public would always insist upon strict convertibility, and if other banks were true to their interests by making a daily demand upon each other for the payment of balances occurring in their mutual transactions, not in paper, but in coin.

And here I will remark, that precisely as each bank of a city thus checks the issues of its neighbors, the united banks of a city check the issues of other neighboring cities. If the currency of a particular city, Philadelphia, for example, were to become depreciated below that of New York, the effect would immediately be shown by a rise in the former city in the prices of stocks, bills of exchange, and other securities of easy transmission, of which the consequence would be, that amounts of these would be sent to Philadelphia for sale, and by that means the banks of that city would be brought into debt to the banks of New York, which would call for payment of the balance in coin, and that would lead to a contraction of the currency, until the equilibrium would be again restored. It is precisely upon the same principle that the general currency of the country is corrected by the influence of those of foreign countries, and therefore, if any obstruction to the free exportation of coin should at any time exist, either by the timidity of the holders of bank notes to demand their rights, or by the laws of a country, or by the exciting of public odium against the exporters, either by banks, politicians, or otherwise, so as to deter them from exporting when it is profitable for them to export, the currency must inevitably sustain depreciation, and mischief must be the result.

In connection with this subject, it may here be also remarked, that should the time ever arrive, when all the principal commercial countries of the world should adopt the circulating banking system, the whole of the benefits resulting from the substitution of paper money for coin will vanish. The only reason why this substitution is now productive of profit to any country where banks of circulation exist, is, that there are other countries in which there is no paper money, and which are willing to give other commodities for gold and silver. But only let them all adopt the policy of issuing bank notes in an equal proportion, so as to preserve their respective currencies upon the same level, and it will at once be seen that the precious metals will not flow out from either, and that the inevitable consequence will be, that the *prices* of commodities and property will be increased all over the world, whilst not a dollar will be added to their *value*. Every movement made in Europe towards the establishment of banks of circulation, is a step towards that terrible consummation, when no domestic or foreign checks will longer exist to prevent those unlimited expansions, which cannot possibly exist without alternate contractions, subversive of the industry and prosperity of the whole civilised world.

CHAPTER IV.

OF THE SAFEST AND MOST PROFITABLE MODE OF INVESTING THE CAPITALS OF BANKS OF CIRCULATION.

It has been shown that banks of discount upon the corporate or joint-stock principle could not generally be conducted to a profit, seeing that the income they derive from the loan of capital would not be as great as the income which the individual proprietors could have derived from lending their money without the agency of salaried officers and the rent and other expenses of a banking house. It has also been shown, that for the same reason, banks which perform the double function of banks of discount and banks of circulation, can make no banking profit by the mere lending of their capitals. All their profits are derived from lending their credit; for, although where the rate of interest is six per cent. per annum, the practice of taking the interest beforehand, and charging sixty-four days discount for the use of the money for sixty-three days, as in Philadelphia and other places, the actual rate received is $6\frac{4}{10}$ per cent., yet the additional four-tenths of one per cent. do not pay the proportion of the whole expenses of the bank, which the amount of its capital bears to the whole amount of its loans. Indeed, a little reflection will enable any one to perceive, that not only do all the profits beyond legal interest of a bank of discount and circulation, where it is successful, arise from the loan of its credit, but those profits must besides furnish a fund for making up the loss incident to the lending of its capital. Thus, if we suppose a bank of discount and circulation with a capital of one million of dollars, having loans out to the amount of one million and a half, and the whole annual expenses of the bank to be fifteen thousand dollars, or one per cent. upon the amount of the loans, it will be seen that two thirds of this expense attaches to the lending of the capital, and only one third to the lending of the credit of the bank, so that if separate accounts were kept of the expenses of each department of the institution, they would show a gain upon the lending of credit and a loss upon the lending of capital. If, therefore, the whole operation be profitable, the profit must arise from the lending of credit, and must consist of what remains after defraying the loss incident to the lending of the capital, which is precisely equal to the excess of the expenses of bank agency in loans over those of private agency, deducting the four-tenths of one per cent. which a bank charges, more than individuals would have a right to charge by law on loans.* At all events, no one will pretend that banks

* The banks of Pennsylvania, and perhaps most other states, are authorised to charge one per cent. interest for sixty days,

make more by the loan of their capitals than individuals could make, and even on this admission it is apparent that all the peculiar profits of what is usually called banking arise from the loan of credit.*

Now, if these positions be true, it follows as a necessary consequence, that the true policy of banks of discount and circulation is, to adopt the most economical and safe mode of lending their capitals, so as to lose as little as possible by the operation. Long loans, it is manifest, are attended with less expense than short ones, and the security of real estate or public funds is safer than the promissory notes of individuals. One officer can superintend loans on mortgage or investment in public securities, collect the interest, and keep all the accounts, as easily as four could attend to the discounting of an equal amount of notes at ninety days; and as to the difference between the security of mortgages and public stocks, and private paper, no one can fail to see the superiority of the former.

From these views, it is evident that banks of circulation derive no benefit whatever, but rather injury, from having capitals to lend. Why then, it may be asked, should they be connected with banks of discount? For no other reason than to give credit to their notes, which would not be allowed to get into circulation as money unless the public was assured of a responsible endorser. The bank of discount thus becomes the guarantee of the bank of circulation, and as the solidity of the guarantee is what the public most look after, how plain is it to be seen that a capital loaned upon real estate or state stocks would be a better security against insolvency than any promissory notes or bills of exchange could possibly be. In

and to receive it in advance. Individuals can only charge six per cent. per annum, without the right to receive it before hand, but the law in this case is seldom observed.

* Except in those cases where deposites constitute a large portion of the amount loaned by the bank.

other words, a bank with a capital of one million of dollars loaned upon well secured mortgages and state stocks of undoubted solidity would offer a better security for the payment of its notes, than one with an equal capital loaned upon discounted notes and bills.

And not only is this true; not only would the credit of its notes be more perfectly secured as far as the public is concerned, but the interests of the stockholders themselves would be very greatly promoted by such a mode of lending the capital, *first* by a diminution in the expenses of management, and *secondly* by a diminution of the risk of lending.

But this is not all. The individual borrowers themselves, of the capitals of banks, would be greatly benefitted by such a system. They would obtain money at six per cent. per annum, instead of six per cent. and four-tenths; they would be able to borrow for such long periods at once, by giving the requisite security, as would give time for the winding up of the voyage or operation for the conducting of which the loan was required, instead of asking for renewals every sixty or ninety days, always accompanied with a degree of uncertainty, and generally attended with the additional tax of a loss of interest upon a balance in bank, tacitly, if not expressly required as the price of a continued accommodation; amounting, probably, to as much as with the four-tenths of one per cent. above referred to, may be equal to one per cent.

To this it may, perhaps, be objected, that all borrowers have not real estate or state stocks to pledge for loans of money. Farmers and manufacturers may have lands, houses, and factories, but merchants may not; and, at all events, it would deprive of the power of borrowing capital of banks all those persons who have no real estate or state stocks to offer as security. This is perfectly true, and it is precisely what ought to be, for banks are bound to obtain as good security on the loan of their *capitals* as their individual proprietors would demand; and we all know that individuals rarely lend their capitals for long periods at simple interest, as permanent investments, upon the mere personal security of persons engaged in trade, or hazardous enterprises. If they do occasionally depart from this rule, it is because they have such a knowledge of the affairs of the borrower as to render his personal promise equivalent, in their estimation, to a mortgage; and at all events they have a right to risk their own property if they choose, but as banks of discount stand towards the public in the position of guarantees to the banks of circulation, with which they are united, they act unwisely if they accept of any but the most perfect security, such as that afforded by mortgage on real estate, or by an investment in undoubted public securities.

What has been said, let it be remembered, relates only to the loans of its *capital* by a bank, and I trust that the reader will not fail to perceive the justice of the remarks. He will at least perceive, that as far as the lending of the *capital* of a bank goes, whether the loans be made for sixty days or twelve months, whether they be made on mortgage or to the government, or upon promissory notes and bills of exchange, the effect upon the currency is precisely the same. Neither mode makes money more or less abundant than the other; inasmuch as that which has been loaned is precisely the amount which previously existed in the community, and is, indeed, the precise amount which the individual stockholders of the bank would have had to loan, had they not associated together as a bank. The question, then, is a simple question as to the borrowers, and whilst those who could not give landed security for loans might think themselves deprived of a right to which they are entitled; yet it is evident, that the holders of bank notes and bank credits, and the owners of the capital, and all the rest of the community, *who are to a man interested in the safe employment of the capital which belongs to the whole society*, are manifestly benefitted. In truth, however, borrowers have no rights as regards the capital of a bank which they do not possess as regards the capital of an individual; and any one would see how preposterous it would be for a borrower of money to insist with an individual upon his *right* to borrow his capital upon a promissory note, when the individual should refuse to lend in any other way than upon mortgage.

I am aware that a plausible objection to this reasoning might be raised with reference to the banking system as carried on in the United States, by asserting the fact, that were it not for the demand of borrowers who have no real estate to offer as security, there would probably not be employment for one half the banking capital now existing in the United States. This, however, proves nothing more than that there is in existence double the amount of banking capital required to sustain the credit of the paper currency, which I have shown to be the only advantage derived from bank *capitals*, seeing that as far as the capitals go, nobody gains by their amount being loaned through corporate agencies, rather than by their individual proprietors. If the fact be that nearly all the capitals of all our banks are loaned out upon personal security in the discounting of promissory notes and bills of exchange, it is quite clear that the stockholders are not as secure from loss, and that their profits are not as great, as they would be if one half their capitals were returned to them, and loaned out by themselves individually upon landed security. There can be no doubt that in the United States great mischief results from so large a portion of the debts of the community being in the form of promissory notes discounted by the banks, instead of permanent loans, owing to the temptation of banks to expand, arising from the broad field upon which they suppose they can contract in case of need, which is much larger than it would be if all their capitals were loaned out upon permanent securities. I say, "suppose they can contract," because the fact of their being able to contract at all times, may be considered as fully disproved by the stoppages of payment in 1837 by all the banks, and in 1839 by all the banks to the south of New York.

CHAPTER V.

OF THE LEGITIMATE OPERATIONS OF BANKS OF CIRCULATION.

HAVING disposed of the question of the safest mode of employing the capitals of banks, I now come to the question, what is the legitimate function of a bank of circulation, considered in its distinctive character as a bank without any capital to lend?

The manifest answer to this question is, to *lend its credit* in such a way as to produce the greatest possible benefit to itself without injuring the public.

The mode in which a bank lends its credit is to exchange its own promissory notes payable on demand, for the promissory notes or acceptances of individuals payable at a future period, deducting the interest for the time which the latter have to run before they become due, and allowing no interest on its own notes for the time that may elapse before their payment is demanded. In making this exchange, the profits of the bank depend entirely upon the length of time that its notes remain abroad, and its ability to meet them depends of course upon the length of time which the notes have to run in exchange for which they were issued. If bank notes be issued only upon the principles laid down in a former chapter as mere substitutes for coin exported, and without augmenting in any degree the amount of the currency, they will remain in permanent circulation, unless in case of a panic, or discredit, which occasions a run upon the bank, and will constitute a source of permanent profit; for although some of them may be constantly returning in payment of debts, yet they are sent out again as fast as they come in, in the discount of other bills or acceptances. As to the length of time which the discounted paper should have to run, experience must decide, the bank having regard to the possibility of a panic, as well as to the action of other neighboring banks, seeing that an over-issue by any one of them, by depreciating the currency, may occasion a temporary reaction upon other banks as well as itself, and disturb even those that are the most prudently conducted. The practice of the banks in the United States prior to the war of 1812, was *generally* to limit their loans to paper not having more than sixty-three days to run. Since that time, loans have been made at longer periods, extending sometimes even to four and six months, and to this circumstance is no doubt to be ascribed, in a great degree, the frequent revulsions that have since taken place in our currency, and especially that which eventuated in a general stoppage of specie payments in May, 1837.* It must be manifest, that the power of a bank to meet any extraordinary emergency must depend upon the command it has over its loans, and if the experience of other countries can be considered as any guide, that of England and France may both be referred to, where discounts of paper having more than sixty or a hundred days to run, are wholly discountenanced. A similar practice

* To this circumstance may also be mainly ascribed the practice which of late years has generally prevailed of long credits on merchandise sold. Eight months are now given, where formerly only four were required, the effect of which is to double the stocks of dealers who buy on credit, and to double the amount of outstanding debts. When long notes are discounted by banks, long credits will be given by the merchants.

in the United States could not fail to be productive of much benefit to the community, as a means of correcting with promptness any accidental expansion of the currency.

But in order to render legitimate the operations of a bank of circulation, its loans should not only be for short periods, but should be confined solely to the discounting of what is called *business paper*, that is, promissory notes and acceptances received by the holders for merchandise and property sold. If none others were discounted, the expansion of the paper system would only be in proportion to the expansion of business. When this was extended, so as to call for more currency, as at particular seasons of the year, more currency would be created; and when business was diminished, as at other seasons, so as to require less currency, the excess would be absorbed by the payments made back to the banks. In these operations, the level of the currency would not be disturbed, so as to produce a depreciation; for although there would at times be a greater quantity of bank notes in existence than at other times, yet this quantity would be in exact proportion to the increased demand, arising from an increase of transactions. Thus would the *elasticity* of the banking principle accommodate itself to the state of commercial wants. Money would always be procurable, when it was really wanted, and it would never be so plenty as to depreciate the currency. The holders of real paper could always get it discounted, and even those, whose sales of merchandise to the country should not put them in possession of notes or acceptances payable by resident debtors, could also, without any violation of the legitimate principles of banking, get discounts for short periods on the hypothecation of such foreign paper.

But it is absolutely necessary upon sound banking principles, that no paper except that received for property sold should be discounted. Fictitious or accommodation notes are not as safe investments for a bank as real notes. A real note given by A to B., for five thousand dollars, for a hundred hogsheads of sugar sold and delivered, endorsed by the latter, and discounted by a bank, is guaranteed by B., who has five thousand dollars in cash, the proceeds of the note, less the discount, and by A. who has five thousand dollars worth of sugar. Of this there is no doubt. An accommodation note drawn by C. to D. may have upon it two names apparently as solvent, but there is no certainty that the two together possess any thing more than the sum loaned by the bank. And this is not all. The discounting of a real note is merely anticipating a capital previously existing, whereas the discounting of an accommodation note is lending capital to one who did not possess it before. The borrower of money on an accommodation note must require it to pay an old debt, in which case his control over it is parted with, or, for some new operation, agricultural, commercial, manufacturing, or speculative, which in the nature of things may not be terminated in a short time, and in neither case is he the sort of borrower that a bank can rely upon to enable it to meet, under all circumstances, its notes payable on demand. Nor is this yet all. The discounting of notes given for property sold, does not encourage over-trading, like the discounting of accommodation notes. The latter, if the proceeds be not applied to pay old debts, places at the disposal of borrowers the means of speculating which they did not before possess. Speculation raises prices, and stimulates speculative sales and transfers, by which the regular business of the community is disturbed, only to be followed by a reaction.

From this view of the subject it may easily be seen, how absolutely essential it is for the interest of the public, that banks of circulation should retain unimpaired their control over their loans. So soon, therefore, as they exchange their promissory notes payable on demand in gold and silver, not for the promissory notes of individuals given for property sold, and payable at short periods, but for notes payable at distant periods, or for notes understood expressly or impliedly, to be renewable in whole or in part, they annihilate their power, and place themselves at the mercy of the public. They are liable to be called upon for the payment of their notes faster than their debtors are bound or are able to pay *them;* and instead of fulfilling their engagements promptly and in good faith, they are obliged to resort to discreditable expedients, to deter the holders of their notes from demanding payment.

In the preceding remarks, I have only spoken of bank notes as being the form in which banks of circulation lend their credit, but this was done to simplify the subject. All that has been said in relation to bank notes, applies equally to that other species of obligation which is expressed by the term bank credit or deposit when it arises from the discounting of a note, for it must be manifest that the same profit results to a bank, where such a credit or deposit remains undrawn for, as where an equal amount remains in circulation in the form of bank notes, and that the ability to pay such a liability depends, as in the case of notes, upon the length of time for which discounts are made.

CHAPTER VI.

EXAMINATION OF THE COMMON OPINION THAT BANKS CREATE CAPITAL.

A VERY general error prevails with the public, arising from a want of analytical examination of the subject, which is, that banks have the power to *create* *capital.* As this error lies at the bottom of the whole system of false reasoning with which the speeches in legislative bodies, and the columns of newspapers are filled, and as its eradication is of vital importance to the country, and must precede any real reform in the banking system, I shall enter in detail into its investigation, and solicit the reader's particular attention.

What is capital? The capital of a community is that aggregate mass of things possessing exchangeable value, which are destined to supply the necessaries, the comforts, and the luxuries of life, or, which are intended to be employed in the production of other things with such ultimate view. Hence lands, houses, workshops, factories, rail-roads, canals, provisions, clothing, fuel, merchandise, raw materials of every kind, ships, utensils, machinery, and other such articles, including gold and silver, are capital. If the farmer wishes to cultivate more fields, or to cultivate his present fields more highly, or to make improvements on his farm, or extend his operations in any way, the capital he stands in need of, is land, cattle, horses, sheep, implements, seed, food and clothing. If a manufacturer desires to enlarge his operations, he requires buildings, machinery, raw materials, and subsistence for his workmen. If a merchant proposes to extend his commerce, he wants ships, cargoes of agricultural produce, or merchandise, and provisions for his crew. The *money* which is wanted by each of these operators to deal with, as well as to pay the wages of those whom he employs, is only the instrument by which he and his laborers are enabled to procure some of the articles above enumerated, so that it is manifest that the power of any given population to set additional industry in motion, is limited by the amount of its capital *as above described.* Now it is very evident, that the mere emission of bank notes adds nothing to the mass of capital previously existing. It creates neither lands, houses, machinery, ships, raw materials, provisions, raiment, gold, silver, or any other conceivable thing that comes under the denomination of capital. In fact, a bank note is nothing but a promise to deliver on demand a certain quantity of gold or silver which is capital, and it is easily to be seen, that a *promise* to deliver capital is not capital itself, and that no conceivable number of such promises can ever constitute one atom of the thing promised. As well might it be asserted to a hungry man, that a baker's promise to deliver a loaf of bread, was bread itself, or to a shivering man on a cold day, that a tailor's promise to deliver a suit of clothes would protect him from the weather as well as the suit itself. The matter is so plain, that no one can fail to perceive the truth of these positions.

How then, it may be asked, do the issues of paper credits by banks of circulation operate upon the community, and produce that appearance of increasing wealth in places where they have been established? This is an important question, and if closely examined, will be found to lead to an answer, calculated to dispel much of the delusion under which the public labors, as to a supposed *magic power of production* conferred upon a number of individuals by an act of incorporation. It is this. These issues facilitate the transfer of the existing capital, that is, of things possessing exchangeable value, by creating an additional set of dealers with bank notes in their hands, and who are thereby enabled to purchase with the credit of the bank, what they could not purchase so conveniently with their own credit. A bank note indeed may be considered as a draft in favor of the borrower, given by a bank upon the public at large, to deliver him a certain amount of capital of any description he may want; the bank promising any one who may honor its draft, to pay on demand an equal value in gold and silver. Or, the bank may be imagined as borrowing upon its promissory note, a certain amount of capital from A, and handing it over to B, taking in payment the promissory note of the latter, and charging a commission for its agency. That this is the case, will be made plain from the following statement.

Let us suppose a bank with a capital of one million of dollars. After this is all loaned out, it is very evident that the bank has no more *capital* to lend. A offers a note for discount, having sixty days to run, for one thousand dollars, and the bank discounts it, by giving one thousand dollars of its own notes payable on demand.* These notes, as I have shown, are not capital, but a promise to deliver capital, and it is only because the bank supposes that no demand will be made upon it before the expiration of sixty days, when A's note will become due, that it considers itself safe in exchanging notes with A for that length of time. If the notes come back for payment before A's note is paid, it is evident that the bank cannot fulfil its promises to deliver capital, without borrowing from some one else, or without compelling some of its other debtors to pay, and what is true of A's note is true of all the other notes which the bank may discount in exchange for its own notes.

A then, it is clear, has not borrowed capital of the bank, as all the other borrowers did who preceded him. He has merely borrowed the credit of the bank. And the question may now be very naturally asked, why should he be willing to borrow the credit of the bank at the rate of six per cent. per annum, when he has found his own credit so good that the bank would take it, as is proved by their trusting him for sixty days with one thousand dollars of their notes? The answer to this question is, that the credit of the bank is of greater notoriety than the credit of A. Every body will trust the bank because its capital is known, or assumed to exist, and because every body has heard of the bank, and has not heard of A, and consequently there are persons who will trust the bank, who would

* The discount will of course be deducted.

not trust A; or, because a confidence exists, that a bank note will, for an indefinite period, continue to pass from hand to hand, as equivalent to the metal, which, upon its face, it promises to pay on demand. This universal confidence in the credit of the bank it is, in connection with the known fact, that these notes will pay the debts due to the bank for the million of dollars first loaned as readily as gold and silver, which renders them universally receivable; and as every body who holds them knows that he can at any time procure whatever he wishes to buy with them, no one is in a hurry to send them in for payment, and on that account they remain out in circulation for a long or short time, by which the bank gains interest, whilst the holders of its notes lose no more than they would lose upon an equal balance kept on hand in gold or silver. But there is another reason why the credit of the bank is worth at least a part of the price which A pays for it. It is susceptible like coins, of divisions and sub-divisions into very small fractions, whilst security is afforded for punctual payment by the perpetual succession incident to a charter, or by the survivorship of one or more of several copartners, and facilities are granted by having certain hours on each day at which payment may be demanded, so that no time is lost in making a second or third call, which would be very apt to happen with the notes of individuals not acting as bankers. Perhaps the certain knowledge of the fact that banks during certain hours are to be found open and ready to meet demands without a moment's delay, does as much to keep their notes out in circulation as any thing else; for any one can see, if there were no banking hours, and if a call might have to be repeated, people at a distance would receive notes with reluctance, and would send them in for payment before they actually needed the money, for fear of disappointment on the day it was wanted.

But it may be said that A, when he got his note discounted, did not want to purchase goods by retail, but by wholesale, and that therefore, he gained nothing by the privilege he possessed of taking small bank notes. Why did he not then purchase the goods he wanted of the holder directly by using his own credit and giving his own note, instead of giving the bank one per cent., the discount of his note for sixty days, for the use of *their* notes? I answer for the very simple reason, that he found that he could purchase goods with the credit of the bank upon better terms than he could upon his own credit. Upon no other principle would he have gone to the bank for a discount; for surely no man would give one per cent. to a bank for swapping notes for one thousand dollars if the bank's notes would not buy more than his own individual note at sixty days for a thousand dollars would buy. If it should be said that the object of A in getting the discount was to pay an old debt, the case would not be altered. The credit of the bank is worth to him in this case as much as in the former, the creditor being willing to receive it as money, for the same reason that the sellers of goods above referred to were willing to receive it, because its notoriety rendered it universally receivable by others.

In no case then can the issues of a bank of circulation constitute capital; and we think the reader will now be ready to acknowledge, that all that a bank of circulation does effect, is the mere lending of its credit to individuals, to enable them to procure upon better terms, and in a more expeditious and convenient mode, the capital of others, than they could with their own credit Whether this facility be beneficial or otherwise will appear hereafter.

CHAPTER VII.

ON THE STRICT CONVERTIBILITY OF BANK NOTES AND CREDITS.

But it may be asked, how are banks to ascertain the precise limits beyond which they cannot extend their issues without endangering their solvency and depreciating the currency, and of course injuring the public? And what guarantee has the public, who, from the nature of things, can know nothing of the state of their issues at all times, that their confidence will not be misplaced?

The answer to this question is not easily to be arrived at. In the various investigations before the British House of Commons in reference to the Bank of England, rules for prudent issues have been laid down by different directors, with a variety which showed that all did not possess a scientific acquaintance with the principles of banking. In the management of the numerous banks of the United States, an inexcusable ignorance of first principles has been repeatedly manifested, and hence, we have seen repeated expansions and contractions of a highly prejudicial nature. These expansions and contractions, however, with the fluctuations in prices necessarily accompanying them, would exist only to a limited extent, if there were a real *bona fide* convertibility; and I wish it to be distinctly understood that all my remarks favoring banks of circulation, are founded upon the supposition of such convertibility.

How then is absolute convertibility to be attained? I answer, by the joint co-operation of the banks, of the public, and of the legislatures.

The duties which the banks have to perform are, *first*, to deal honestly with their creditors, by keeping themselves in a condition at all times to meet their liabilities, and by promptly paying on demand, in acceptable coin, their notes or deposites for any amount that may be called for, without the slightest intimation by the looks, words, or deeds of their officers, that they would rather not pay, and consequently, by despising those miserable and discreditable expedients so frequently resorted to by banks on the eve of insolvency, of gaining time by a useless delay in counting out small coins, or in weighing gold pieces; *secondly*, by scrupulously avoiding to throw obstructions in the way of a free exportation of coin, either by refusing facilities for the packing up at the bank of sums however large, or by disqualifying the exporters from their equal rights with others when applying for discounts; *thirdly*, by calling upon each other for the payment of daily balances in coin, in order that each bank may be restricted within its proper sphere; and, *fourthly*, by confining themselves to the legitimate pursuits of banking, and by carefully watching the political horizon, to see that no event like war, civil commotion, or governmental interference with the currency, is likely to find them unprepared.

An honest observance of these rules would of itself establish true convertibility, but unfortunately experience has given too much reason to fear, that the moral sense of corporations cannot be relied upon for the protection of the public. The ignorance of some, the speculative avarice of others, the favoritism incident to most, and the desire common to all, to amass large profits, are constantly operating to effect an expansion of the currency to the utmost limits of tension; and however prudently and wisely conducted may be many of these institutions, their influence and example are lost upon the rest, and when a calamity befalls the country by a general stoppage of payments, they are made to share in the common catastrophe.

The duties which the public have to perform, as a check upon this perpetual tendency to over-issue, are incumbent on every citizen; and he who withholds his co-operation, when he has a motive to act, becomes a participator in the wrong. They are, simply, for every man who wishes to convert bank notes or deposites into coin, either for the purpose of convenience or exportation, and whether the amount be large or small, to make his demand without being influenced by fear, favor, or affection, or through any false or mistaken delicacy towards the directors of banks, or their debtors who might in consequence thereof be called upon for an earlier reimbursement. Here, again, unfortunately, experience demonstrates, that the independence and moral firmness of most merchants is not proof against the influences which may be brought to bear against them. On the one hand, they find their discounts interfered with, and their commercial operations crippled; whilst on the other, they discover that a clamor is raised against them by those debtors to the banks who purchase commodities from them, as soon as they feel the pressure occasioned by a diminution of discounts, consequent upon a heavy demand for specie.*

The only true resort, therefore, that can be appealed to for absolute convertibility is legislation. But how is this legislation to be expressed? By forfeiting the charters of banks that do not pay their notes. The legislature of New York in May, 1837, absolved its bank's from this penalty for one year. By imposing a penalty of twelve or twenty-four per cent. per annum, upon notes and deposites not paid in coin. Such provisions were wholly inoperative in those states where they prevailed, during the late general suspension, by the evasion of the banks, and by popular clamor raised against individuals who demanded their rights, and cannot be relied upon, either to prevent a general stoppage, or to enforce a resump-

* Whenever gold and silver legal tenders are both saleable at a premium, it is proof of the absence of true convertibility.

tion with promptness. The true and only answer is, by establishing *individual liability*, such as that which exists with all the joint-stock banks of England, and all the private banks of that country as well as of Europe.*

With such a convertibility as this would accomplish, we should run comparatively very little risk of expansions and their consequent contractions, or of an alternate plenty and scarcity of money. The over-trading of each particular bank would be checked by the prudent regard to self-interest which would operate upon its managers; and if recklessness should characterise the conduct of one, or a dozen, or a hundred banks, it or they would simply fail, like individual traders, and make an assignment of their property, without producing the catastrophe of a general suspension of specie payments. To prevent the failure of banks altogether is impossible. The most that can be done, is to prevent a general stoppage.

But in laying down this proposition, I am far from imagining the present possibility of its adoption in the United States. The principle of limited liability by acts of incorporation, and by laws authorising limited partnerships, is too deeply rooted in our system to be

* Mr. McCulloch in his Commercial Dictionary, edition of 1834, pages 109 and 110, has the following remarks. "Bad as our system of country banking undoubtedly is, we should be exceedingly sorry to see any attempt made to improve it, by the adoption of even the best parts of the American system!" * * * * * * "That part of the American system *which limits the responsibility of the partners in a bank to the amount of their shares*, seems to us to be in the last degree objectionable. It affords a strong temptation to the commission of fraud, and we have yet to learn, that it possesses a single countervailing advantage. We have been assured by those well acquainted with the facts, that it has been productive of the most mischievous consequences."

For an able exposition of the principles of *individual liability*, see the article G, in the Appendix, by James Cox Esq., of Philadelphia, now first published.

now eradicated; and as I believe the most practicable scheme of reform to which legislation can be applied at this day, is to be found in the policy of the New York general banking law, I will in a future chapter give my reasons for believing that plan to be better calculated, if made general throughout the Union, to give stability to the currency, than any other that would be likely to meet a general acceptance.

CHAPTER VIII.

OF THE VARIOUS MODES RESORTED TO BY SOME BANKS TO AUGMENT THEIR DIVIDENDS.

Every sound thinker who has taken notice of the high rates of dividends that were declared by many of the banks throughout the United States, during the years 1836, 1837, and 1838, whilst their number was increasing, and when, upon every known principle, their dividends ought to have decreased, must be satisfied in his own mind, that these extraordinary dividends did not result from the legitimate operations of banking, that is, from the lending of money or credit at the rate of interest authorised by law. The charters of most of our banks restrict their operation to the lending of money and to trading and dealing in bills of exchange, gold and silver bullion, and certain specified public securities; and hence, all other transactions are in violation of the laws. I have stated in a former chapter, that the charge of one half per cent. interest taken beforehand, in connection with the practice of charging interest for sixty-four days upon a note payable in sixty days with three days grace, is equal to $6\frac{4}{10}$ per cent. per annum, and this it is evident is all that a bank has a right to claim for the use of its money or credit. Modern competition, however, has operated upon some, and led them to adopt numerous modes of getting more than this rate. Amongst these are the following:

1. The practice of giving a preference in their discounts to those customers, who by agreement, express or implied, stipulate to leave in the bank, never to be drawn for, a certain proportion of the amount borrowed; by which virtually the bank receives interest for money or credit which it does not lend. Examples have been known wherein a sum equal to twenty, thirty, or forty per cent. has been expected to remain as a permanent undrawn balance, thus adding to the profits of the bank, by a sheer evasion of the laws against usury. Borrowers upon such terms are seldom to be found amongst the most responsible traders, but can always be had in abundance amongst that class of needy men, who, without such a facility, would be obliged to borrow in the open market at a higher rate of interest. If this principle had been extended to the loans of all the banks of the United States, amounting in 1838 to upwards of $500,000,000 as far as five per cent. upon an average, the banks would have derived from it a profit equal to the interest on twenty-five millions of dollars, that is, upwards of a million and a half of dollars.

2. The practice of discounting notes, and instead of giving cash for the net proceeds, giving post notes payable at thirty or sixty days date, by which means the bank gains a profit equal to the interest for the time the note has to run. In other words, if a bank discounts a note having ninety days to run, and gives in exchange for it a post note payable in thirty days, it receives interest for ninety days for the loan of money for sixty days, inasmuch as the post note is not money until it becomes due, as will hereafter be shown. The extent to which this practice has been carried throughout the United States is very great, and it is defended upon the ground that the emission

of post notes enables merchants who have remittances to make to distant points, to effect that object more securely and conveniently than by the transmission of bank notes payable to bearer, on account of the security afforded by the former's being only transferable by endorsement. This is true, but it is manifest that this end would be as completely attained by a post note payable in three days after date, as by one payable in sixty days. But this is not all. Post notes at long dates, not only enable banks to profit by evading the laws against usury, but they enable banks to raise money for their own use when they are embarrassed, without appearing to borrow, a facility which renders them less careful of expansions of the currency than they otherwise would be.*

3. The practice of lending the notes of a bank with an express understanding that the borrower is not to put them into circulation within a certain distance of the place where the bank is located, or within a certain time from their coming into his possession, by which means the bank would receive interest for the time that would thus intervene, without having made any loan. An example of this species of contract was exposed in the examination of the affairs of the Chelsea bank near Boston, in 1837, two of the directors of which borrowed the notes of the bank which they were not to put in circulation, but which they were to pledge for money borrowed, elsewhere, and it was probably with the view of preventing a resort to such expedients, that the legislature of Massachusetts in that year prohibited banks from issuing notes that are not to go into immediate circulation.

4. The practice of discounting notes, and instead of paying the net proceeds in money, stipulating

* The banks of New York are prohibited from issuing post notes. Some of those of Philadelphia entered very deeply into this branch of business in the years 1838 and 1839, abroad as well as at home, and became greatly embarrassed by it.

with the borrower that he is to take the notes of distant banks, known to be in the market at a discount. This expedient has been extensively resorted to all over the United States, and in some cases in such flagrant violation of the laws aginst usury, as to be accompanied by a regular bargain to purchase back by the bank, at the market rate of discount, the very paper just handed to the borrower. Nay, transactions have been even conducted in so barefaced a manner, that discounts have been made payable in distant paper which the bank did not possess, and which she purchased back at a discount, thus substituting a *constructive* sale and purchase of what possessed no existence, for the sake of avoiding a direct usurious transaction. Many flagrant examples of the expedients here described, extending to nearly all the banks of Providence, were exposed by a committee of the legislature of Rhode Island in June, 1836, in a report, a copy of which accompanied the secretary of the treasury's report on the condition of certain banks, of January 4, 1837.

5. The practice of discounting domestic or inland bills of exchange, by which advantage has been taken under the color of exchange, to charge, besides the legal interest, and a fair charge for collecting, the most extortionate rates of profit, having no real relation to the actual expense of collecting, but only to the necessities of borrowers.* In the examination,

* The following article which appeared in a newspaper in December, 1839, is important as regards this practice.

Important Legal Decision.—The Cincinnati Gazette contains a notice of the decision of a case at Columbus, Ohio, which attracted much attention on account of the principles involved. The facts were briefly these:

Paddleford wrote to the cashier of the bank, inquiring if they would discount a note with his and other names mentioned, payable east 6 or 8 months. The cashier replied, that the bank was not discounting, but his bill with the names mentioned for $5000, at 6 months payable in New York, Philadelphia, or Baltimore, would be purchased at their usual rates, and the procceeds paid by a committee of the legislature of New York, in 1838, of the affairs of one of the city banks, some gross malpractices of that institution were developed. It was proved to have charged from five to ten per cent. exchange on the collection of drafts, when the market rate of exchange on similar drafts was not more than from three to six; had discounted paper with the express understanding that the party accom-

in their own bills, if intended for circulation or in a check east at the usual premium: and he endorsed a printed blank form of a bill. Paddleford and the other person signed the blank paper filled up only with the sum, and he sent it to the cashier in a letter requesting him to remit the proceeds to him in an eastern check, less the premium. The paper was received at the bank, and filled up with the name of their own correspondent in New York, the cashier of a bank as a drawee, in their own favor. The drawer never had funds in his hands. Deducting the interest for six months and four days, and one per cent. they remitted him the net proceeds in a check on New York less $1\frac{1}{2}$ per cent. premium, and ordered a notice to be furnished to him of the name of the drawee, and of the time and place of payment, which notice was duly received.

The charter of the bank prohibits them from taking more than at the rate of 6 per cent. per annum on their *loans or discounts*. The defendants, the securities, (Paddleford not having been served with process) set up as a defence, that this bill was discounted at a higher rate than 6 per cent. per annum, and therefore was against the charter, unlawful and void. The bank claimed that the bill was fairly purchased in the market, and that one per cent. was retained as exchange. The court instructed the jury that the bank could buy and sell exchange at any fair rate agreed upon, without violating its charter; and if the transaction before them was a real purchase of a bill at 1 per cent. exchange and interest off, the bank could recover, but if the intention was to get a greater compensation for the use of the money than at the rate of 6 per cent. per annum, and the form of the bill was resorted to, to cover up that design, then the contract was unlawful, and the defendants must have a verdict; that the jury should be governed by the real transaction, no matter what form it assumed.

This decision seems to cut up by the roots, the business of discounting fictitious bills of exchange by banks similarly restricted, merely for the purpose of exacting high interest under the name of exchange.

modated was not to receive cash for the net proceeds, but a draft at par upon some distant place, worth in the market one to three per cent. less than the rate at which it was taken; and had even purchased back their own drafts at such a rate of discount. What this bank did, has been done, more or less, by a large portion of the banks in the United States, and the evil has become so extensive that funds which should be devoted to the discounting of real paper payable on the spot, have been diverted to the purchase of fictitious bills, created for the very purpose of raising money, and not in the ordinary course of trade.

6. The practice resorted to by some banks, of discounting notes in the market, through the instrumentality of brokers, at usurious interest, instead of discounting them at lawful interest, in the regular way. The New York bank above referred to, was proved to have discounted at usurious interest out of doors, the very notes that had been offered to the bank and been rejected by the board of directors.

7. The practice of speculating in stocks, and, in the case of some of the Mississippi banks and others, transacting the business of cotton factors, and cotton exporters.

8. The practice of buying up the depreciated paper of other banks, under a suspension of specie payments, and holding it until redeemed in coin. Large sums were invested, in 1838, by some of the Philadelphia and New York banks, in purchases of the notes of the Mississippi banks from ten to twenty-five per cent. discount, and loaned to the latter at par for their bonds payable at a subsequent period.

9. The practice adopted by many of the banks of New England, and perhaps of other places, of lending to brokers on interest, repayable on demand, a large proportion of the amount which banks in other places consider themselves bound to keep on hand, in coin, to meet possible demands.

10. If to these items be added the amount of profit

made by the banks during the late suspension, by drawing interest on money that belonged to their creditors and not to themselves, we shall have the true sources from which the large dividends were derived. What proportion of the whole interest received is to be ascribed to this source, is not precisely ascertainable; but this much may be known with certainty, that it was equal to the income arising from that proportion of the aggregate mass of loans made by all the banks, that exceeded the amount that could have been sustained under a convertible currency.

CHAPTER IX.

OF THE CREATION OF BANKS WITHOUT CAPITALS, OR OF FRAUDULENT BANKS.

The term fraudulent bank is intended to be applied to a bank commenced without capital, or what is the same thing, a bank, the stock of which is held by persons who have not the means of paying for it, and who have consequently been obliged to hypothecate it to the bank as collateral security for stock notes discounted to meet the instalments as severally called for. The mode by which such a bank may be established without capital is this:—

Books are opened to receive subscriptions to the capital stock, each share of which is to be $100, of which $5 per share is to be paid at the time of subscribing. The capital is to consist of 1000 shares, equal to $100,000. The stock is taken, not by capitalists, as a mode of investment, but by persons who subscribe as a matter of speculation, with the view of selling out at a profit. The first instalment, amounting to $5000 being paid in, the directors are chosen from amongst these very speculators, who are expected to make the payment of the ensuing instalments come easy to themselves and their constituents. A second instalment of $10 is called for, but as the holders of the stock have no more money to pay in, they offer notes for discount, and pledge their stock to the bank as collateral security. The third, fourth, fifth, and all subsequent instalments are paid in a similar manner by stock notes; and, finally, the stock-holders obtain an additional discount for the original $5 per share paid in, which may have been originally borrowed, and thus we have a bank with a nominal capital of $100,000, but possessing not one dollar of real capital.

Such a bank, however, in its operations thus far, must be a losing concern. The expenses of management would compel the stockholders to pay in discounts more than they would receive in dividends, and the next step of the directors would of course be, to issue bank notes in exchange for the promissory notes of individuals. In the first instance they would probably discount their own notes or the notes of other stockholders, in which case, if the notes of the bank could be got into circulation, which experience shows they could be, if the directors were adroit and active, the borrowers of them would be enabled to command the capital of other people, to carry on business with. It is, perhaps, not probable that many of the banks of the United States have been entirely established upon this principle, but no small number of them have been partially so, and it must be evident that so far as any part of the capital of a bank has been loaned to a stockholder upon the hypothecation of his stock, *he not being entitled to credit upon his mere personal security*, so far the capital of the bank is diminished, and so far the public are deprived of the security which the nominal amount of the capital promises to afford.

The same deficiency of security might exist in case there were two banks established upon similar principles, and the stock of each was pledged with the other by two speculating sets of holders who changed position.

The following account of banks established in part upon this fraudulent principle is extracted from a report made to the legislature of North Carolina, during 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, authorised that corporation to raise a capital stock of $250.000; and the charter of the Newbern Bank, enacted in the same year, authorised 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 authorised to increase their respective capitals to

$800,000 each, viz., the Newbern Bank was authorised 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 three and four millions 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 three or four millions, for the notes of the people, bearing an interest of more than six 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."

CHAPTER X.

ON THE EFFECTS OF BANKS DEALING IN EXCHANGE.

The proper business of a bank of discount is to lend money. That of a bank of circulation is to lend credit, and the technical idea of banking excludes all transactions other than that of lending. This was formerly so well understood in the United States, that the discounting of notes or acceptances payable on the spot was the sole mode in which the capital and credit of the banks were employed; and if, by way of accommodating their customers they occasionally discounted a note or acceptance payable at a distant place, it was always done upon the same terms as if it were payable on the spot, the banks not calculating upon any profit in the way of exchange, but relying upon getting their money back again by supplying another customer with a check or draft at par. The ordinary exchange transactions between different cities and states were left to individual competition which established the market rate, as it does in all other countries of the world, and as it must invariably do wherever it is not interfered with by artificial causes.

Such was the state of things that existed prior to the establishment of the late bank of the United States. That institution, at some period subsequent to the commencement of its operations in February, 1817, entered upon the business of a dealer in inland bills of exchange by buying and selling bills upon all points where its branches were located, upon terms that gave it a profit on the transaction. This practice probably gave rise to the general custom now prevailing amongst banks of buying and selling bills of exchange; and as the custom appears to be one which facilitates the operations of trade, the public has overlooked the mischief which results from its exercise. It is of this mischief I now propose to speak, and I beg the reader's attention to the remarks I am about to offer.

It has been shown, in the chapter on exchange, that the competition of the market will always settle the rate of premium or discount on bills, according as the proportion may vary between the supply and the demand. Nobody need ever be apprehensive that the rate can ever be forced unreasonably high by the combination of sellers, or forced unreasonably low by the combination of buyers. Each party has his remedy, as we have shown, against undue exactions, by the right that can never be taken from him, of transmitting coin instead of a bill. Under this free competition of the market, it must be manifest that the profit on bills, where there is one, goes into the pockets of the right people, that is, of those who are fairly entitled to it; and that the loss on bills, where there is one, also falls upon the right people, that is, upon those who ought to bear it; and in this manner equal justice is done to every individual, and the commercial wealth is consequently distributed through the natural and legitimate channels. If, at one season of the year, for instance, bills at Natchez on New York sell for two per cent. premium, this advantage fairly belongs to the seller. If at another season they sell at two per cent. discount, this loss goes into the pocket of the buyer of the bill as a profit, and fairly belongs to him. Any one, however, can perceive that this question of profit and loss on exchange is a private affair between one set of dealers and another, and as far as the public is concerned, it is a matter in which, as a body, they have no interest. It is of no sort of consequence to the community at large, whether the rate of exchange on inland bills is at the maximum or minimum price, or whether A or B puts a profit into his pocket, but it is of great consequence to the community that the profit should go into the right pockets, and that the inland exchanges should be carried on at the least possible expense to the country.

Let us now see how far the interference of banks in the operations of exchange disturbs the natural course of things.

And here I will remark, in the first place, that the competition of banks operates upon the bill market in a manner wholly different from that of individuals, owing to the power they possess of contracting the currency when they want to buy, and of expanding it when they want to sell. By the exercise of this power they can accomplish what individuals cannot accomplish, for these latter, having but a given amount of money to purchase with, cannot augment its quantity at pleasure, and their influence in the general competition, therefore, can only be proportioned to their actual cash. Can any one doubt the operation of this principle who has noticed the effect upon the price of cotton, universally admitted to have existed throughout the cotton growing states, during the years 1837 and 1838, by the dealings of banks in the purchase of cotton? Does not every body know that the price of cotton was kept a cent or more per pound, by the issues of banks, higher than individual competition could have kept it? And if so great a rise as ten or fifteen per cent. could be created in cotton, is it not easy to be seen how readily a rise in the rate of inland bills of exchange, of a quarter or half per cent., could be effected?

The mischievous tendency, however, of banks dealing in exchange, is greatly augmented where banks have branches, or enter into extensive combinations for a united system of action. Let us, for instance, suppose a large bank in a northern citiy with branches, or agencies at the principal southern ports, of sufficient extent of capital to operate upon the value of the currency at those ports. Let us suppose, the mother bank, at the seasons fòr shipments of cotton to the north, to give orders to its branches to buy the bills drawn upon those shipments at the cheapest rates that they can be obtained at. Any one can perceive at a glance, that the withholding of discounts for a few days, will make money scarce, and thereby depress the price of bills below the previous rate. At this new price the branches may buy, and transmit these bills to the mother bank, which in a short time after is drawn upon by the branches at a higher rate of exchange, which they were enabled to obtain by making money plenty, whilst in the case of the purchase of foreign bills drawn upon shipments of cotton to Europe, the mother bank by adopting the same expedient, or, what amounts to the same thing, by selling those bills on a credit at a higher price than the current cash rate with interest added, makes an additional profit. That such expedients as are here brought into view, may be, if they have not already been, practised by some of our banks can hardly be questioned, and the mischief thence resulting, far more than counterbalances all the benefit to individuals which an equalising of the exchanges can possibly accomplish.

But it may be said, that, without the agency of banks, there would not be the same facility in negotiating bills. This objection is not borne out by the experience of Europe, where bills of exchange can at all times and at all places be negotiated upon the most favorable terms, through individual capitalists, who have no control over the currency in augmenting or diminishing its quantity; and there is not the slightest reason for supposing that equal facilities would not exist in this country through private competition, if the ground were not already occupied by banks possessing by their very power of expansion and contraction, the ability to annihilate all private competition. It may also, perhaps, be said, that the agency of banks between buyers and sellers is afforded at a cheaper rate than that of individual capitalists would be. This assertion may very well be doubted, when we reflect upon the monopoly the banks at present enjoy, and the facility that exists for their combining to fix prices; and even if it were true, the small advantage gained by this circumstance would be greatly overbalanced by the mischievous power to which I have alluded, of depressing or raising the market price of bills, by contractions and expansions of the currency.

It is, however, in the interference with the foreign exchanges of a country that the power of banks is most to be deprecated. Upon this subject, the author advanced some views in an essay published by him in the year 1828, which so entirely correspond with those which he at present entertains, that he has concluded to transcribe them, rather than to adopt any new phraseology. The essay was in answer to one written a short time before, by a friend of the Bank of the United States, with the design, amongst other things, of showing the importance to the country of the power exercised by the bank of dealing in exchange.* The following are extracts:

"This is the course that matters take under a currency composed entirely of coin, or a *sound* mixed currency composed of coin and paper exchangeable for coin, but it must be kept in mind, that under such a currency, actual shipments of specie from one country to another, do not take place to any very great extent. A very slight comparative diminution of the quantity of coin circulating in a country, creates a scarcity of money, and this operates very soon upon the prices of all commodities, by reducing them in the market."

"This partial export, however, and tendency of

* The essay last mentioned, appeared in the National Gazette, of 10th April, 1828, under the title of "The Currency." The reply was published in the Philadelphia Gazette, of 17th April, 1828, under the title of "On Exchange." Both essays were republished in the Free Trade Advocate in 1829.

the coin to go abroad, is the only check upon over-trading. It indicates that more commodities have been imported than exported, and warns the importer of an approaching fall in the prices of the articles in which he deals, which induces him to countermand or diminish his orders, and in the next year to import less; and this operation brings back the small quantity of coin, which, by its removal, had diminished the currency below the quantity which was requisite to maintain it upon a level with the currencies of other countries. From this view of the subject, it is apparent, that *exchange* may be looked upon as *the beam of a pair of scales, very nicely balanced,* and employed in ascertaining the value from day to day of the imports and exports of a country. The slightest departure from the equilibrium shows itself in the fall and rise in the price of bills, and the assayer of the mint does not keep his eyes more steadily fixed upon the balances in which he weighs his gold, than should the merchants keep theirs fixed upon the rate of exchange."

"If these things be true, it would seem to follow, that the most free and unrestricted competition possible in the bill market, would be the best calculated to prevent over-trading in the banks as well as individuals, for from such free competition *the earliest indications* of an excess of imports, or of a depreciating currency, would show themselves. That the operation of the Bank of the United States is to interfere with, and to a certain extent to destroy this competition, and consequently the check which ought to be suffered to operate *monthly, weekly,* and even *daily* with its warning voice, is admitted in the following sentence. 'Its principal advantage, and that which makes the bank pursue it, is, that this stock of exchange operates like a lever to keep the exchange market easy, to prevent the excessive price of bills, and to enable the merchants to calculate with reasonable probability the habitual cost of their remittances.'

By this language, we understand, not only that the bank is desirous of effecting something like a steady price in exchange throughout the year, but that it does actually possess the power so to do. That this power is not, however, always exercised in such a way, as to prevent 'the excessive price of bills,' is evident from the admitted fact, that bills on London have been so high, that a merchant could afford to ship dollars at a less expense than the premium on bills, and indeed so much less, that it was an object of speculation to ship coin for the sole purpose of drawing bills upon it.

"We cannot therefore but conclude, that the dealing in bills of exchange by the bank, upon the principles professed, removes the great check upon over-trading and over-issues of paper, created by the free competition of the exchange market. To this it may be replied, how can a dealer who only purchases five millions of dollars value of bills in a year, disturb the competition, when the probable amount negotiated may be six or eight times that amount? We answer, by that power of purchasing, possessed, but not of necessity fully exercised by the bank, which is known to every drawer of a bill, and also by that moral influence, which silently operates, and compels the drawers of bills to keep up the price very near that fixed by the bank, through fear that mercantile discredit would accompany any offer to draw at a price much below it. The fact, however, of a control over the rate of exchange is admitted in the above quotation, and therefore needs no further evidence of its existence.

"But let us examine and see whether the benefits flowing from this dealing in exchange by the bank, be in reality such, as they are described to be, by the essay in question. *'In the south it furnishes capital for facilitating trade.'* Does this mean, that because the bank is a buyer of bills in that quarter of the Union, it therefore issues more bank notes than are called for in the ordinary course of discounts? If so, the tendency of such over issues is to depreciate the currency, and whatever may be the favor done thereby to the southern planters, factors or merchants, there is certainly a positive injury inflicted upon all the rest of the community. If, however, the tendency be not to enlarge the issues of bank notes, how is any capital afforded to facilitate trade, in addition to that which would be procurable by the same planters, factors or merchants, by offering for discount the promissory notes or acceptances of individuals, to whom their bills would have been sold, if the bank were not a dealer in exchange? '*To the north it supplies a safe and undoubted remittance.*' This is unquestionably true, inasmuch as it affords to all those who are willing to pay for increased security, an opportunity of fulfilling their engagements in Europe, without danger of defalcation. This benefit, which by the way, we humbly conceive to be the only real one of a general nature, which results from the power of the bank to deal in exchange, could, however, be conferred by the bank in a way far less injurious to the public, than the one now pursued, and that would be, by the simple operation of *guaranteeing bills for a stipulated commission.*

"*To the southern merchants it affords another buyer of bills, to the northern another seller, widening in both cases the field of competition.*" This to be sure appears plausible, but we apprehend will not stand the test of analysis. The bank it would seem goes into the market at Richmond, Charleston, Savannah, and New Orleans, to purchase the bills upon Europe, drawn upon the shipments of produce made from those ports. The immediate buyers of those bills, if the bank was not a dealer in exchange, would be, either the importing merchants on the spot, or the importing merchants in the northern cities. The bank, we will allow, by its competition, raises the price of bills above what it would otherwise be, because it is a speculator with a large capital, which buys, not because it stands in need of bills, but because it is sure it can make money by the purchase, owing to its power of controlling the market price. This, too, we will admit, benefits the drawer of the bill, and perhaps in a very trifling degree the planter, who gets a better price for his crops on account of the increased premium on bills. But is not the importing merchant of the south, as well as the importing merchant of the north, injured by this operation precisely in the degree that the others are benefitted? Are they not compelled to give more for their bills, than they would otherwise have given? And why should then an institution, *general in its nature*, take merit to itself, for taxing one portion of the community for the benefit of another? And how is the bank a '*new seller to the north?*' Does she offer any more bills in the northern cities, than would be offered there for sale, without her intervention? We apprehend not to the value of a dollar. She occupies the mere place, which, without her, would be occupied by a number of individuals; and it is self-evident that her agency in the matter, so far from *widening the field of competition*, actually restricts it, and raises the price of exchange as much above what it would be, if she were not a dealer in bills, as the profit she obtains by her operations.

"But after all, why should the bank undertake to be the arbiter of exchange? Why should she be particularly careful that exchange should not be too high, rather than that it should not be too low? As far as some of our own citizens are the drawers, and others the purchasers of bills, it is of no sort of consequence to the public, what is their precise rate. To the parties themselves it is indeed of moment, inasmuch as what comes out of the pocket of one goes into that of the other; but the country is neither richer nor poorer for the operation, and the parties themselves are quite as able to adjust the rate as the bank. As far, however, as bills are wanted for the account of foreigners, for goods sold in the country, it is of advantage to the country, that exchange should be *high*, inasmuch as thereby the balances due them would be paid by a less amount of bills. But, notwithstanding this, the bank should not attempt to interfere with the natural course of exchange, any more than a government should interfere with the natural course of trade.

"Upon every view of the subject which we have been able to take, we consider all profits made by the bank upon its foreign exchange transactions, beyond the amount of a fair charge for guarantee, and brokerage for bringing buyers and sellers together, as a tax upon the consumption of the country, for which no equivalent service is rendered. We also consider that its dealing in exchange, and accumulating large stocks in Europe, which can only be done, we apprehend, *by extra issues of paper, prejudicial to the currency, and consequently to the nation*, is destructive of the only imaginable check upon over-trading and over-banking, inasmuch as it conceals for long periods together, the real state of the competition of the market, the only guide by which merchants and banks can regulate their transactions, with advantage to the country. If it should be asked, whether there is any difference in the effect produced by the operations of the bank, from that which would be produced by the operations of private speculators, we would reply, that there is a most essential one. Indpendent of the powerful force of a huge capital, which gives a weight in the market, that no moderate number of our citizens could bring to bear, the bank after it buys bills, has power to make *an addition to the currency*, the immediate effect of which is to raise the price of those bills, and thus afford a profit by their sale. Individual speculators, on the contrary, add nothing to the mass of the currency, and their operations must, in the nature of things, have but a very slight effect upon the market price of exchange."

CHAPTER XI.

EXAMINATION OF THE COMMON OPINION THAT THE ESTABLISHMENT OF BANKS IN THE WESTERN STATES, UPON EASTERN CAPITAL, IS BENEFICIAL TO THOSE STATES.

It is an opinion very frequently expressed, that the establishment of banks in the western and south-western country, has been a great source of prosperity to the cities and towns where they have been located as evinced by the improvements to which they have given rise, and by the commercial and manufacturing activity that has been displayed. Cincinnati, Louisville, Nashville, Natchez, Vicksburg, and numerous other places, it is said, owe a large share of their prosperity to the establishment of banks; and as these have all been banks of circulation, it is concluded that therefore banks of circulation must have powers to create national wealth, which I have denied to them. Let us examine this doctrine.

It has been shown in a former chapter, that nothing but capital, that is, something possessing an intrinsic value, can possibly be the means of setting industry in motion, and that banks have not the power of creating such capital by a mere issue of promissory notes. It may, then, fairly be concluded, that as far as any real prosperity has been ascribed to the circulating principle of the banks established in the places that have been mentioned, the position is fallacious, and without a shadow of foundation. But, at the same time, I am prepared to admit, that as far as the capitals of the banks referred to have been subscribed by capitalists residing in the Atlantic cities, those cities and towns have reaped all the benefits resulting from the borrowing of a foreign capital, whatever they may be. The simple fact of that capital's being nominally what is called "a money capital," is of no sort of consequence in the estimate of the benefits; for, in truth, although subscribed in money, it was never in the form of coin in the actual possession of the western banks, but a fund in the Atlantic cities, drawn upon and sold to the western merchants as a remittance to pay up their existing debts, or to purchase new supplies of goods. It was thus a capital subscribed, nominally in money, but really paid up in dry-goods, hardware, and groceries; and the effect, therefore, upon the prosperity of the western towns, was precisely the same as that of obtaining from individual merchants, or in any other way upon credit, an equal amount of merchandise, with this difference, that the credit might not cost as much through the process of a bank, as if obtained through a purchase of goods in the ordinary way.

This difference in the cost of the credit, however, is all the benefit that the western cities and towns can have reaped from borrowing foreign capital through bank charters, rather than through the ordinary channels of purchasing goods on credit. What it may have amounted to, it is not easy to ascertain; but as a set off to it, it may very fairly be assumed, that in the scramble for discounts made on the first opening of the banks, the loans of capital and credit were not as judiciously made for the general interests of the country, as sales of merchandise would have been by the eastern merchants, as is shown by the fact that immense sums were loaned to planters who embarked in speculations in lands and slaves, and to merchants who embarked in shipments of cotton, and who ultimately became embarrassed or ruined by these operations. Every one remembers that the southwestern banks were the last to resume specie payments after the late suspension; and it is well known to many, that they were only enabled to do it when they did, by borrowing large sums from the eastern cities, or by the emission of post notes payable at distant periods with which they absorbed a part of their immediate liabilities. If any stronger proof were wanted of injudicious and improvident loans on the part of many of those banks, it may perhaps be found in the second failure that has taken place with all of them since their resumption in January, 1839, and in the expression of public opinion manifested on the stock exchanges of New York and Philadelphia at a recent period, which places the stocks of all of them below par, and of some of them very considerably below it.* If these facts be conclusive as

* The following western and southwestern bank stocks were sold at New York and Philadelphia, where a large amount of them are owned, between the 1st of September, 1839, and the 1st of January, 1840, as low as the prices specified in the first column. The sales at Philadelphia were made prior to the suspension of specie payments on the 9th of October, so that in both cases the specie price is given.

The second column gives the lowest and highest prices between the 1st of January and the 1st of May, 1840.

	Per cent.	Per cent.	Capitals paid.
Lafayette B'k, Cincinnati,	60	no sales.	$1,000,000.
Franklin Bank, "	65	75 to 80	1,000,000.
Commercial Bank, "	no sales.	85 " 95*	1,000,000.
Ohio Life & Trust Co. "	65	72 " 80	628,594.
Bank of Kentucky,	54	49 " 59	4,679,404.
Northern B'k of Kentucky,	80	81 " 85*	2,895,685.
Louisville Bank,	80	75 " 80*	1,150,000.
Illinois State Bank,	54	55 " 64	
Union Bank of Tennessee,	70	64 " 73*	2,554,939.
Planter's Bank of Tenn.	74	72 " 75*	2,247,985.
Planter's Bank of Mississippi, Natchez,	50	20 " 33*	4,200,140.
Commercial Bank of Natchez,		50	1,507,750.
Grand Gulf Bank of Miss.	40	36 " 37	1,467,750.
Vicksburgh Bank, Miss.	22	7 " 17	4,000,000.
Memphis Bank, Tennessee,	no sales.	65*	535,333.
N. O. Canal & B'king Co.	"	60 " 70	4,000,000.
" " Commercial Bank,	"	70	3,000,000.
" " Gas Bank,	"	34*	1,854,455.

* These sales were made at Philadelphia, in paper currency, depreciated from 8 to 5 per cent., the range between January and May.

to indiscreet and improvident loans, all the mischief which I have in other parts of this work traced to the same cause in other places, must be equally predicated of the western and southwestern banks; and it will not perhaps be difficult for the reader to admit, that all the benefit which the western and southwestern states have derived from the establishment amongst them of banks constructed upon foreign capital over and above the benefits which those states would have derived from their merchants buying and selling an equal amount of foreign goods on credit, has been more than counterbalanced by the evils resulting from incautious loans of capital and credit.

CHAPTER XII.

ON THE CIRCULATION OF SMALL BANK NOTES.

It must be manifest to all who will reflect upon the subject, that the currency of the United States is exposed to dangers from over-expansions to which that of Great Britain is not in the same degree liable. The distance from the American to the European continent is so great, that even after the general establishment of steam packets, a month would be requisite for obtaining a supply of the precious metals under a panic, which could be obtained in England from the adjacent parts of the continent in four or five days, and it would therefore seem to be sound policy for the state legislatures of our Union to autho-

It is supposed that at least fifteen millions of dollars of Philadelphia and New York capital have been invested in the stocks of the western and south-western banks and internal improvement companies, but chiefly in banks, which accounts in some degree for the present embarrassment of those two cities.

rise no measures to be pursued by our banks which can have a tendency to diminish the metallic basis of our paper currency so greatly, as to endanger its convertibility. It is self-evident, that just in proportion to the diminutive size of bank notes authorised in a country, will be the supply and consequent circulation of gold and silver. In France, where no bank note is allowed to be issued of a less denomination than five hundred francs, (equal to about ninety-four dollars of our money,) the whole of the retail transactions of a community of thirty millions of people, nearly double our population, are carried on by the precious metals.* In England, no note of a less denomination than five pounds sterling (equal to twenty-four dollars and upwards,) can be issued by the Bank of England, or by any joint-stock or private bank; so that in that country too, the minor channels of circulation are kept well filled with gold, so that on any emergency, a large fund can be made available to meet any reaction of the banking system, before the necessity occurs of ordering bullion from abroad.

In the United States, unfortunately, the blindness of the legislatures and the public, and the avarice of the bankers, has at all times, since the existence of banks, led to the emission of notes of a much less denomination. With the exception of the Bank of the United States, incorporated by congress in 1816, and the Pennsylvania Bank of the United States, chartered in 1836, which were not allowed to issue notes of a less denomination than ten dollars, and of the new bank of Missouri, which can issue none of a less denomination than twenty dollars, there has probably been no bank chartered by any of the states which has not been authorised to issue five dollar

* Silver is virtually the currency of France. Gold being undervalued at the mint in relation to silver, commands a small premium in the market, when wanted for travellers or exportation.

notes. The consequence of this policy has been, that the stock of the precious metals in the country has at all times been much less than it would have been, had the policy intended by congress in 1816 been preserved by the state. I say "intended" because the prohibition was evaded by the issue by the bank, of checks for five dollars drawn by the branches upon each other, which answered all the purposes of five dollar notes.

But although, by the exclusion of all notes of a less denomination than ten dollars, the security of our paper currency would be greatly strengthened in case of an unexpected panic, yet the design of this chapter is more particularly to inveigh against the growing propensities in some of our legislative bodies to authorise the emission of notes of a denomination less even than five dollars, a policy which, if adopted by all the states, will fill not only all the arteries of circulation, but even the very smallest veins, with paper, and drive from the country the few coins which the five dollar notes have spared.

A short sketch of the history of small bank notes may not be without interest.

Prior to the suspension of specie payments in August, 1814, I am not aware that any notes of a less denomination than five dollars were any where issued, although there may have been in a few of the states. By that event, specie disappeared wholly from circulation in all the states except those of New England, where the banks, coerced by efficient laws and public opinion combined, continued to fulfil their engagements, and its place was supplied by emissions of notes by banks from three dollars down to twenty-five cents, some with the sanction of law, granted for the especial occasion, and some without it; and by other emissions from all sorts of corporations, public officers, private institutions, and even by individuals, who generously accommodated the public with their credit for sums as small as five cents, in the hope that the notes would be worn out, or lost, and that they should never be troubled with a demand for their payment. This wretched state of things continued for some time after the restoration of specie payments in February, 1817. An incubus appeared to be fastened upon the community, which no combination of individuals could shake off, and which continued for a longer or shorter time, according as legislative interference was delayed. In Pennsylvania, where, from the multiplicity of banks, this evil was of great magnitude, an act was passed on the 22d of March, 1817, prohibiting, under a penalty, the emission or circulation of any notes or tickets in the nature of bank notes, of a less denomination than five dollars, excepting by banks duly authorised; and also prohibiting, after the first day of October following, any bank from issuing such notes: a privilege which had been granted by act of 28th December, 1814. This law, being partially carried into effect, expelled from circulation the principal part of the miserable trash against which it was directed, and the silver fractions of a dollar began to make their appearance from the pockets and strong boxes of the public, where they had been concealed for near three years. Still the cure was not complete, owing to evasions of the law, and to the introduction of small notes and tickets of neighboring states. The banks of Pennsylvania, having ceased after the first of October to issue notes of a less denomination than five dollars, the neighboring states of Delaware, New Jersey, and New York, sent us an abundant supply and the chief effect of the law appeared to be, not to give us a circulation of specie in the place of small notes, but to fasten upon us a set of notes not known to the public, for another set that was known. And yet, with this fact staring them in the face, the Senate of Pennsylvania rejected, by a vote of 16 to 15, on the 9th of March, 1820, a bill introduced into that body by the author, who was then a member, prohibiting the circulation of all notes of a less denomination than five dollars, wheresoever or by whomsoever issued.

After the defeat of this measure, which was opposed most strenuously on the ground that if the small notes were expelled, the people in the interior where they chiefly circulated, would be wholly destitute of change; and advocated on the ground, that so far from this being the effect, the immediate and necessary consequence would be, that every man who had in his pocket a dollar in paper would find it instantly converted into a dollar in silver, the subject was permitted to sleep for a number of years; and it was not until the 12th of April, 1828, that Pennsylvania was convinced of the impolicy of a measure which prevented specie from flowing in upon her citizens. The act of that date fixed upon the 1st of January, 1829, as the period for enforcing the prohibition, and it was not without great apprehensions of a repeal before the appointed day, that the friends of a wholesome currency saw numerous petitions with that object presented to the legislature in the preceding month of December. Happily, however, these evidences of ignorance and folly were disregarded by the legislature. The law went into operation, the flood of foreign paper was forced back upon its issuers, and, as if by magic, silver was immediately seen to circulate in abundance in those counties where before there was nothing but paper.

The successful issue of this experiment in Pennsylvania was followed in subsequent years by a number of other states, which in turn proscribed notes under five dollars; and their total expulsion from all the states of the Union might reasonably have been expected in the course of a few years, had it not been for the unfortunate suspension of specie payments in May, 1837, which again deluged the country from one end to the other with a flood of small notes and tickets, from three dollars down to five cents, and extinguished in some of our legislatures the lights of science which so much pains had been for so many years taken, by the intelligent few, to kindle into a flame. New York has backslided by authorising, by a recent act, the emission by her own banks of notes of a less denomination than five dollars, and as far as she is concerned, has proclaimed her unwillingness to assist in retaining in the country a proper specie basis for the huge mass of paper money which her banks fabricate. The state of Maine, too, has fallen off by a similar recreant step, and indications have also elsewhere appeared of a similar delinquency. Still it is to be hoped that this retrograde movement will be of limited extent, and that the example of those states which entertain sounder views of a currency will ultimately operate upon the rest, and convince them that the profit of private corporations should never be made to outweigh the substantial interests of the community, by placing the stability of the currency in a constant state of jeopardy.*

* During the suspension of specie payments which commenced on 9th October, 1839, and which still continues in all the States south and west of New York, small notes as low as $1, issued by the banks of Delaware and New Jersey, have been current in Pennsylvania. No notes under five dollars having been issued by bank corporations or individuals in Pennsylvania.

BOOK THE THIRD.

OF THE LAWS WHICH REGULATE A CURRENCY COMPOSED ENTIRELY OF INCONVERTIBLE BANK PAPER.

In the first book I described the operation of a currency purely metallic, and in the second that of a mixed currency of coin and bank notes strictly convertible on demand into coin. I come now to describe the operation of a currency consisting wholly of inconvertible bank paper.

It has been shown that under a currency purely metallic, the fluctuations which can take place in its quantity and value are circumscribed within narrow limits, and that consequently the greatest possible stability which the nature of things will admit, exists in the operations of commerce. It has also been shown, that under banks of circulation conducted upon the principle of strict convertibility, although there is an occasional liability to temporary fluctuations, yet that these are not perhaps so great as altogether to neutralise the benefits which the community derives from their operations. It is only when banks, by their inordinate expansions, destroy convertibility and endanger their solvency, or what is worse, bring on a general stoppage of specie payments, that they are guilty of high offences against the community, and are justly obnoxious to the charge of inflicting misery on the country. Previous, however, to examining the operations of a currency after a suspension by the banks, I will call the attention of the reader to that state of delusion and apparent prosperity which invariably precedes it, and which, with sagacious minds, is easily distinguished from a state of real prosperity.

CHAPTER I.

OF THE CAREER USUALLY RUN BY BANKS OF CIRCULATION PREVIOUS TO A GENERAL STOPPAGE OF PAYMENT.

HAVING shown that banks of circulation, as such, neither create nor lend capital, and that what they do lend is their credit, by means of which the capital of individuals is circulated with more facility and less security than it would be without their instrumentality, I come now to examine this question, upon which most of the popular delusion hangs: Does not the increased activity given to business, occasioned by banks lending their credit very freely, tend to the promotion of public prosperity, and to the production of wealth, faster than would otherwise take place? The answer will appear in the sequel, and will not be found in accordance with the cherished opinions of the day.

By the operation of such bank issues the credit of the banks is placed at the disposal equally of all who borrow from them. Consequently, the inexperienced, the unskilful, the incautious, and the speculative, are placed upon a level, in their purchases, with the experienced, the skilful, and the prudent. The result of this equality is, that some men are able to buy who before were not able owing to a deficiency of credit.* More competitors are brought into the market, and prices rise from the spirit of speculation, which never fails to be engendered by the facility of procuring the means to speculate with. In addition to this local rise

* This is especially the case where banks of circulation are established with little or no capital, or where the directors lend the credit of the bank to themselves, of which such numerous examples have been lately furnished, in Massachusetts, Mississippi, Louisiana, and other states.

which takes place from the competition of new dealers in the immediate neighborhood of the banks, a *general rise* takes place from the expansion of the currency, owing to the abundance of the paper which has been thrown amongst the community by the original borrowers from the banks. This rise goes on with every new emission of paper, and appearing to the public, which is not acquainted with the internal operations of banks, like an increase in *value*, the spirit of speculation is excited amongst all classes of the community, and purchases are made for no other reason than that the buyers suppose they can sell the next day at a profit. Industrious persons abandon productive employments to pursue speculation, which, however profitable it may be to the successful operator, does not at all add to the wealth of the community, seeing that what is gained by one man is lost by another. Extravagance and luxury are increased in proportion to the increasing abundance of paper credits, because, as prices rise, all who have property or commodities on hand think they are getting richer every day. Merchants embark in more extensive enterprises; manufacturers extend their establishments; farmers build houses that are not wanted, and ornament their farms; railroads, canals, and every other species of internal improvement, are prematurely projected. All these operations give employment to the laboring classes, and for a time exhibit the semblance of accumulating wealth. Every new sale of property or commodities on credit creates new promissory notes or obligations, and these create a new demand for more discounts, whilst more currency is required to circulate the same commodities at their augmented price.*

* Abundant evidence of the truth of this proposition is furnished by the treasury documents in reference to the augmentation of the currency which took place during the two years which preceded the general stoppage in May, 1837, as will appear from the following statement, giving the amount of the circulation

But there is a final limit to this delusion. The depreciation of the currency has become so great, from these extraordinary issues, that timid people become alarmed, and make a run upon the banks, whilst coin is also demanded for exportation. The banks are called upon to pay their notes, and they in turn call upon their debtors, who are by this means first awakened from their dreams. Money becomes scarce, and prices of property and commodities fall. The operation which the banks require is merely that those with whom they exchanged notes upon such unequal terms, shall exchange back again. But with this demand the merchant cannot comply, because he has long since parted with his bank notes, and has in their place a store full of goods, which he has been induced to import or purchase, on account of the high prices created by the issues of the banks, but which he cannot now sell without a loss that will render him insolvent. Or he has parted with his bank notes in exchange for goods which he has sold to country merchants, who cannot pay him owing to the fact that the planters or farmers whom they trusted have over-planted or over-farmed, or over-speculated in lands, or over-expended. The manufacturer pleads the same inability, because the same high prices and appearance of universal prosperity induced him to erect buildings and machinery, not required under a diminished demand for goods, which he cannot now dispose of at any price; whilst the farmer or planter confesses, that the temporary rise in the *prices* of land agricultural produce, and slaves, which he thought was a permanent rise in *value*, had induced him to

and deposites of all the banks in the United States, according to returns nearest to the periods mentioned.

	Circulation.	*Deposites.*	*Totals.*
Jan. 1, 1835,	\$103,692,495	\$83,081,365	\$186,773,860
Jan. 1, 1836,	140,301,038	115,104,440	255,405,478
Jan. 1, 1837,	149,186,890	127,397,185	276,584,075

invest in unproductive improvements on his estate, and in the purchase of slaves and new lands, the notes which he had received from the banks; or, that his belief in his apparently growing wealth had led him into extravagance and luxurious expenditures.

The speculators in railroads and canals, who subscribed to those improvements, not because they had capital to invest, but because they fancied that the delusion under which they labored was a reality, and that consequently they would be able to sell their stock at an advanced price, cannot pay their notes, because they can find no purchasers with actual capital who are willing to take their bad bargains off their hands. At this winding up of the catastrophe, it is discovered that during the whole of this operation, *consumption* had been increasing faster than *production*—that the community is poorer in the end than when it began—that instead of food and clothing it has railroads and canals adequate for the transportation of double the quantity of produce and merchandise that there is to be transported—and that the whole of the appearance of prosperity which was exhibited while the currency was gradually increasing in quantity, was like that appearance of wealth and affluence which the spendthrift exhibits whilst running through his estate, and like it, destined to be followed by a period of distress and inactivity.*

* In confirmation of these views, as well as of others expressed in this work, the following remarks of the Bishop of Llandaff (Copleston), are presented. They are contained in a note to a volume published in London, in February, 1840, page 322, entitled "Letters of the Earl of Dudley, to the Bishop of Llandaff."

"This letter (dated 17th June, 1822) relates to a paper in the Quarterly Review on the Currency Question, which was reprinted as a pamphlet in 1830. That paper was written by me after long study of the subject, and nearly twenty years of experience since it was written have confirmed me in the opinions there maintained, and have, I think, proved the correctness of its reasoning: but mankind are unwilling to believe that

But even admitting all this to be true, it may be argued, that at any rate banks of circulation, by liberal issues of their notes, make what is called money plenty. That they make it plenty with those who first get their paper is undoubtedly true, as is evinced by the speculative operations which have been above described; but as soon as time has been afforded for that general rise in the prices of property and commodities which is inseparable from increased issues of paper after it has become diffused throughout the circulation, the plenty disappears. It requires, at the

what skilful practical men find difficult and perplexing, can be resolved into a few simple principles, the forgetfulness of which had caused all the difficulty. The temporary prosperity also which springs from an extensive paper currency not only blinds the eyes of the public at large, but raises up numerous interests among individuals whose profits depend upon a continuance of the delusion. The patient is accordingly flattered by nostrums which give immediate ease, but really increase the malady; until at length a crisis comes, which demands a desperate remedy. The alternative is, either a debasement of the coinage (which is national bankruptcy, i. e. paying so much in the pound—and this has been the usual remedy for insolvency with all the governments of Europe,) or a severe reaction on the victims of the delusion, which causes embarrassment and stagnation in trade, and ruin to thousands who lived and flourished upon the ideal property. A dreadful dilemma! America is now suffering under it, and is probably doomed to undergo greater convulsions before the cure can be effected, boundless as her physical resources are.

"Unfortunately too, in such a state of things, a large party are ever prone to run into the opposite extreme. Struck with dismay at the fatal consequences of excess, they preach up, not temperance, but total abstinence. They are for *no* paper money. Thus it ever is—*Dum vitant stulti vitia, in contraria currunt.* They are disposed to any thing except moderation. The plain truth is, that convertibility at the will of the holder is the one sufficient security against depreciation:—and if ever this convertibility is restrained, either by the law (as it was in England for more than 20 years) or by public opinion equivalent to law (as it has been for many years in America,) the system becomes bloated and plethoric, although exhibiting many of the outward appearances of health; and a course of depletion must be submitted to, with all its mortifications, in order to save life."

new prices, the whole existing quantity of currency to circulate the commodities which at the *old prices* were circulated by the original quantity, and a scarcity of money is just as likely to be felt under a depreciated currency as under a sound one, as soon as the expansion has ceased by the banks refusing to extend their discounts any further, and more especially when they begin to contract their loans.* The case is precisely the same as would exist if all the specie in the world were suddenly doubled, the effect of which would be that it would require two ounces of gold or silver to purchase as much of all other commodities as could previously have been purchased with one. Money would be no more plenty than before. Gold and silver would be more plenty, but money would not be, for the simple reason, that the prices of property and commodities would be expressed by double the number of coins; and any one can perceive that the disappearance of any portion of the augmented quantity of specie would occasion a scarcity of money, even though it were true that the quantity still left in circulation should be fifty per cent. more than the quantity which existed before the doubling took place.† This would continue until the excess should be carried off by manufacturers or exportation, when prices would fall to their old rates.

In reference to a general suspension of specie payments, a very singular phenomenon sometimes

* The truth of this proposition was most remarkably illustrated in this country for six months prior to the stoppage of specie payments in May, 1837. Although the amount of the currency was greater than it had ever been before in the United States, yet the scarcity of money was so great, than in all the commercial cities of the north it would readily command from one to three per cent. a month.

† In stating the effect of a doubling of the curreney, I do not intend positively to declare that the prices of property and commodities would be precisely doubled. The proportion might be different, but the one I have assumed is the plainest for illustration.

presents itself, which is worth being noticed in this place. It will appear to the reader at first sight as quite incredible, and yet it is demonstrably true. It is, that a mixed currency, whilst the paper portion of it is nominally, and to a certain extent really convertible, may be immediately before a general stoppage of specie payments absolutely more depreciated than it is immediately after the stoppage, when the paper is not convertible at all. The reason is this—before the stoppage the currency is composed of two elements, coin and paper; after the stoppage, it is composed of nothing but paper, and consequently the aggregate mass of the whole is diminished to the whole extent of the specie thus withdrawn from circulation; and as depreciation in such case is the result of quantity, its degree must diminish with every reduction of the mass whether the reduction be of the metallic or the paper portion. This is the reason why after a stoppage of specie payments, prices do not always rise and sometimes even fall, which gives color to the idea entertained by many, that the difference between specie and paper is occasioned by an enhancement in the value of the former, and not by the depreciation of the latter, and hence we see under an inconvertible paper currency, specie quoted at a premium.

CHAPTER II.

OF FLUCTUATIONS IN THE MARKET PRICE OF SPECIE AND OF BILLS OF EXCHANGE UNDER AN INCONVERTIBLE PAPER CURRENCY.

As soon as a general stoppage of specie payments by the banks has taken place, it is evident that the only conceivable check to over-issues has ceased to exist, and that the public has no means whatever of protecting itself against a still greater depreciation of the currency. The issues of each bank not being regulated as before by a common standard, and having in fact no standard of any kind to be referred to, the inevitable consequence is, that their quantity and value fluctuate according to the urgent wants of borrowers, or to the ignorance or knavery of the issuers. Were it not for the system adopted in the large commercial towns and cities, of the banks agreeing amongst themselves to pay interest on balances, there would be in large cities as many currencies as banks, and of as many different degrees of depreciation; but the practice above alluded to, establishes a uniform currency at each place, without, however, having any positive reference to the currency of any other place.*

This diversity of value in the currencies of different places, soon shows itself in the market prices of commodities. At that point where the currency is most in excess, the prices of every species of property, such as gold and silver, merchandise, stocks, foreign and domestic bills of exchange, produce, and real property, will be highest; and at that point where the currency has been least in excess the prices of those things will be lowest. At all important points the scale of excess will be quickly shown by the market price of specie, and the rate of exchange on foreign countries, and as a general rule, this may be considered to be conclusive as to the degree of depreciation.

Of this general principle, however, there are modifications. In the chapter on Exchange, in Book

* During the suspension of 1837, the banks of Philadelphia paid interest to each other at the rate of 4 per cent. Soon after the suspension of October 1839, they fixed the rate at 5 per cent. The true policy in both cases would have been to have adopted 6 per cent. the rate they charge other borrowers.

First, it was shown that the rate of exchange between two countries or places may vary according as the balance of trade may be one way or the other, to an extent equal to the expenses of transmitting the precious metals from one country or place to the other. The influence which belongs to the balance of trade, is not destroyed by a suspension of specie payments: and, consequently, its operation may sometimes be displayed in such a way as to augment or to diminish the apparent difference in the degree of depreciation between two places. Thus, suppose under a suspension of specie payments, the currency of Philadelpnia to be depreciated five per cent., and that of New Orleans seven per cent., at a period when there was no balance of trade due one way or the other, the difference of depreciation would be of course two per cent., and nominal exchange at Philadelphia on New Orleans would be at two per cent. discount. It is well known, that at the season of the year when the cotton crop comes into the New Orleans market, say from October to May, there is a demand in the northern cities for bills on New Orleans to remit for the purchase of cotton. If we suppose this demand to affect the market price of bills to the extent of two per cent., the consequence would be, that bills at Philadelphia on New Orleans would rise at that season to nominal par, and there would consequently be presented the appearance of an equality in the currency; whereas, in point of fact, there would be still existing the original difference in the degree of depreciation. So, on the other hand, were the course of trade at the opposite season of the year to augment the supply of bills on New Orleans in the Philadelphia market, so as to occasion a fall of two per cent. below the rate existing before the late supposed rise, the exchange would be nominally four per cent. below par, and yet the real difference in depreciation would be as before, but two per cent. What is here said of the trade between Philadelphia and New Orleans, is equally applicable to that between any other two places; and whatever may be the influence of the balance of trade upon the rate of exchange, that amount should be added to, or subtracted from, the market rate of exchange, as the case may be, in order to arrive at the difference in depreciation.

It is proper, however, here to remark, that under an inconvertible paper currency, the rise and fall of exchange are not limited, as under a metallic or mixed currency, by the expenses of transporting coin, and they may consequently exceed it, as I shall proceed to show.

Under an inconvertible paper currency, although its depreciation for a long period together is best to be measured by what is called the premium on specie yet it is clear that if at any particular place an extraordinary demand for specie were suddenly to arise, for domestic or foreign purposes, the paper currency; and the specie in the market remaining the same in quantity, specie would rise as compared with paper, and thus the currency would appear to be depreciated more than it was at the period before the rise. And so on the other hand, if a large importation of specie were suddenly to take place, the paper currency and the demand for specie remaining the same, a fall would take place in specie, and thus the currency would appear to be less depreciated than before the fall. A knowledge of these facts, and the uncertainty of any long continued fixed relation between specie and paper at any particular place, occasions merchants sometimes to sell bills at a lower rate, and at other times to buy them at a higher rate, than they would under a metallic or mixed currency. As regards New York and Philadelphia, between which two cities advices of the state of the markets may be transmitted in six hours, the difference would hardly be perceptible; but between New York and Mobile, or New Orleans, it might be double or treble under an inconvertible currency, to what it would be under a metallic or mixed currency, and this may account in part for the remarkable and sudden fluctuations which took place at New-York, in the exchanges on those cities, during the suspension in the years 1837 and 1838.*

In reference to this subject of a high exchange under an inconvertible paper currency, a very general error prevails of ascribing the whole of it to the balance of trade. From the 1st of July, 1837, to the 14th of April, 1838, exchange at New York on Philadelphia at sight gradually fell from $\frac{1}{2}$ to 1, to $4\frac{3}{4}$ to 5 per cent. discount. Prior to the suspension of specie payments in May 1837, it was never more than a quarter per cent. above or below par, for the simple reason, that specie could be sent from one city to the other, at an expense less than a quarter per cent., and it was therefore very evident that no balance of trade could occasion so great an exchange as $4\frac{3}{4}$ to 5 per cent. But notwithstanding this self-evident truth, the great body of superficial reasoners ascribed it to that cause, and they were led so to do, from being acquainted with the fact, that the banks of Philadelphia were largely

* Rates of exchange at New York on New Orleans and Mobile, payable in New York currency, as also the rate of premium on half dollars, at the dates respectively mentioned.

1837.	*New Orleans.*	*Mobile.*	*Prem. on Half Dollars.*
July 1,	7 to 10 per ct. disc't.	Not quoted in the	$10\frac{1}{2}$ to $11\frac{1}{2}$
Aug. 1,	10 "	New York Price	8 " $8\frac{1}{4}$
Sept. 2,	10 "	Current until 1838.	9 " $9\frac{1}{2}$
Oct. 7,	5 " 6 "		5 " $5\frac{1}{2}$
Nov. 4,	$3\frac{1}{3}$ " 4 "		6 " $6\frac{1}{4}$
Dec. 2,	3 " $3\frac{1}{2}$ "		$4\frac{1}{2}$ " 5
1838.			
Jan. 6,	2 " 3 "	$5\frac{1}{2}$ to 6 per ct. disc't.	$2\frac{1}{2}$ " 3
Feb. 3,	$3\frac{1}{2}$ " 4 "	$7\frac{1}{2}$ " $8\frac{1}{2}$ "	4 " $4\frac{1}{4}$
M'ch. 3,	4 " 5 "	12 " 13 "	$2\frac{1}{2}$ " 3
April 7,	6 " 7 "	17 " 20 "	1 " $1\frac{1}{2}$
" 21,	10 " 12 "	25 " 30 "	$\frac{1}{2}$ " 1
" 28,	8 " 10 "	20 " 22 "	$\frac{1}{4}$ " $\frac{3}{4}$
May, 5,	8 " 10 "	20 " 22 "	$\frac{1}{4}$ " $\frac{3}{4}$
" 12,	8 " 10 "	20 " 22 "	$\frac{1}{4}$ " $\frac{3}{4}$
" 19,	8 " 10 "	12 " 15 "	par.

indebted to the banks of New York, sometimes even to the extent of a million and a half of dollars. Their error consisted in mistaking the effect for the cause. The rate of exchange which represented the greater depreciation of the currency of Philadelphia over that of New York, was the cause of the balance and not the balance the cause of the rate of exchange. The superiority of the currency of New York, being nearer in value to specie than that of Philadelphia, was the result of a gradual diminution of its quantity, which was commenced in August, 1837. This diminution by making money more scarce and consequently more valuable in New York than in Philadelphia, occasioned a fall in the former city in the prices of every species of merchandise and stocks and bills of exchange to such an extent as to make it an object for Philadelphia merchants and speculators to go to New York to purchase, and at the same time occasioned the transmission to Philadelphia of a large quantity of merchandise to be sold at auction. These operations created a debt in favor of New York against Philadelphia; the evidences of which came into possession of the New York banks by the discount or collection of Philadelphia paper; and as the New York banks which resumed payment on the 23d of April, knew that on the resumption of specie payments in Philadelphia, which they expected soon to follow, the amount would be payable in specie; they permitted it to lie undrawn for, although not bearing interest, rather than to incur a loss by the purchase of specie at Philadelphia equal to the extent of the depreciation of the currency of that city, considering it, in fact, as nearly equivalent to coin in their own vaults, and as a part of the funds upon which they relied to enable themselves to resume or to sustain specie payments. No such effect could have been produced by any balance existing against Philadelphia, had her currency been as near the standard as that of New York, for as an equal value would have existed in the money of both places, and consequently an equal scale of prices, there could have been no motive for the transmission of merchandise, stocks, or bills of exchange, from one place to the other for sale, except that which ordinarily exists, and which at all times, under a sound currency, leads to a mutual and equivalent interchange of commodities and property. *

The remarks which have here been made in reference to the domestic exchanges will apply with equal force to the foreign exchanges of the country. Foreign bills will show in their market price the relative degrees of the depreciation of the currency of the places at which they are sold. If there be a favorable or unfavorable balance of trade, capable, under a sound mixed or metallic currency, of depressing or raising the price of bills one or two per cent. below or above par, that amount will subtract from, or add to the rate of depreciation, and consequently make it appear less or greater than the true rate. In like manner, also may the market rate of exchange fluctuate to a greater extent than under a mixed or metallic currency, owing to the uncertain continuance of the same degree of depreciation at the place where bills are drawn. Thus if the currency of New York under a suspension for example, were five per cent. depreciated below the gold standard of London, whilst the course of trade was such that, under a convertible currency, the exchange would be at par, the paper money rate of exchange on London would be five per cent premium. Now, if there were all at once to arise a strong probability that within a short period the banks of New York would resume specie payments, it might be more advantageous for the holder of a bill on London to sell even as low as the paper money par, which would be

* Upon the resumption of payments by the Philadelphia banks, on 13th August, 1838, the exchange at New York on Philadelphia fell to $\frac{1}{4}$ to $\frac{3}{8}$, and from that period up to the suspension of October, 1839, it was at no time below $\frac{1}{4}$ and was frequently at par.

in fact, five per cent. below the true par, than to import gold for the amount of his bill; for the simple reason, that by the time his gold could get there, the banks might have resumed payment, in which event he could obtain no premium for it, and would consequently be the loser of all the expenses of importation. It was the gradual diminution of the currency of New York, attended by a great pressure, which by degrees reduced the premium on specie, and gave assurance of an early resumption of specie payments, which in the month of February, 1838, reduced the exchange on England five or six per.cent below the true par, which could not have happened in ordinary times, under a metallic or mixed currency.*

So also on the other hand, if the currency of New York were five per cent. depreciated below the gold standard of London, and the paper money rate of exchange, as in the former case, were at five per cent. premium, that is, at the true par, it might, if the currency were expanding, be more advantageous for the holder of a bill on London if he had debts to pay, which could be discharged with paper money, to import gold than to sell his bill at five per cent. above that true par, for the simple reason that the price of specie might rise to such a premium as to afford him an additional profit over and above the expenses of importation, which could not have happened under a mixed or metallic currency.

* On the 10th of February, 1838, nominal exchange on London at New York was quoted at 7 to 8 per cent. premium, being an average of 7½. The true par as has been shown is near 9½ per cent. advance on the old computed par. The price of specie on the same day, payable in New York currency, was 3½ per cent. premium, and consequently exchange on London, if paid for in coin, was 4 per cent. nominal premium, which was in reality 5½ per cent. below the true par.

CHAPTER III.

OF THE TRUE CHARACTER AND EFFECTS OF A GENERAL SUSPENSION OF PAYMENTS BY THE BANKS, AND THEIR OBLIGATIONS UNDER IT.

When an individual bank fails by mismanagement or over-trading, so that it cannot pay its notes or deposites, we say that the bank has broke; but when eight hundred or a thousand banks do the same thing, we call it suspending *specie* payments, as if there were any thing but specie of which a stoppage of payment by a bank or any individual could be predicated. For all the banks, therefore, of a country, to stop together, call it what we may, it is nothing more nor less than a general bankruptcy, under which the banks find themselves in the precise condition of individual traders, who, when they meet with temporary embarrasments, are obliged to call upon their creditors for an extension of time. Between the mode, however, in which the two parties make the appeal to their creditors for this extension, there is a very wide difference. The individual trader solicits it as a favor which his creditor may grant or withhold at his pleasure; and if, in his opinion, his estate is ample for the ultimate payment of the whole of his debts, he stipulates to pay interest for the time he is to be indulged, and during which his creditor is to be kept out of his property.

On the other hand, banks, when they default in their payments, not only never ask the indulgence of their creditors for any specified extension of time, but they do not even think themselves under obligations to pay interest to their creditors for the funds they forcibly detain from them;* nay, they very frequently,

* Since the first edition of this work was printed, one excep-

in the midst of their insolvency, declare dividends of the very profits which actually belong to their creditors, who, and not the stockholders, are entitled to interest for their withholden funds. Excepting where legislative enactments have forbidden dividends under a suspension of payments, instances are extremely rare wherein a sense of justice on the part of the directors of banks has led them to refrain from such manifest injustice, and the consequence has been, that a direct inducement is thereby created for taking no steps towards a resumption of payment, for fear of diminishing the profits of lending other people's money, whilst refusing to allow interest for its use.*

From these remarks, it may be inferred, that I consider a resumption of payment by solvent banks, after they have stopped, as not of so difficult accomplishment as many persons imagine. The fact is even so, and the chief delay that takes place with most of them is the simple result of a calculation of profit and loss. It is not *profitable* to resume expeditiously. This is with such banks the whole pith of the question, and that I may not be considered as asserting a proposition unsusceptible of proof, I will establish it thus:—

tion to the generality of this remark has been presented in the case of the Branch Bank of Darien in Georgia, located at Milledgeville, which stopped payment a second time on the 27th of March, 1839. The directors, in announcing the fact to the public, gave notice, that the bank would pay an interest of seven per cent. upon all sums of one hundred dollars and over, deposited in the bills of said bank during the suspension.

* During the suspension of 1837 and 1838, all the banks of Pennsylvania made dividends, although it was prohibited in the charters of most of them. After the suspension, which took place in Philadelphia, in October, 1839, most of the banks of that city resolved not to declare dividends, until the pleasure of the Legislature could be known. By an act authorising the continuance of the suspension until the 15th of January, 1841, permission was granted to make dividends, contrary to every principle of justice and equity.

A bank with a capital of ten millions of dollars, has loans out at the time of the suspension to the amount, we will suppose, of fifteen millions. Of this fifteen millions, we will suppose three to constitute that excess, which, in conjunction with the excesses issued by the other banks, has caused the depreciation of the currency, terminating in the stoppage, and consequently, that that is the amount of immediate liabilities, which, if they were put out of the way, would restore the bank to a sound condition, seeing that under the securest conduct, it can always maintain without danger of reaction, loans amounting to twelve millions.

The first and most natural mode that presents itself to accomplish this end is to call upon the debtors of the bank for the payment of three millions of dollars. One could hardly suppose, that any bank having loans out to the amount of fifteen millions, could not within a reasonably short period collect twenty per cent. of the amount, seeing the fact to be, that paper money must needs be plenty, as is proved from the very necessity of diminishing its amount in consequence of its being in excess; and more especially would this be true, if any large part of the loans made by the bank was upon a pledge of stocks of any kind; for it must be manifest that all such stocks are saleable for cash at the market price; and if a loss should occur upon a forced or unexpected sale, the owner would have no right to complain, because such was the contingency under which he pledged them.

But let us suppose, what is most commonly urged upon such occasions, that the debtors of the bank can not pay at all without a long indulgence as to time, and that if their stocks are sold at forced prices, the bank will lose a large part of the security she holds for the debt. I can see no objection to a creditor, if he finds it consistent with his interest, accommodating his debtor by a postponement of his demands. It is done every day, and is just as legitimate when performed by a corporation, as when performed by an individual. But in either case, the party who grants the accommodation, must take care that in effecting it, he adheres to the rules of honesty. The means by which he effects his purpose, must be his own, which he has authority to dispose of. No creditor would have a right to indulge a debtor, by withholding money from a third party without his consent, and without paying him interest for the use of it, and especially if he was himself deriving an interest from the indulged creditor.

And now I would ask, if this be true in reference to individuals, upon what principle has a corporation a right, to accommodate its own debtors, for the purpose of securing its debts, at the expense of its creditors, the public? If, indeed, in the indulgence shown by banks to their debtors, there was a waiving of the interest, the public might have some corresponding return for their own loss, inasmuch as some bank creditors might also be bank debtors. But we never hear of any such generosity. Every dollar is demanded for every day's indulgence, where the parties are solvent; and when those who feel themselves aggrieved complain, that by the depreciation of the currency they have to pay an increased price for all they purchase, they are considered as quite unreasonable for not being willing to submit to some sacrifice for the public good, which means in this case the good of the stockholders of the banks.

Now cannot any one perceive, that, if the bank in question had acted with a strict regard to justice when it resolved to accommodate its debtors, it would at once have borrowed three millions of dollars, or such part of that sum as it could not have collected from its debtors, for such length of time as would have enabled it to afford the requisite relief? Cannot any one perceive, that such a course would have restored the currency, without depriving any one of his just rights? The matter is too plain to admit of dispute.

Why then is it not resorted to in such emergencies? Because, as I have said, it is not profitable.

But it may be said, that some banks could not borrow. This is highly probable. But it is hardly possible that any bank should be in such bad credit that it could not borrow its own notes or the claims of its depositors, upon some terms satisfactory to the holders, which is all that it wants to absorb the excess of its issues. If there should be any such banks, the sooner they are found out the better, and the sooner their notes are rejected from the circulation, the sooner would the currency be restored.

But this is not all. An inconvertible currency transfers from the pockets of creditors to those of their debtors without an equivalent, a sum equal to the extent of the depreciation. Thus in New York and Philadelphia, all notes for merchandise given before the stoppage of the banks in May 1837, and which fell due before the resumption, were paid in paper from ten to one per cent, depreciated according to the date, and in those cases where the receivers of this paper were indebted to foreign merchants, to whom they were obliged to make remittances, this loss was wholly uncompensated.* It was, in fact, an abstraction of this amount from their pockets, precisely of the same nature as would have resulted from the debasement of the coin to the same extent by the government. The same remark may with the same truth be made in reference to the payment of all other debts, the creditor being deprived of a certain portion of the gold or silver, or its equivalent, which by his contract he was entitled to receive. And how stands the case with reference to that large portion of the community who live upon fixed incomes, such as the interest upon mortgages, state loans, ground rents,

* One merchant informed me, that he had lost upon his remittances during the suspension of 1837, $20,000, in the exchange. Others lost much more.

salaries, and wages, which they have not the power to increase so as to meet the increased prices of food, clothing, fuel, &c.? They are all losers precisely in the same way and to the same extent as the creditors that have been referred to, to the whole extent of their receipts.

In refutation of these positions, it is all idle to say, that the expenses of living are not augmented by a depreciated currency. It is not possible that it can be otherwise, and although in small transactions the fact may not be very observable, yet no sound thinker will maintain that a ten dollar bank note worth in the market nine silver dollars, will buy as much of any thing as ten silver dollars, which can be converted when the owner pleases into eleven dollars of bank notes.

In like manner, it would be equally idle to say, that the great mass of persons gain as much as they lose by the depreciation of the currency. This is only true of those who owe just as much as they are indebted to others at the time of the stoppage of the banks, and of those whose business is of such a nature, as enables them to charge for what they have to sell, an additional price equal to the depreciation. All others who cannot do this, are obliged to pay more for all the articles required for their subsistence, without any corresponding return, and have therefore just ground for complaining of a system which operates so greatly to their prejudice.

But there is one class of persons upon whom the depreciation of a currency falls, who have a paramount right to complain. I mean foreigners to whom debts are due by individuals, and who cannot, by any means, direct or indirect, remunerate themselves for the loss. Every one such whose debts are remitted in bills of exchange purchased with the depreciated currency, loses precisely the amount of the depreciation. And what shall be said of that large class of creditors, who constitute the foreign holders of the public debt of one of our states, and who were compelled to receive, during the late suspension, the amount of their interest, not in coin or its equivalent, for the payment of which the faith of the state was pledged, but in depreciated paper? I blush for the credit of my native state, Pennsylvania, when I recollect that the governments of New York, Ohio, Indiana, and probably some other states, considered themselves bound in honor to pay the foreign interest on their debts in the equivalent of specie, whilst she, for a less sum than a hundred thousand dollars, was willing to be stigmatised all over Europe, as guilty of a breach of public faith, the notoriety of which cannot fail to influence the future value of her stock abroad, unless she makes the reparation so manifestly and so justly due.*

CHAPTER IV.

OF THE CRIMINALITY OF BANKS IN AUGMENTING THEIR ISSUES AFTER A SUSPENSION OF PAYMENTS.

But however culpable banks render themselves by not, immediately, after a general suspension, adopting measures for a resumption, accompanied by the payment of interest to all who are forcibly withheld from the possession of their property, yet they are far less culpable than those, which, after the removal of all checks upon issues, take advantage of the ignorance

* On the 10th of June, 1839, after the publication of the first edition of this work, the Legislature of Pennsylvania made provision for paying to the holders of her loans, the loss incurred by them on the depreciated paper given in payment of the interest falling due during the suspension of 1837, but the amount has not yet been paid. See Appendix, I.

or forbearance of the public, and expand their circulation, so as greatly to depreciate the currency below the rate at which the suspension found it. The effect of such a course is to re-produce, but with far more generality, the scene described in the first chapter of this book, under the head of the career usually run by banks before a suspension. Speculation, over trading, and extravagance, are all multiplied, as every new addition of the currency appears to augment what people suppose to be the mass of wealth. More especially is such a state of the currency apt to inflict misery and ruin upon the landholders throughout the country, who, by a rise in the paper money price of land, which they fancy to be a real rise in value, are induced to make purchases, upon credit, by giving mortgages payable at a future day in coin, for an amount perhaps double the metallic value of the property.

The only examples of the state of things here described, that need be referred to, are the following:—

1. The suspension of cash payments by the Bank of England and all the county banks, which took place in 1797, and continued until 1821, in the course of which time the depreciation at one period was as great as twenty-five per cent.

During the gradual process of this depreciation, the prices of commodities gradually rose, by which means the actual incomes of persons living upon the funds or annuities, was proportionately decreased, whilst lands and rents also rose, so that long leases were renewed at higher rates than before. The revulsion resulting from this state of things, was disastrous in the extreme. The gradual contraction of the currency produced a fall of prices, a prostration of trade, and a general distress throughout the manufacturing districts. The new rents contracted for in a currency worth fifteen shillings in the pound, could not be paid in coin, after the resumption; and thus the agricultural interest was embarrassed, whilst the augmentation of the national debt raised by subscription in depreciated paper, and of the national expenses occasioned by the increased prices of naval and military supplies immensely added to the burthens of the people.

2. The second example referred to, is the supension of payments by all the banks of the United States, south of New England, in August, 1814, and which continued until February, 1817. Those who can remember the events of that period will not have forgotten the abuse of the public forbearance exhibited by them upon that occasion. The sanction of the community was extended to them during the continuance of the war then existing with Great Britain, on account of the belief that their condition was forced upon them by the peculiar circumstances of the country; but no sooner had peace returned in the early part of 1815, than all their pledges were violated, and instead of manifesting by their actions a desire to contract their loans so as to place themselves in a situation for complying with their obligations, they actually expanded the currency by extraordinary issues, whilst there was no existing check upon them, until its depreciation became so great that speculation and overtrading in all their disastrous forms, involved the country in a scene of wretchedness, from which it did not recover in ten years.*

3. The third example referred to is that which took place in some parts of the United States after the general suspension of payments in May, 1837. In the state of Mississippi was this criminal conduct displayed to the greatest extent. Not only were new banks established, but those which previously existed were guilty of the most unjustifiable issues of paper,

* For a particular history of the money crisis of this period, see a report made to the Senate of Pennsylvania on the 29th of January, 1820, by the author of this treatise, Appendix, H. See also Gouge on Banking.

upon the plea, that by making advances to the planters upon their crop of cotton, they would be enabled to hold it for a higher price, and not be forced to submit, as always before, to the fair and natural competion of the market. Under the delusive expectation that such engagements might be advantageous to them, a large number of planters were most shamelessly plundered. Every emission of notes made by these accommodating banks depreciated the currency more and more, so that the planter who was to receive $60 in paper per bale advance, found when it came into his possession that his $60 in paper would not buy more provisions and clothing for his slaves, and other supplies for his plantation and family, than $40 good money would have bought. In the mean time the banks shipped the cotton, converted it into available funds at New Orleans, Philadelphia, or New York, and with these very funds, perhaps, bought up, at a great depreciation in the market, the very notes with which they accommodated the planter, who, on the restoration of specie payments in Mississippi, is expected to pay up the balance of his account in hard money or its equivalent.*

* How far he will be able to comply with his engagements may be inferred from the following paragraphs from newspapers.

From the National Intelligencer of 4th April, 1839. "The Vicksburg Whig of the 13th ult. gives quite a gloomy picture of the monetary affairs of Mississippi. It represents the darkest days of 1837, as presenting but a faint picture of what is now exhibiting in every town and country of the state. Goods have been sold at *less than half* the original cost, and lands and negroes have gone off under the sheriff's hammer for *one fifth* of their value."

From the New Orleans True American of about 18th April, 1839.—"The state of affairs in Mississippi is any thing but flattering. The greatest distress seems to prevail. The newspapers teem to overflowing with legal advertisements. We hear daily of the sacrifice of property, and credit is a thing which is sometimes talked of but hardly expected, much less known.

CHAPTER V.

OF THE COST TO A COMMUNITY, PECUNIARY AND MORAL, OF BANKS OF CIRCULATION, COMPARED WITH THE BENEFITS DERIVED FROM THEM.

Having shown in former chapters that banks of circulation neither create capital nor make money permanently plenty, nor promote national wealth by the facilities they afford to the circulation of the existing capital, which are the three particulars upon which their importance to a country is generally considered to rest, and that in reality, their only power to do good is limited to the simple operation of substituting their paper for a portion of the coin which would be required for the currency if there were no banks, by which a country gains a sum equal to the profit earned upon the amount so substituted employed in commerce, and the advantage arising from the employment of a medium, for large payments and for inland

Some estimate may be placed on the situation of things in Mississippi from the fact that on a *single* offering day, upwards of 5000 notes were tendered the Union Bank for discount, amounting in the aggregate to about $15,000,000! Great distress must prevail, and the worst may not yet have come. It is a bitter thing to wake up from the dream of exhaustless wealth to the reality of embarrassment and a future poverty and labor. Such we fear has been the fate of many, and we trust that their backs may be strengthened to the burthen."

From the Raymond (*Miss,*) *Times of* — *Sept.* 1839.—" Good plantations with every improvement and convenience, such as houses, gins, and negro cabins have been often sold at from $2 to $5 per acre."

From the Nashville Whig of — *April*, 1840.—" We were informed last evening, by a gentleman just from Vicksburgh, who had been over a considerable portion of the country in the vicinity of that city, that five out of every six of the cotton farms were now vacated and lying a barren waste—farms, too, which but a year or two ago, were worth from $10,000 to $50,000.

transmission more convenient than coin, I come now to inquire what is the probable amount of this gain in the United States, and whether the expenses incurred in the support of, and the evils constantly liable to result from, the abuse of the circulating banking system, do or do not counterbalance this gain. In the result of this inquiry, every individual in the community is interested; and as I have no motive in this investigation but the establishment of truth, I beg the reader to watch my arguments and positions closely, in order that he may detect any untenable or erroneous positions, should such be advanced.

It is perhaps no easy matter to ascertain with any reasonable certainty the amount of currency required for the use of the population of the United States, now supposed to amount to about sixteen millions of souls. The only estimates hitherto made, have been founded upon rather a sort of conjecture than upon any accurate knowledge respecting the fact. As regards the specie portion of it, there is no existing document that can throw any light upon its amount. The known fact that much is imported, which does not appear on the custom house books, and that most of the plate manufactured in the country is made from melted coins, added to the probability that more is at this time hoarded by timid people than in ordinary times, arising from the late suspension of specie payments by the banks, precludes the possibility of any exact estimate and whether the true amount be fifty millions of dollars or a hundred millions of dollars, or some intermediate or even greater sum, it is not possible precisely to determine. The common impression appears to be, and it may possibly be as near the truth as any other sum that could be designated, that it is at this time about eighty millions of dollars.*

* This amount was assumed by Mr. Webster in a speech early in 1838. The secretary of the treasury, in his report on the finances of 3d December, 1838, assumes it to be from eighty-five to ninety millions of dollars.

In regard to the extent of the paper portion of the currency, the statistical documents which have appeared at times from the treasury department, have been imperfect, from the want of uniformity in the dates at which the different bank statements have been made out, as well as uniformity in the mode of the banks stating their accounts, the absence of which renders them not easily understood. From the different estimates that have appeared, it may, perhaps, be assuming a fair amount, to take the actual paper currency at one hundred millions of dollars; and we shall accordingly reason upon the presumption that banks, by the substitution of their paper in the place of coin, enable the country to employ that sum as commercial capital, and of course to add to the wealth of the country the annual profit resulting therefrom.*

The next point to be considered is, how much is the probable annual gain made upon this sum from its employment as commercial capital, instead of its being employed in the comparatively unprofitable service of a circulating medium.

We find that upon the security of state and other stocks of indubitable credit, we have borrowed capital in Europe at five per. cent per annum. But capital would not be sought for at that rate of interest, unless a profit could be made beyond five per cent. by its employment in some productive branch of industry connected with agriculture, commerce, or manufactures; for without such productive employment, there could be no accumulation of national wealth, and, consequently, no means of paying the interest. It would perhaps, be a fair supposition to assume in the United State ten per cent. per annum as the average return upon the employment of capital including the compensation for the services of the undertaker of an enterprise; and the profit, therefore, that the country

* Mr. Webster assumed this as the amount in the speech referred to in the foregoing note. See also Appendix. (C)

would derive from converting one hundred millions of dollars of capital unproductively employed, into capital producing ten per cent., would be ten millions of dollars. In addition to this, the country would save an amount equal to the annual wear and tear of a hundred millions of dollars in coin, the amount of which, however, is too small to be noticed in a calculation of this kind.*

Here, then, we have ten millions of dollars per annum as the whole amount standing to the credit of the circulating banking system, which is equal to sixty two and a half cents per head of the population, estimating it at sixteen millions of souls. And now, let us look at the debit side of the account, in order to ascertain the cost at which this great paper system is maintained, in order that, by striking the balance, we may be enabled to determine, with a clear and unprejudiced view of the subject, whether the country is or is not, upon the whole, a gainer by the system.

The cost of the circulating banking system may be considered under two heads pecuniary and moral.

Under the pecuniary head, the first thing that strikes us, is the expense of maintaining nine hundred banks and branches, comprising the salaries of the presidents, cashiers, tellers, clerks, book keepers, porters, watchmen, and runners, the rent of the banking

* The director of the mint, in a report made to the President of the United States, in 1826, computes the loss from abrasion of gold coins at two per cent. in fifty years, and silver coins at only one per cent.; from which it would appear that silver is the most economical currency of the two.

In a report made to the Senate of the United States in 1830 by a committee of which Mr. Sandford was chairman, it is asserted that half dollars and half eagles will circulate for one hundred years, and dollars and eagles for two hundred years, without being so much worn or defaced, as not to serve the purposes of a currency.

Mr. Gallatin, in his pamphlet on the currency, estimates the loss at seventy thousand dollars per annum, at the very utmost, in a coinage of forty millions.

houses or the interest of the capital invested in them, the cost of copper plates, note paper, account books, blank checks, stationery, fuel, postages, and the numerous elements which constitute the annual outlays of a bank of circulation. If the expenses of each bank were to be estimated at $2500 per annum, (a large proportion of the country banks being small ones,) on an average, we should have $2,250,000, as the cost of their support.

This however is but a small portion of the cost of banks of circulation. The principal item consists in the pecuniary loss sustained by the public in the suspension of industry occasioned by the derangement of business consequent upon expansions and contractions of the currency, which never fail to unsettle the ordinary transactions of commerce; by the waste of capital arising from its faulty distribution in times of speculative excitement, by which immense sums are expended on railroads and canals, and other improvements which have been improvidently projected, and have never been completed, or have not been worth after they were finished as much as they cost; and by the unproductive consumption from extravagance in living, that never fails to be engendered by an expansion of the currency and its attendant facility of borrowing, which gives the appearance of augmenting wealth, to persons who are really going behind hand. Every one acquainted with the simplest principles of political economy, knows, that every day's labor that is lost, is a loss to the community equivalent to the value of a day's labor, for the plain reason that a value fails to be produced which would have been produced, and that this loss occurs, whether the labor be lost in agriculture, commerce, or manufactures. In a former chapter it has been shown, that a million of dollars expended on a rail-road or canal left uncompleted, is as much a loss to the community, as if the food, clothing, utensils, and materials consumed by the laborers whilst engaged on the work, were consumed by fire or any other process; and that an improvement which costs two millions of dollars, and is only worth one million after it is completed, that is, will only yield an income equal to one half the income which could have been derived from the capital employed in other pursuits, is as much a loss of capital as if one million of silver dollars had been thrown into the sea. And every one knows that the man who expends in living three thousand dollars a year, who can really afford to spend but two, is an unproductive consumer of the public wealth to the extent of this excess. What all these items would amount to, it is not possible to ascertain, but it is hardly likely that any body who has watched the wasteful and lavish expenditure of capital in the United States, upon turnpike roads, canals, and railroads, known to have their origin in bank facilities and bank expansions, that have turned out worthless or partially so,* who has

* As a specimen of unproductive expenditures on Railroads and Canals, as far as the same can be ascertained from the market prices of stocks, the following table of actual sales as reported by the Board of Brokers, of New York, is given.

Sales at New York, of Stocks, in the months of November 1839, *and April* 1840.

	Nov. 1839. Per Cent.	*April* 1840. Per Cent.	*Capitals.*
Delaware & Hudson Canal,	49 to 66	74 to	$1,500,000
Mohawk & Hudson Railr'd,	43 " 53	66 " 69	1,100,000
Patterson "	42 " 48	41 " 42	500,000
Boston & Providence "	92 " 97	90 " 96	1,780,000
New Jersey "	73 " 85	80 " 82	1,500,000
Pr'dence & Stonington "	12 " 17	13 " 19	1,300,000
Boston & Worcester "	99 " 100	107 "	1,750,000
Harlem "	32 " 42	45 " 47	1,100,000
Utica & Schenectady "	105 " 115	121 " 125	2,000,000
Long Island "	52 "	51 " 53	1,500,000
Utica & Syracuse "	98 " 100	110 " 114	800,000
Auburn and Syracuse "	50 "	47 "	400,000

Only three out of 12 have commanded par.

A recent report made to the Legislature of New York, gives the following as the net profit in 1839, of some of the foregoing roads, viz:

seen the prostration of business, which resulted from the suspensions of 1814, 1837 and 1839, and from the numerous expansions and contractions which have taken place with less disastrous results at various other periods, and who has noticed the growth of luxury and extravagance created by the facility of borrowing paper money of banks; it is hardly likely, I say, that any body who has been an observer of all these effects, would doubt that they were quite equal upon an average of years to the remaining seven and a half millions of dollars which stand at the credit of the circulating banking system. He certainly would not doubt this, if he were told, what is the fact, that if only one-tenth part of the population should have increased their expenses five dollars each per annum, in consequence of the cause we have alluded to, this amount would be exceeded. To these items of pecuniary cost, may be added the loss to the community by bank failures and by forgeries,* and the expenses incident to the prosecution of the offenders, by the loss of bank notes burnt or otherwise destroyed, by the support of brokers who deal in uncurrent bank notes, by the sacrifices made by the ignorant in the sale of such notes, and the various frauds practised upon them.

So much for the pecuniary cost of the circulating banking system. Let us now examine into its moral cost.

Mohawk & Hudson,	$ 58,279	equal to about	5.3	per ct.	on cap.
Harlem, - -	12,816	" "	1.2	"	"
Utica & Schenectady,	223,720	" "	11.2	"	"
Long Island, -	5,755	" "	3.8	"	"
Utica & Syracuse,	90,856	" "	11.3	"	"
Auburn & Syracuse,	25,900	" "	6.5	"	"

* Bicknell's Counterfeit Detector and Bank Note List, of 1st Jan. 1839, contains the names of 54 banks that had *failed* at different times; of 20 *fictitious banks*, the pretended notes of which are in circulation; of 43 banks besides, for the notes of which there is *no sale;* of 254 banks, the notes of which have been counterfeited or altered; and 1395 descriptions of counterfeited and altered notes then supposed to be in circulation, from one dollar to five hundred.

And here we are first met, by the distress of mind and suffering experienced in times of contraction, by the tens of thousands of persons who have accommodation loans from banks, every time a note comes round, arising from the uncertainty of its renewal, and the apprehended necessity of being obliged to raise funds elsewhere, without having satisfactory security to offer. To this must be added, all the mental suffering of those who have become embarrassed by over-trading and over-speculation, into which they were seduced by the facility of bank loans and the expansion of the currency, or who, although prudent in themselves, have been embarrassed by the overtrading of others. The misery originating in these causes, which was experienced in the United States during the years 1837, 1838, and 1839, was of incalculable amount, as may readily be inferred from the fact, that in the city of New York alone, nearly one thousand failures took place between January and July of the year first above named, which could not have happened had there been no banks of circulation.*

The second item in the moral cost of banks of circulation is the temptation to forgery, by which so many ingenious mechanics, calculated by their skill and dexterity to be valuable citizens, have ruined themselves, and augmented the number of the convicts in our prisons.

A third is, the temptation they hold out to artful and designing men to create banks with fictitious capitals, by which the intelligent and cautious, as well as the ignorant and unwary, are deceived, and induced to give currency to notes which represent no capital whatever. The extent to which this practice has been carried is probably much greater than is com-

* In the month of October, 1839, the rate of interest on the best commercial paper in the New York market, was at times from 3 to 5 per cent. a month, evincing a distress greater than was ever before known in that city.

monly supposed, and had it not been for the investigations made by officers or committees of the legislatures of several of the States in the year 1838, into the transactions of some of their banks, the public might long have remained in ignorance of it. *

A fourth is, the temptation to a violation of truth by discolored statements of the condition of the banks made periodically to the legislatures, especially as to the amount of specie in the vaults, the same sum being frequently reported by different banks on the same day as composing part of the assets of each, by which the moral sense becomes blunted, and sometimes even prepared for perjury.

A fifth is, the temptation constantly existing to augment the profits of banks, by resorting to evasions if not positive breaches of the laws against usury, and by various extortions and impositions. Specimens of this description of offence were exposed in abundance in the chapter on the expedients resorted to by some banks to augment their dividends.

A sixth is, the spirit of speculation and gambling in stocks, engendered by the facility of borrowing the credit of banks through the means of post notes or otherwise, by which imprudent and sanguine men, not only abandon industrious pursuits, and lose all their property and that of other people besides, but are frequently driven by desperation to frauds, and even forgeries.

A seventh is, the temptation held out to directors and officers of banks to become dealers in stocks, the market price of which they have it in their power in a great measure to control by their action on the cur-

* See the Financial Register, for the Reports made to the Legislature of Massachusetts, upon the affairs of the Commonwealth, Lafayette, Hancock, Fulton, Kilby, Norfolk, Commercial and Roxbury Banks, for the most astounding disclosures. See also the same work for a statement of the affairs of the Lumberman's Bank of Pennsylvania, and the Brandon Bank of Mississippi.

rency, or, by their speculations in it from the facilities afforded to themselves, a consequence of which sometimes is, that false entries are made in the books of the banks, concealments practised, accounts overdrawn, money abstracted, and even false certificates of stock issued, as they have been by the officers of other corporations. Numerous notices in papers of absconding presidents, cashiers and tellers of banks, have appeared in the papers in 1838, 1839 and 1840, the frauds practised by some of whom have reached the amount of half a million, and in one case, of upwards of a whole million of dollars.

And an eighth item is, the tendency to destroy all moral sense of justice and rectitude by absolving each individual from personal liability, for the acts of the corporation, by which means, caution in the choice of borrowers, prudence in the amount of loans, a regard to the interests of the public in the distribution of the favors of the bank, are lost sight of, in consequence of which banks are frequently turned into mere loan offices for the accommodation of the officers and directors and their immediate friends, or lend their capitals to a few, to the exclusion of the many; and when, by their expansions, they cause an explosion, in the currency, a callousness is displayed as to the obligation of paying honest debts, as if a legislative act of incorporation could absolve men from the discharge of their moral duties, of which the payment of debts, where there is ability, is one.

And after all let us ask, for what purpose is this pecuniary and moral sacrifice made? It has been shown that banks of circulation cannot create capital, or make money permanently plenty, and so far, therefore, as the employment of the industry of the country, or the commerce of trade are concerned, no advantage whatever is gained by their establishment. The answer is, it is made in order that the stockholders of banks may have a chance of deriving two or three per cent. interest for their capitals beyond legal interest, or, that speculators who generally originate banks, may make their fortunes, by selling, at a profit to others the stock for which they subscribed, but perhaps never paid. If we assume $350,000,000 in round numbers as the actual amount of the capitals, real and nominal of all the banks in the United States, it will result that to the mere hope of gaining seven to ten millions of dollars per annum, are to be ascribed all the disasters which have resulted to the country from an inflated system of paper money. I say "to the hope of gaining," because the hope in numerous cases has not been realized, if the general depreciation in the market prices of bank stocks, is an indication of the general belief of the public, that a large portion of their capitals has been lost by mismanagement, by frauds and by the insolvency of borrowers.

CHAPTER VI.

OF THE DIFFERENT KINDS OF DEPRECIATION TO WHICH AN INCONVERTIBLE PAPER CURRENCY IS LIABLE.

So long as bank notes are convertible into coin on demand, they are liable to depreciation, or a fall in value, in common with the gold and silver for which they are interchangeable, from all the causes which we have shown capable of producing that effect upon a currency purely metallic. But in addition to this, they are susceptible themselves of depreciation from excessive issues, and in such event involve the metallic portion of the currency in the same depreciation. This sort of depreciation arising from excessive issues, produces the same effect upon a mixed currency, as the excessive importation of bullion would upon a metallic currency. There is, however, this difference between them. The one can always be removed sooner or later by the exportation of the superabundant metal, whilst the other cannot always be removed by a contraction of bank loans, as the several examples of a general suspension of specie payments in the United States have sufficiently established.

When bank notes cease to be convertible into coin, by a general suspension of specie payments, the currency may, for a long period together, remain without any depreciation, except that which is the result of the excessive issues which occasioned the suspension. During the long suspension of payment by the Bank of England from 1797 to 1821, no part of the depreciation appears to have resulted from any want of confidence in the ultimate ability of the bank to pay its notes, for had such want of confidence been displayed, it would probably have shown itself immediately after the stoppage. Such, however, was not the fact. The bank, by restricting its issues, for some time after that event, to an amount very little exceeding their accustomed extent, kept up the value of its paper, so nearly to par, that the market price of gold for two years after the suspension, payable in bank notes, did not exceed the mint price, which could not have happened, if any discredit had accompanied the depreciation.*

The same may be said of the two general suspensions of specie payment which took place in the United States in 1814 and 1837. With the exception of a comparatively few banks, the unsoundness, or im-

* For authority on this subject, see the Bullion Report of 1810, sect. 1, which will be found in the Financial Register. For a part of this time, bank notes were even at a small premium. See M'Culloch's Commercial Dictionary, article Bank of England, now in the course of publication in Philadelphia, under the editorial supervision of Professor Vethake, author of a treatise on the Principles of Political Economy.

prudent conduct of which was too apparent to be concealed, no want of confidence as to ultimate solvency appears to have entered into the estimate of the depreciation. The amount of excessive issues in each place, appears to have determined the depreciation of the currency of that place, and we have seen that just in proportion to the absorption of the excess, the depreciation disappeared.

There is, however, a reason why bank notes are not necessarily involved under a general suspension of specie payments, in a depreciation arising from discredit. The public is always indebted to the banks to an amount far greater than the banks are indebted to the public, and as a bank note will be received by the bank that issues it in discharge of a debt, there always exists, except in a case of an extensive bankruptcy among the borrowers, a demand for notes greater than the supply. Herein consists the difference between paper money issued by banks, and paper money issued by governments. The former is accompanied by a legal obligation on the part of a responsible borrower, to return it, or an equal sum of coin to the bank at a specified time with interest, whilst the latter is unconnected with any such stipulation, and in most cases forms a much larger supply than is wanted for payments of debts and taxes to the government.

A second cause of depreciation to which bank notes are liable, is a want of confidence in their ultimate redemption, or in their redemption at any fixed or definite period. The effect of this depreciation, where the want of confidence referred to is very considerable, is to hrow the notes entirely out of circulation, except perhaps in the immediate vicinity of the bank. In this event they are bought up by capitalists to hold until the bank can collect its debts, upon the very fair presumption that the whole of the capital of the stockholders must be sunk before any loss can attach to the creditors of the bank, it must have been a miserably managed institution, that cannot sooner or latter contrive to pay its notes, even though the stockholders should sink their whole capital. In estimating the extent of this depreciation, the purchasers of such bank notes would probably expect a full remuneration for the risk they would run of not being paid at all, and ample interest for the longest period of time that they might possibly have to wait, before that fact could be ascertained; and it is more than probable, that amongst these purchasers would be found many solvent debtors of the bank who would postpone the payment of their debts, and plead inability in order to profit by the lowest stage of the depreciation.*

* As a specimen of the extent to which Bank notes may be depreciated by the mismanagement of Banks, the following quotations are given.

From the New Orleans Price Current and Commercial Intelligencer of the 25th April 1840.

Rates of Specie, Bank Notes, &c.

Specie,		5	to	6	per ct. premium.
Alabama State Bank and Branches,		$3\frac{1}{2}$	"	$4\frac{1}{2}$	discount.
Tennessee Banks,		4	"	6	"
Arkansas Banks,		30	"	35	"
Pensacola, Florida,		20	"	25	"
Life & Trust, Florida,		20	"	25	"
Planters, Agricultural & Commercial of Natchez, on demand, (fives)		5	"	10	"
Do. do. branches, on demand,		10	"	20	"
Natchez Railroad,	"	75	"	80	"
West Feliciana, at Woodville	"	16	"	20	"
Bank of Port Gibson, (fives)	"	10	"	15	"
Commercial Bank Manchester,	"	10	"	15	"
Do. Rodney,	"	35	"	45	"
Union Bank of Mississippi,	"	55	"	60	"
Commercial Bank of Columbus	"	30	"	40	"
Grand Gulf Railroad Co.	"	50	"	55	"
Lake Wash'gton & Deer Creek,	"	55	"	60	"
Commercial & Railroad Bank Vicksburgh,	"	55	"	60	"
Post Notes.					
Commercial, Agricultural, & Planters Banks, Natchez, 12 months, spring of 1839, bearing interest,	,,	30	"	40	"

Union Bank of Mississippi, bearing interest,	"	55 " 60	discount,
Woodville, Manchester & Port Gibson,	"	30 " 40	"
Rodney,	do	35 " 45	"
Natchez Rail Road,	do	75 " 80	"
Commercial & Railroad Bank Vicksburgh,		55 " 60	"
Bank of Vicksburgh,		60 " 70	"
Waterworks Bank of do.		60 to 70	"
Citizens' Bank of Madison County		80 " 85	"
Tombigbee Rail Road Co.		75 " 85	"
Brandon Bank,		93 " 95	"

All these banks are in the state of Mississippi, except the five first named.

BOOK FOURTH.

Having, in the foregoing three books, laid before the reader the laws which regulate a metallic, a mixed, and an inconvertible paper currency, respectively, together with such collateral subjects as appeared to me to be necessary to a full understanding of the whole question, I shall, in the present book, invite his attention to a few matters of a miscellaneous character, which do not exclusively belong to either of the foregoing classifications, and the substance of which will be found in the heading of the several chapters.

CHAPTER I.

EXAMINATION OF THE QUESTION, OF WHAT DOES A CURRENCY CONSIST?

There is, perhaps, no subject upon which more various and more erroneous opinions prevail, than that which we now propose to examine. The expansion of the currency, the contraction of the currency, the depreciation of the currency, are every day expressions, and yet very few persons can precisely point out the real elements of which the currency is composed. In many public documents, of late years, in which reference is made to the currency, one would be led to infer, that the coin in possession of the public, and the bank notes in circulation, constituted the whole of the currency; and that, consequently, the currency was depreciated or improved according as these two elements were augmented or diminished. Newspaper writers and editors, too, generally take this ground, and it is really amusing to see the frequent attempts that are made by them, to illuminate the public mind as to the condition of certain banks, by a mere statement of their notes in circulation, without discriminating between post notes and notes payable on demand, and leaving out of view entirely, the amount of deposites and other immediate liabilities of the banks.

The most palpable error, however, that prevails in relation to this subject, is the notion entertained by many, that bonds, bills of exchange, and promissory notes, constitute a part of the currency. If this be true, currency, or, what is the same thing, money, would become plenty in proportion to the multiplication of these evidences of debt; whereas, every man of observation knows, that just in proportion as they are multiplied, currency or money becomes scarce, owing to the demand that arises for the means of paying them when they have reached maturity, or are becoming due. Indeed, so far are these securities from constituting any part of the currency, that they even require a portion of that which is currency always to be kept on hand by the persons who are bound for their payment, in order to meet them at the appointed time. The most that can be said of this class of obligations is, that they are contracts for the payment of currency or money, at a future day, and as far as they are negotiated or assigned by endorsement, in the course of business, they constitute a portion of those various substitutes for currency, by which the country in which they are used is saved from the expense of maintaining a larger metallic or paper machinery for carrying on its trade. Their operation, in fact, may be compared to that of the clearing house of London, whereat, by the daily meeting of the clerks of all the bankers, to make a mutual exchange of the acceptances of the principals of each, instead of a payment in money, which would be necessary if each acceptance were paid at each banker's counter, a very large amount of currency is economised, to the great benefit of all the parties.

Nor is the opinion less erroneous of those who suppose that public securities and the certificates of bank, canal, and railroad stocks, and such evidences of property, are currency. These are in truth nothing but titles for property of a particular sort, and no more constitute a part of the currency than the deeds for lands and houses which the owners of that species of property possess.

With these preliminary remarks, I will now state in the first place, that the currency of a country in which there is no paper money, consists, and consists only, of gold and silver, and any other commodity which constitutes a legal tender, and which every creditor is obliged by law to accept in discharge of a debt. Thus, in Virginia, in the year 1618, tobacco was made a legal tender at three shillings per pound; and in Massachusetts in 1641, corn was made a legal tender at a fixed price; and in 1643, Wampompeag (an article of traffic with the Indians) was invested with the same power in 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.*—Thus, also, in Maryland, so late as 1732, an act was passed making tobacco a legal tender at one penny a pound, and Indian corn at twenty pence a bushel. In all these cases, the articles thus made a legal tender, constituted a part of the currency as much as gold and silver; but as such absurd regulations could not but have led to the immediate production of extraordinary quantities of the articles named, it is presumable that they are to be regarded as the mere follies of a moment.*

* For a highly interesting and instructive history of the medium of trade, before the introduction of paper money into the American Colonies, and of the paper money issued by the various colonies, see "History of Paper Money and Banking," by William M. Gouge.

In countries at the present day, which carry on their affairs without paper money, gold and silver are the only currency. In some, one metal alone is used, and in others, both metals at certain fixed proportions. In some countries too, the legal coins alone of the nation are current, whilst in others foreign coins circulate upon the same footing as the coins of the country. Copper, too, is the currency of some countries, for even large amounts; but this metal constitutes so small a portion of the currency of most countries, that it is lost sight of, in discussions of this sort, precisely as it is lost sight of, when employed in the alloy of silver coins.

In countries where government paper money exists, but where banks have not been introduced, the elements which compose the currency are necessarily increased in number. They consist of not only gold and silver, but of the promises of the government to deliver at a future fixed, or at an indefinite period, certain quantities of those metals, accompanied by threats of punishment against all who should refuse to accept of the same in payment of debts. Such was the character of the paper money issued by the colonial governments of Pennsylvania and other states, prior to the American revolution, and such was that of the three hundred and sixty millions of dollars of continental money, issued by the American congress in seven years, commenciug with 1775 and ending with 1781.* Such also was the character of the *assignats* of revolutionary France, and such is that, probably, of the actual paper money of some nations of continental Europe. Large issues, however, soon depreciate the currency, drive out of circulation the metallic portion of it, and leave nothing but promises behind, which are rarely redeemed.

It may here not be out of place to remark, that the

* See Gouge on Banking for a particular history of the continental paper money.

British exchequer bills, and the treasury notes of the United States, both of which are payable with interest, have not the character of paper money. They are merely evidences of a temporary debt of the governments which issue them, are sold in market like public stocks, and have no more influence in augmenting the mass of the currency, than the bonds, acceptances, or promissory notes of individuals.

CHAPTER II.

EXAMINATION OF THE QUESTION, OF WHAT DOES A CURRENCY CONSIST? CONTINUED.

In countries where there is no government paper money existing, as is the present case in Great Britain, France, and the United States, the currency consists of those gold and silver coins which people are obliged to accept by law in discharge of debts, and of such promises of banks or bankers to deliver certain quantities of those coins *on demand* whenever called upon, as the public or the great body of creditors are willing to accept in lieu of the coins themselves.*

* The notes of the Bank of England are made by law a legal tender, except in the payment of its own debts, but no such measures can be practised in the United States, where by the Federal Constitution, it is declared, that no state "shall coin money, emit bills of credit, make any thing but gold and silver coin a tender in payment of debts," &c. The authority of Congress over the currency, is limited by the same instrument to the simple power, "to coin money, to regulate the value thereof, and of foreign coins." In the exercise of this power, it authorised by act of 2d April, 1792, the coining of silver dollars to contain 371¼ grains of pure, or 416 grains of standard silver, (the standard being 892.4 thousandths) half dollars, quarter dollars, dimes, and half dimes, containing respectively, one half, one fourth, one tenth, and one twentieth part of the silver con-

As to the first element here laid down, there can be no dispute, inasmuch as every body must admit that the gold and silver coins recognised by law, constitute a part of the currency. Still it may be proper

tained in the dollar; and by act of January 18, 1837, the coining of silver dollars, each to contain $371\frac{1}{4}$ grains of pure, or $412\frac{1}{2}$ grains of standard silver, (the standard being raised by this act to 900 thousandths, that is, to nine parts pure to one of alloy) with the fractions of a dollar above enumerated, containing the same proportions.

It also authorised by act of 2d of April, 1792, the coining of gold eagles to contain each $247\frac{1}{2}$ grains of pure, or 270 grains of standard gold (the standard being 22 carats, that is eleven parts pure metal to one of alloy, corresponding to $916\frac{2}{3}$ thousandths) half eagles, and quarter eagles, containing respectively, one half, and one fourth of the gold contained in the eagle; and by act of 28th June, 1834, the coining of gold eagles to contain each 232 grains of pure gold, or 258 grains of standard gold (the standard having by this act been lowered to 21.58 carats and a small fraction, corresponding to 899.225 thousandths) with the parts of an eagle above enumerated, containing the same proportions; and by act of January 18, 1837, the coining of gold eagles to contain each $232\frac{1}{5}$ grains of pure, or 258 grains of standard gold (the standard having by this act been raised to 21.60 carats, corresponding to 900 thousandths) with the parts of an eagle above enumerated containing the same proportions. When not of full weight, these gold coins are a legal tender at proportionate rates.

In reference to foreign coins, the laws have been frequently altered, there having been periods at which none but the Spanish dollar was a legal tender. That coin is still a legal tender, but, as it is worth in the market five per cent. more than the American dollar for exportation to China and some other countries, where it passes for more than its intrinsic worth, owing to its being there universally known, it is never now seen in circulation. Other foreign coins, however, are now legal tenders, as will appear from the following extracts from the laws:

By act of 25th June, 1834, it is enacted "That from and after the passage of this act, the following silver coins shall be of the legal value, and shall pass current as money within the United States by tale, for the payment of all debts and demands at the rate of one hundred cents the dollar, that is to say, the dollars of Mexico, Peru, Chili, and Central America, if not less weight than 415 grains each, and those re-stamped in Brazil, of the like weight, of not less fineness than 10 ounces 15 dwts. of to remark, that that portion of the coin which is at any time not in the actual possession of individuals, but lying in the vaults of the banks, and for the payment of which on demand the public is in possession

pure silver in the troy pound of 12 ounces of standard silver; and the five franc pieces of France, when of not less pureness than 10 ounces and 16 dwts. in 12 ounces troy weight of standard silver, and weighing not less than 384 grains each, at the rate of 93 cents each."

And by act of 28th June, 1834, it is enacted, "That from and after the 31st of July next, the following gold coins shall pass current as money within the United States, and be receivable in all payments by weight, for the payment of all debts and demands, at the rates following, that is to say, the gold coins of Great Britain, Portugal, and Brazil, of not less than 22 carats fine, at the rate of 94 cents and $\frac{8}{10}$ of a cent per pennyweight; the gold coins of France, nine-tenths fine, at the rate of 93 cents and $\frac{1}{10}$ of a cent per pennyweight; and the gold coins of Spain, Mexico, and Columbia, of the fineness of 20 carats 3 grains and $\frac{7}{10}$ of a grain at the rate of 89 cents and $\frac{9}{10}$ of a cent per pennyweight."

There are no legal tenders now existing by law, but those enumerated.

In England, silver is not a legal tender for any sum exceeding forty shillings.

The following statement, by the Director of the U. S. Mint, showing the fineness and value of certain gold and silver coins, was communicated to Congress on the 7th April, 1840, by the Secretary of the Treasury.

GOLD COINS.

	Fineness in thousandths	*Value pr. dwt.*
Great Britain, sovereign,	915 5	*cts.* 94 62
France, pieces of 40 and 20 francs,	899	92 92
Spain, doubloon and parts,	866	89 51
Mexico, do.	866	89 51
Peru, do.	868	89 71
Chili, do.	868	89 71
Columbia, doubloons of Bogota	870	89 92
" do. of Popoyan	858	88 68
New Grenada, doubloons, 1837, '38,	871	90 02
Bolivia, do.	870	89 92
Central America, do.	830	85 79
La Plata, do.	815	84 24
Portugal, johannes and half	914	94 46

of the promises of the banks, is not to be considered as a part of the currency, if the promises which represent it are estimated as a part. Thus, if a bank has $500,000 in specie in her vaults, and has promises out payable on demand for $1,000,000, in estimating the currency as far as this bank is concerned, the specie would not be added to the amount of the promises, and thus make an aggregate of $1,500,000, currency. In making up an aggregate statement of the two elements of the currency, it is not material whether the specie in the banks be counted, if at the same time the amount of the promises which represent it be reduced in the estimate to an equal extent, or, whether that specie be not counted, and the amount of the promises remains without reduction. The aggregate result is the same, but I nevertheless give a preference, for the sake of simplicity, to the latter mode of stating the case, and would therefore say, that the metallic portion of the currency, we are examining, consists alone of the coins in the hands and pockets of the public.

	Fineness in thousandths	*Value pr. dwt.*
Portugal crown (of 5000 reis) and half since 1838,	914	*cts.* 94 46
Brazil, piece of 6400 reis, of 1838,	914	94 46

SILVER COINS.

	Fineness in thousandths	*Value pr. oz.*
Spain, dollar of the peninsula,	900	*cts.* 116 36
" pillar dollar of Spanish America,	898	116 10
France, crown, (ceased to be coined in 1793),	909	117 53
" five frank piece,	900	116 36
Mexico, dollar, average of various mints, and in the proportion usually presented here,	897	115 97
Peru and North and South Peru dollar,	901	116 49
Chili, dollar,	906	117 13
Central America, dollar,	896	115 84
Brazil, restamped dollar of 960 reis,	898	116 10

In treating of the second element of our currency, the first thing to be established is, that the promise of the bank or banker, which passes current for money, must be a promise *payable on demand*, and not at any future period. Every body knows the meaning of the term ready money or cash to be, something that is available for the payment of a debt at the very instant it is received. A merchant who has a note to pay for a thousand dollars, on the first day of July, knows that he can not pay it on the day it is due, except with coin, or the promise of a bank or banker to pay coin of which payment may be demanded *on that same day.* If he is even in possession of a post note of a bank or of a treasury note due on any subsequent day, he can not avail himself of it as cash, any more than he can avail himself of the promissory note of an individual, but must convert it into cash or currency, by getting it discounted. It is quite easy to conceive of a great pressure existing in the money market of a commercial city, whilst the parties pressed for money, are in possession of an abundance of such treasury notes, or of post notes, of the best banks.*

But in order that bank notes shall constitute a part of the currency, they must not only be *payable on demand*, but they must be universally current at the place where they are offered in payment of debts. Thus, the notes of banks not located in Philadelphia are not, generally speaking, currency in Philadelphia. It happens indeed very often, that some of the banks in all parts of the country, find their account in accommodating their customers by receiving from them as cash the notes of distant banks; and it may even happen,

* In May, 1837, just before the stoppage of specie payments, post notes of the Bank of the United States sold in Philadelphia, at a discount of 1 to $1\frac{1}{4}$ per cent. a month.

In the early part of October, 1839, before the second stoppage of specie payments in Philadelphia, they sold there at $1\frac{3}{4}$ to 2 per cent. a month.

that individuals may frequently find it their interest to receive distant bank notes in exchange for goods, or in payment of debts. But in the great mass of cases, the notes of distant banks are sold in the market for currency just like bills of exchange, thus proving, that not only do they not constitute any portion of the currency, but that they even require a large amount of what is currency, to be held by brokers, for the purpose of buying them, and thus rendering them available to their owners.

Having thus, as I conceive, settled two important points in reference to the promises of banks which constitute a portion of the currency, I come now to examine those promises themselves, and to see wherein they consist.

The promises of banks for the payment of coin on demand, consist of,

First: Bank notes promising to pay to the bearer on demand, a certain sum of money, and which are always negotiable by mere delivery, therein differing from the ordinary promissory notes of individuals, which are drawn to order, and are negotiable by endorsement.

Secondly: Bank credits, or what are more commonly called deposites, being those amounts which stand to the credit of parties on the books of banks, and which are at all times payable on demand in coin, the same as bank notes, or which may, if the parties prefer it, be at any time converted into bank notes.

It is essential, however, as in the case of bank notes in order that these credits shall constitute a part of the currency, that they be *payable on demand*, for the very plain reason, that a deposite payable at a future day stands upon the same footing precisely, as a post note of a bank payable at a future day, and cannot be available as money before it is due, any more than any other debt. Hence the deposits of our savings banks which are only payable at future periods, after due notice given, constitute no part of the currency. The same is true of those deposites which have been for some years habitually received by some of the New England banks, for fixed periods at a stipulated interest,* and those which some of the banks in other states, and especially in the southwestern, have found it for their interest since the late money crisis, to accept for definite periods from holders of their notes, who were willing to give time for their claims upon the payment of interest, or from others who were willing to assist them by loans of money. And it may also be remarked, that as far as any portion of the deposits stands to the credit of parties, such as trustees, executors and administrators of estates, guardians of minor children, officers of courts, and others, who have deposited a fund to meet future demands, but without any immediate intention or authority to use it, so far they are to be viewed in the same light as deposits payable at a future day, and not as currency. Thus, if ten thousand dollars be deposited in a bank by the assignee of an estate, to remain until a dividend is declared amongst creditors sixty days hence, the bank could lend that money for sixty days without augmenting the currency, and for this simple reason, that the depositor, had, upon the hypothesis assumed, parted with his right to the same fund for sixty days; and therefore stood upon the same footing as other depositors whose claims were payable, not on demand, but at a future fixed day.

And here I will beg the reader to mark well the distinction between a deposit in a bank of discount, and a deposit in a bank of circulation. The former constitutes no part of the currency, as I have asserted in the first chapter of the second book, for the simple reason that, although the depositor may have the right to draw out his coin on demand, yet this right is in-

* By a statement made of the condition of the banks of Massachusetts, in October, 1837, it appeared that the cash deposited bearing interest was $5,318,484, whilst that not bearing interest was but $8,231,58).

separably connected with the obligation on the part of somebody else, to pay into the hands of the banker simultaneously an equal amount, in order that the banker's stock of cash in hand to meet daily or unexpected calls may remain undiminished. In the case of a bank of circulation the matter is widely different. The depositor may be paid the amount of his deposite in bank notes, without its being essential to such payments that any debtor of the bank should be obliged simultaneously to discharge his debt, the operation being merely the substitution of one form of bank credit for another, and it is therefore in reference to such a bank that these remarks are made.

I am aware that in estimating bank deposites as a part of the currency, I am advancing a doctrine upon which a difference of opinion exists amongst intelligent men, and for the full establishment of which some elucidations may be necessary. I first asserted this opinion, in the year 1821, in a report on the renewal of bank charters, made to the senate of Pennsylvania, and I have never seen any reason since to believe that it was erroneous.

Bank deposites, as they are called, originate in the following four ways:—

First. Where a party deposites specie in a bank.

Secondly. Where he deposites bank notes.

Thirdly. Where he deposites a note for collection, and the amount, after it is collected, is placed to his credit.

Fourthly. Where he gets a note discounted, and the net proceeds are passed to his credit.

In either of these cases, the depositor has a right to draw out from the bank either in coin or bank notes, without giving a moment's notice, the whole amount standing to his credit.* He stands, therefore, upon

* If there be any private stipulation with a depositor whose deposites arise from his having been accommodated with discounts, that he is to leave a certain amount undrawn for, that amount is to be considered as a deferred debt of the bank, and not as currency.

precisely the same footing, as regards his power of operating in the money market, or in the purchase of merchandise, as any other person who possesses bank notes, seeing, that if those with whom he deals should prefer bank notes, he can just as readily pay them in that way, by sending to the bank, as by giving them a check. So true is it, that deposites constitute currency as much as bank notes, that in all our commercial cities, no other currency is used in all extensive transactions. In all the cities of the United States, nearly all payments of money, except in very small sums in retail transactions, are made in checks on banks, and it is very clear that if deposites were not as much currency in the money market as bank notes, all dealers and traders would be furnished with the latter, instead of the former. In truth deposites are nothing but specie or bank notes, left in the keeping of the banks for the convenience of the owner.

But again. Let us test the soundness of this view, by a few hypothetical cases. Suppose the banks in New York should all at once unite in augmenting their discounts to the amount of five millions of dollars, by which process their immediate liabilities would be in a moment augmented to that extent in the form of deposites. Would the currency of New York be expanded? Would money be more plenty than before? Would competitors in the market with ready cash in hand be multiplied? If the answer to these questions be in the affirmative, and it is difficult to see how they could be otherwise, would the expansion of the currency amount to five millions of dollars, or only to the sum which should be equal to the amount of the bank notes that might be drawn out by the holders of these deposites, which would in all probability be but a small portion of the whole five millions? No one will, I think, contend that the expansion was not equal to the whole five millions, and it would consequently follow, that to restore the currency to its former position, a contraction of five millions would be necessary, and not merely the absorption of the notes, which might have been in the mean time added to the mass in circulation.

Again, suppose at a period when the currency was in a sound condition, money being neither too abundant nor too scarce, the banks of New York should, from some unfounded apprehensions, all at once reduce their loans to the extent of two millions of dollars, by which means their debtors should be obliged to raise funds in the market from that class of persons who had deposites in the banks, and who would of course draw checks upon them, and thus extinguish the liabilities of the banks existing in the form of deposites, to the extent of two millions. Would the currency of New York be contracted? Would money be scarcer than before? Would competitors in the market with ready cash in hand be diminished? A negative answer could hardly be given to either of these questions, and hence the conclusion would seem to be self-evident, that deposites form a part of the currency.

Indeed, it is through the deposites of banks that the most powerful action is exercised upon the currency, where contractions are resorted to. Debtors who are called upon to pay up large sums, would find it very difficult to procure them, if they were obliged to hunt up bank notes, scattered all over the country; and if a city bank were fearful of being hard pressed, she would have very little concern about her notes, if she could only get clear of the demands of her depositors. Deposites, in fact, in large commercial cities, constitute the largest portion of the currency. In the city of New York, on the 1st of June, 1837, shortly after the stoppage of specie payments, the amount of notes in circulation outstanding for all the city banks, was $5,283,950, whilst the amount of deposites, public and private, was $15,843,171.

By the contraction which subsequently took place, the notes in circulation were reduced, by the 1st of

April, 1838, to $2,322,186, and the deposites to $11,492,486.

I apprehend that no merchant in New York, who felt the pressure of that process, considered that a reduction of the deposites to the extent of four and a quarter millions of dollars, was no diminution of the currency; and if we take into consideration the large amount of these notes, which must, at all times, be circulating at a distance from the city of New York, we shall also be satisfied, that deposites not only form a part of the currency of that city, but a very large part of it.

An examination of the condition of the banks of Philadelphia, would also show an excess of deposites over circulation. By a statement of the condition of the fifteen banks of the city and liberties, on the 3d of November, 1838, (exclusive of the Bank of the United States), made to the legislature, it appears that the amount of their notes in circulation was $4,522,883, whilst the amount of their deposites was $6,813,503. On the 1st of November, of the same year, the circulation of the Bank of the United States (exclusive of post notes), was $8,499,378, and the deposites $8,591,235, but of these notes, by far the largest proportion were circulating at a distance from Philadelphia, and, consequently, formed no part of the currency of that city.

Having thus, as I conceive, established the propositions laid down in the early part of this chapter, I will, in the next, endeavor to elucidate a matter of very great practical importance, to which the attention of congress and the state legislatures has never yet been particularly directed, relating to the aggregate amount of the currency at any particular period.

CHAPTER III.

ON THE IMPORTANCE OF HAVING UNIFORM PERIODICAL STATEMENTS OF THE CONDITION OF THE CURRENCY.

When we consider the importance which the present banking system of the United States is capable of exerting over the property and industry, and consequently the prosperity of the country, it would seem to be but reasonable that the public, who must always be the victims of a vicious course of policy, should at least be furnished with some means of acquiring a knowledge of their position, in order that they might be prepared to escape from a threatened catastrophe, or at least to mitigate its force. Such, however, is not the fortunate condition of the people of this country, and they seem to be destined to be for ever deprived of all opportunity of becoming acquainted with those premonitory indications, which usually precede a convulsion in the money concerns of a nation. The truth of this remark will occur to most people, who recollect the fact, that the suspension of specie payments in May, 1837, came upon the country, like a sudden clap of thunder on a clear day, and overwhelmed every body with surprise. I say, every body, for the exceptions were extremely rare, of those who, a month before it occurred, had the slightest apprehension of such an event.

This want of knowledge arises, from the circumstance, that the nine hundred banks and branches now operating in the United States, are the offspring of six and twenty states, three territorial, and one general government, between which there has never been any system of uniform action in relation to the terms of charters of banks, or in reference to uniform periodical returns of their condition as to liabilities and resources. The consequence of this has been, that the returns of the condition of the banks, in no two states perhaps, correspond as to dates, or to particulars, nor do even the different banks of the same state always correspond in the latter. In some there is a studied mystification in the mode of stating the account, designed to render it unintelligible, and which nobody but the president or cashier of the bank could explain; whilst in others there is a total disregard of particularisation, by placing under the general heads of "miscellaneous," "other liabilities," "other investments," "specie funds," and other such terms, many important elements of a statement, without which the whole document is deprived of its utility. If fair play with the public and honest dealing were the objects of these banks, there would be no need for such subterfuges and concealments. Their accounts would be stated with fairness, and every facility would be afforded to the public to understand the true condition of the currency.

It is from such imperfect, heterogeneous and fraudulent statements as those we have described that the secretary of the treasury is annually called upon in January to furnish to congress a voluminous document, containing abstracts or copies of the same, with such condensed tables, as the arts of finance and divination combined will enable him to make out. The consequence has been, that all those tables have been deficient in the important element of uniformity of dates, without which statistical exactness is impossible

Thus, for instance, in his Report "on the condition of certain banks, &c," of 8th January, 1838, the statements of some banks are only made up to the month of May, 1837, which could throw very little light upon the condition of the currency in the month of November of the same year, to which period the returns of some other banks extend.

But this want of uniformity of dates is not the only point in which the secretary's reports are necessarily deficient. There is a want of that specification of debts and resources, which no exertion of the secretary can remedy, by which the immediate liabilities of the banks can be distinguished from their deferred liabilities and their immediate resources from their deferred resources, without a knowledge of which, as we have shown in the preceding chapter, it is not possible to arrive at a true knowledge of the condition of the currency. It is to be hoped that this matter will attract the attention of congress and the state legislatures, and that they may be induced to unite in some common system of action, by which all the banks of the country shall be required to make quarterly statements of their affairs at the same specified dates, and upon a plan uniform and simple, that no one who is acquainted with a common account current can fail to understand them.

But, even if such statements as are here recommended, were to be periodically furnished, it would require some skill in accounts to present their aggregates in such a form, as would show the true extent of the currency. Those who have examined the treasury tables and statements must have perceived that the mere adding together of the deposites and circulation of all the banks would not give the true amount of the paper portion of the currency. A large amount of the bank notes returned by the different banks as in circulation, have been deposited, by those into whose hands they passed, in other banks than those by which they were issued, and consequently, so long as they remain there, they appear on the statements of those banks as deposites. Thus, if a person draw out from the Bank of North America notes of that bank for $1000, the proceeds of a discounted note, the accounts of that bank would show an increase of its notes in circulation to the extent of $1000. If the same notes were then immediately deposited in the Bank of Pennsylvania, they would be reported by that bank as an increase of its deposites to the amount of $1000. In such event, it is evident that the same $1000 would appear twice as swelling the currency to that amount once in the form of notes in circulation, and once in the form of deposites, whereas it is equally evident that the currency could only have been augmented one single $1000. It follows, from this view of the subject, that in making out an aggregate statement of the circulation, there must be deducted from the aggregate amount of the notes in circulation, the total amount of notes reported in the different bank statements as "notes of other banks on hand."

It may, however, be said, that these banks did not come into possession of these notes by means of deposites as above assumed, but that they were exchanged for notes of their own. Granted, but this makes no difference in the result. The banks which received them, would report an increase of their own circulation to the extent of $1000, and if "the notes of other banks on hand" were not deducted, there would appear, as in the first case, a double augmentation of the currency to the extent of $1000.

But it may be further said, that these banks did not obtain possession of these notes in either of the two modes specified, but that they were paid to them in discharge of debts. Is the nature of the case changed by this fact? Not at all. An issue of bank notes to the amount of $1000, can not possibly augment the currency to the amount of $2000, and if we regard the banking system as one whole, just as if it consisted of a principal bank and branches, we can easily see, that if any of its members were in possession of any notes issued by any other of its members, they would be in possession of itself. It would have been absurd to call the notes of the late Bank of the United States in possession of the New York branch, notes in circulation, and to have included them in the amount of the currency.

So also, in estimating the aggregate amount of the currency, must the amount of specie in possession of all the banks be omitted in the account, seeing that that specie having been derived from deposites, or in exchange for notes, already appears on the return of the banks in one of those two forms.

That the truth of these positions may be made manifest, I will make a practical application of them to a table found in the report of the secretary of the treasury of 4th January, 1837, on the condition of the banks. We are there told, in document A. A., that as near to the month of December, 1836, as could be ascertained, the condition of all the banks in the United States was as follows:

Resources.	
Loans and discounts, - - - - -	$457,506,080
Stocks, - - - - - - -	11,709,319
Real estate, - - - - - - -	14,194,375
Other investments, - - - - - -	9,975,226
Due by other banks, - - - - -	51,876,955
Notes of other banks on hand, - -	32,115,138
Specie funds, - - - - - -	4,800,076
Specie, - - - - - -	40,019,594
	$622,196,763
Liabilities.	
Capital, - - - - - -	$324,240,292
Circulation, - - - - - -	140,301,038
Deposites, - - - - - -	115,104,440
Due to other banks, - - - - -	50,402,369
Other liabilities, - - - - - -	25,999,234
	$656,047,373

As the account does not balance, it is probable that some of the resources of the banks have been omitted.

Now from this statement it is proposed to ascertain what was the extent of the currency of the United States at the period mentioned, in addition to the amount of the coin in the pockets and strong boxes of the public, which there appears to be no correct means of ascertaining, and for this purpose, I would state the account as follows.

Circulation, - - - - - -	$140,301,038
Deposites, - - - - - -	115,104,440
	255,405,478
Deducting notes of other banks on hand,	32,115,138
Leaves,	$223,290,340

Such would appear to be the actual amount of the currency as furnished by the above table. But inasmuch as no distinction is made, between notes or deposites payable on demand, and post notes, or deposites payable at a future period; the account is deficient in a very important element of exactness. For it can be seen, that if the deferred liabilities should have amounted to thirty or forty millions of dollars, the true amount of the currency would have been diminished precisely to that extent.

In regard to the two amounts expressed, by the terms "due by other banks," and "due to other banks," standing on opposite sides of the account, it must be obvious, that they are quantities neutralising each other, for the amount due *by* all the banks to each other, must be precisely equal to the amount due *to* all the banks by each other. The difference between these two amounts in the table before us, arises no doubt from the fact, that owing to the distance of the banks from one another, there must always be on the route between them, funds *in transitu*, which although charged by the remitting bank to the account of the one to which they were remitted, cannot have yet appeared on the books of the other as a credit.

CHAPTER IV.

ON THE IMPOLICY OF ADHERING TO OUR PRESENT MINT PROPORTIONS BETWEEN GOLD AND SILVER.

It may be assumed as a principle that will hardly be disputed, that the soundness of a mixed currency of coin and paper such as we are likely ever to have in the United States, does not depend upon the fact whether gold or silver be the basis. A currency may be quite as sound where silver is the only or chief metal that circulates, as where gold is the only or chief metal. This is evident from the well known fact, that the currency of France which is of silver, is not more liable to fluctuate than that of Great Britain which is of gold. I might even argue that it was in point of fact less fluctuating, but as all I wish to establish is equality, it is not necessary that I should take that ground.

It would seem that the great object of our act of June, 1834, was to establish a gold currency, under the belief that the tendency of gold to drive paper out of circulation would be stronger than that of silver; and on that account the mint proportions were changed with the professed object of drawing gold into the country in preference to silver, when the course of trade should lead to the importation of the precious metals. There can be no doubt, that had congress possessed the right of prohibiting the circulation throughout the United States of bank notes of a less denomination than ten dollars, a gold currency could have been introduced in the place of five dollar notes; but as it possessed no such power, and as there was not the slightest probability that all the state legislatures would have co-operated in bringing about such a result, the measure was, to say the least of it premature.

But even admitting that all notes of a less denomination than ten or even twenty dollars could have been proscribed, I would ask, whether such a measure would have exempted the currency from all liability to fluctuations? This question can perhaps best be answered by referring to the experience of Great Britain. In that country, no note is issued by the Bank of England, or by any joint-stock or private bank, of a less denomination than five pounds sterling, equal to upwards of *twenty-four dollars*, and yet England has been subject to many great fluctuations in her currency, one of which, that of 1797, brought all her banks to a stoppage of specie payments; and another of which in 1825, was very near bringing about the same result. It is not then the fact, of a mixed currency having gold or silver for its basis, which determines its stability. Our own experience of forty-five years out of fifty-one since the establishment of the government, during the whole of which time silver was almost the exclusive metal that circulated, is sufficient to settle that question, and no one, it is presumed, will maintain the proposition, that the interests of the great mass of the people are not as well promoted by the right of demanding silver for a bank note, as of demanding gold. Indeed, if we take into consideration the universal knowledge which prevails as to silver coins, the familiarity of every body with dollars and half dollars, the vast number of persons who seldom have five dollars in money on hand at a time, the less liability of being cheated with silver than with gold, and the additional fact that many existing ground rent deeds, bonds, and mortgages, expressly call for payment in silver dollars, it would not be hazarding too much to say, that silver is a more convenient coin for the people of the United States than gold. If then it can be shown, that the possession of a gold currency in preference to a silver one, would be not only productive of no positive benefit to the community, but would be attended with positive mischief to the great interests of the country, all parties ought to unite in abandoning the project.

And this brings me to the point, to which the preceding remarks were designed to be introductory.

Prior to the passage of the gold bill above referred to, the metallic currency of the United States had been virtually, as above stated, a currency of silver since the establishment of the government, gold very rarely appearing, whilst that of Great Britain was of gold. The consequence was, that the currency of each was independent of the other, and the contraction or expansion of each did not necessarily act upon the other. The contraction in England, which preceded the resumption of specie payments, in 1821, after a long suspension of twenty-four years, produced no convulsion on this side of the Atlantic; nor did our contraction, distressing and durable as it was, after the removal of the public deposites from the Bank of the United States, on the 1st of October, 1833, which brought down the prices of stocks from 20 to 50 per cent., and led to the importation of 3,793, 293 dollars in silver from England alone, during the year ending on 30th September, 1834, produce any convulsion whatever in that country.* Such would have

* During the contraction last referred to, which occasioned a panic that continued from October, 1833, to July, 1834, exchange upon London, at New York, the market of which regulates the rate for all the other cities, fell greatly below the ordinary limits. In February, 1834, the pressure for money was so great, that bills were sold, for a short period, as low as one to two per cent. below the *nominal* par of that period, which was, in reality, nine to ten per cent. below the true par. A great fall, also, took place in every species of stocks, property and merchandise, whilst the discount on good commercial paper rose to two or three per cent. a month.

Notwithstanding this great pressure, however, it was not felt at all in England, except, perhaps, in the diminished remittances of merchants, so that her currency remained not only without the slightest contraction, but actually experienced an augmentation,† to the great advantage of our shippers, whose cotton

† Aggregate amount of notes circulated in England and Wales, by the Bank of England, by private banks, and by joint stock banks and their branches, at the following dates, as published in a table appen-

continued to be the case, had the mint regulations remained without alteration; but no sooner was gold, by a change in its relative value to silver, rendered the most profitable of the two metals to import, than we found the currency of England disturbed to a degree that rendered necessary an immediate reduction of her paper issues, although the amount of gold drawn from her between the passage of the law in June, 1834, and the 30th of September, of the same year, was but 1,922,960 dollars. To the importations of gold in the years 1835 and 1836, instead of silver, may be ascribed that further contraction of the British currency, which led to the crisis of the latter year, that was so fatal to American credits and American cotton, by which millions of dollars were lost to the country.

Now as like causes will produce like effects, it behoves us to examine well into this matter, and if we find that we have committed an error, it is our duty to retrace our steps. Thus far very little progress has been made towards introducing gold into actual circulation, notwithstanding that a large amount has been

was sold without any reduction in price, as will be evident from the following quotations for uplands of the best quality, contained in letters from Liverpool houses of the greatest respectability.

1833.					
October	30, - . 9d	March	22, . . 9d		
November	23, - - $8\frac{3}{4}$	April	23, - - 9d		
December	7, - - $8\frac{3}{4}$	May	16, - - $9\frac{3}{8}$		
December	31, - - $9\frac{1}{2}$	June	7, - - $9\frac{1}{2}$		
1834.		July	8, - - $9\frac{1}{2}$		
January	4, - - $9\frac{1}{2}$	August	23, - - $9\frac{1}{2}$		
February	24, - - 9	September	30, - - $9\frac{3}{4}$		

ded to the report of the Secretary of the Treasury of 3d January, 1837, on the condition of the state banks.

1833,	December 28,	£27,621,104
1834,	March 29,	28,735,827
"	June 28,	29,207,682
"	September 27,	28,591,112
"	December 28,	27,729,828

imported,* still a long perseverance in the law will give us a gold currency, but it will be most dearly purchased. It will so closely ally our fortunes with those of Great Brittian, that no convulsion can take

* Tables of the imports and exports of gold and silver coin and bullion, for the last five years.

I. GOLD BULLION.

	Imports.	Exports.
1834, - - - - -	$141,181	none.
1835, - - - - -	665,457	none.
1836, - - - - -	1,913,137	$25,777
1837, - - - - -	536,549	101,563
1838, - - - - -	230,392	none.
	$3,486,716	$127,340

Total imports of gold bullion, - - - -	$3,486,716
Do. exports do. - - - - -	127,340
Excess of imports, - - - - - -	$3,359,376

II. GOLD COIN.

	Imports.	Exports.
1834, - - - - -	$2,786,006	$64,349
1835, - - - - -	1,669,730	625,679
1836, - - - - -	5,318,725	275,940
1837, - - - - -	1,895,265	1,828,653
1838, - - - - -	11,431,840	736,264
	$23,101,566	$3,530,885

Total imports of gold coin, - - - -	$23,101,566
Do. exports do. - - - - -	3,530,885
Excess of imports, - - - - - -	$19,570,681

III. SILVER BULLION.

	Imports.	Exports.
1834, - - - - -	$168,330	none.
1835, - -	765,283	none.
1836, - - - - -	318,350	$52,695
1837, - - - - -	594,291	5,600
1838, - - - - -	392,843	2,500
	$2,239,097	$60,795

place in the currency of that country, that will not act directly and powerfully upon ours; whilst on the other hand, none can take place on our side, that will not act directly upon hers, and in so doing, break down the prices of cotton and tobacco, and other American products in the markets of Europe to the great injury of our planting interest.

But this is not all. The tendency of the present regulation is to drive silver out of the country, and not gold, in all cases where coin is exported, the result of which will be, if long enough persevered in, to deprive us almost altogether of a silver currency, and in that event, a universal resort will be had in all the states to bank notes of the smallest denominations in preference to gold coins of similar denominations, as a remedy for the evil, a remedy, which, it is hoped, no friend of a sound currency desires to see adopted.

Total imports of silver bullion, - -	$2,239,097
Do. exports do. - - -	60,795
Excess of imports, - - - -	$2,178,302

IV. SILVER COIN.

	Imports.	*Exports.*
1834, - - - - -	$3,246,000	$413,681
1835, - - - - -	10,040,000	5,122,495
1836, - - - - -	5,850,669	3,624,186
1837, - - - - -	4,490,309	2,756,914
1838, - - - - -	5,630,138	2,292,342
	$29,257,116	$14,209,618

Total imports of silver coin, - - -	$29,257,116
Do. exports of do. - - - -	14,209,618
Excess of imports, - - - - -	15,047,498

RECAPITULATION.

Gain on gold bullion, - - - -	$3,359,376
Do. do. coin, - - - - -	19,570,681
Do. silver bullion, - - - -	2,178,302
Do. do. coin, - - - -	15,047,498

If there be any fallacy in this reasoning, it is not intentionally advanced. The subject is a grave and important one, and merits the attention of all who are desirous to keep our country free from foreign alliances, whether they be pecuniary or political; and should congress be convinced that a false step has been made, let that step be retraced. Let the standard of the gold coin be restored to its former high grade, corresponding with those of Great Britain, Portugal and Brazil, that is, eleven parts of pure gold to one part of alloy, and let there be no coins struck at the mint but ounces, half ounces, and quarter ounces, without any fixed legal proportions to silver, but left to find their way into circulation at their fair market equivalency, as gold coins do in France and other countries of Europe. By having coins of familiar and well known *weights* the people would form right conceptions of the true nature of money; and as the bullion dealers and brokers in all the cities would quote the price of ounces of gold as they do of sovereigns, they would be at all times current at their market value, and *could never be driven from the country* by our own legislation, or that of other states.

CHAPTER V.

ON THE SUPERIORITY OF THE NEW YORK GENERAL BANKING LAW OVER THE PRESENT BANKING SYSTEM.

Having, in a former chapter, promised to give my reasons for believing the principles of the New York banking law to be better calculated, if made general throughout the Union, to give stability to the currency than any other that would be likely to meet a general acceptance, I now proceed to fulfil that promise, and shall first give the reader a synopsis of its principal stipulations.

This law provides that the comptroller of the state shall cause to be printed from uniform plates, to be engraved according to his direction, bank notes of the various denominations authorised by law, which notes are to be countersigned, numbered, and registered in his office, in books provided for the purpose. These notes are to be delivered to every banking association organised under the provisions of this act, which shall transfer to the comptroller any of the public debt of the United States, or of any state, that shall be approved by the comptroller, not less in amount than $100,000 and made equivalent in value to a New York State five per cent. debt in sums precisely equal to the amount transferred, hereby establishing the important and valuable principle of free trade in banking; and when signed and executed by the respective associations, they become, to all intents and purposes, bank notes, and as such may be loaned and circulated as money.

In cases, however, where the association requiring the notes prefers to give mortgages, bearing six per cent. interest, upon "improved, productive, unincumbered lands within the state of New York, worth, independent of any buildings thereon, at least double the amount for which they shall be so mortgaged," for one half of the amount of the notes, the comptroller is authorised to accept the same in lieu of stocks, and in both cases the depositing party is to be authorised to receive the accruing interest.

The notes thus created upon an actual deposite of property of equal amount, are to be payable on demand in the lawful money of the United States, and in case of default of such payment, except for legal cause, for the space of ten days after the comptroller shall have demanded payment in consequence of having been apprised of the fact, by the protest of a notary, he shall proceed to sell, at public auction, the stocks and mortgages pledged in his hands, and with the proceeds pay the notes of the defaulting bank. Protested notes are to entitle the holder to damages at the rate of fourteen per cent. per annum until paid.

The associations authorised by this act, are empowdered "to carry on the business of banking by discounting bills, notes, and other evidences of debt, by receiving deposites, by buying and selling gold and silver bullion, foreign coins and bills of exchange in the manner specified in their articles of association, for the purpose authorised by this act; by loaning money on real and personal security; and by exercising such incidental powers as shall be necessary to carry on such business." The shares of the stock are to be deemed personal property, and are to be transferable, like shares in other banks, carrying with them all the rights and liabilities of prior shareholders, and any association may provide in their articles for an increase of their capital, from time to time, as they may think proper.* No shareholder is liable in his individual capacity for any contract, debt or engage-

* This power to increase the capital of a bank to any amount that may be agreed upon in the articles of association, is, I conceive, a defect in the law. We see every year banks applying to the legislatures to authorise an increase of their capitals, not because they can profitably employ more capital, but as a mere expedient to relieve themselves from embarrassments, by permitting their creditors, that is, the holders of their notes and deposites, to come into the concern as co-partners. It appears to me that just in the degree that there exists a standing law to authorise such a mode of relief, will there be a tendency to the expansion of the currency, and a facility afforded for bolstering up, too long, insolvent borrowers, the effect of which is to prevent matters from settling down upon the solid foundation which the interests of the community demand, precisely as there would be, if the law authorised the issue of post notes, which very properly it does not. This view of the subject is earnestly recommended to the consideration of the legislatures of the different states, which may, as that of Georgia has already done, adopt the New York system.

ment of the association, unless the articles of association shall have declared that the shareholder shall be liable.

From this abstract of the law, it will appear, that the security of noteholders is alone provided for, and that no provision is made for the protection of the depositors, who are left as in other banks, in case of a failure, on the footing of common creditors. This distinction is founded upon the soundest principles of policy. Bank notes invested with the character of money, from the very nature of the use they are designed to perform, must necessarily pass from hand to hand in the transactions of business, with a rapidity and universality, which preclude the possibility of a close inquiry into the responsibility of the drawers; and there is therefore as good a reason why the public should be protected against loss from the circulation of paper money, as why they should be protected against loss from the circulation of metallic money, which is the design of establishing and maintaining a mint at the public expense.* The case however is widely different with depositors. The indi-

* In this position the author is sustained by the opinion of Mr. McCulloch, whose celebrity as a political Economist, is well known throughout the United States, as employed in the following passages.

"It is quite illusory to expect to make any real improvement upon the system of country banking in England, by the mere introduction of a plan for *allowing* banking establishments with large capitals to be set on foot. There have always been, and are at this moment, a great number of such establishments in England. What is really wanted, is the adoption of a system, that will exclude the possibility of notes being discredited, by *preventing* all individuals or associations *from issuing such as have not been guaranteed.* * * * * "The truth is, as already stated, that it is not possible to guard against loss and fraud, from the proceedings of the country bankers, otherwise, than *by compelling them to give security for their issues.*" * * * The truth can not be too often repeated, that it is quite impossible ever to organise secure banks of issue—and it is with such only that the legislature has any right to interfere, except *by obliging them to give security for their notes.* Every other scheme, how care-viduals who make deposites in a bank, are at all times in a situation to judge of the responsibility of the parties to whose custody they commit their funds, and there is no more reason why a special law should be enacted to protect them against loss, than that one should be enacted to protect any other class of per-

fully soever it may be devised, is sure in the end to prove nugatory and to be defeated." *McCulloch's Commercial Dictionary edition of* 1834, pp. 76, 77, 110.

"There is, in fact, but one measure that can give the public that guarantee to which they are entitled in dealing with country banks, and that is to compel them *to give security for their issues*. Nothing short of this will do. Women, minors, and individuals of all descriptions, who from their situation in life are no wise qualified to judge of the stability of different banking companies, are dealers in money; and, in point of fact, it is found, that the notes of the most worthless banks always, obtain some circulation, and generally, indeed, find their way into the pockets of those who are least able to bear the loss when the fraud is discovered. *Government is bound to interfere to protect its subjects from such losses*, and to make sure that all notes intended to serve as *money*, be they issued by one individual or by many, *shall be paid when presented*." *McCulloch's Statistical account of the British Empire*, vol. II. p. 169, written in 1837.

The late Isaac Bronson, Esq. of New York, whose skill as a banker was exceeded by that of no financier in this country, entertained the same opinion, as appears from an article written by him in the year 1829, and published in the Free Trade Advocate of July 11th of that year, in which he employed the following language.

"It will be seen from the foregoing premises, that the proposition which the banker makes, or, is supposed to make, to the public (*on issuing his bank notes*) when stripped of its mystery, is simply this: 'I will exchange my *credit* for your *capital*, but you must allow me the use of your capital *without interest*, and yet pay me interest for the use of my credit. My credit will be of the same use to you as your money, and much more convenient; and your money, while in my hands I can make productive, which would produce nothing if it remained in yours: whenever you prefer your money to my credit, you shall have it.

"To this proposition the public replies; 'You shall have the use of my money on the terms you propose; but in a bargain so advantageous to yourself, it will be expected, as you have my money *without interest*, that you will give *security* to return it *without loss*.'"

sons who find their account in trusting others with their property.

But, although this be true as regards depositors, they have this advantage over the depositors under the old system, that the bank must either pay them in coin or in notes which represent actual capital and not credit; and it is this feature in the system which gives it its chief superiority over the other.

In a former part of this work, I drew a distinction between the influence which deposites exercise over the currency when made in a bank of discount, and when made in a bank of circulation.* I stated, that in the case of a bank of discount, where the money was loaned to other people, and where the depositor also reserved his right of demanding payment at his pleasure, the currency could not be augmented, owing to the fact, that the banker, in order to pay the deposite, would necessarily be obliged to make some of his debtors simultaneously pay up an equal sum, that he might keep his usual stock of money on hand; so that as fast as he enlarged the circulation by payments from his counter, he contracted it by drawing in an equal amount from other quarters, thus leaving the money out of doors precisely the same in amount as before. I stated, on the other hand, that the operation with a bank of circulation was different, owing to the fact, that such a bank, on being called upon by a depositor whose money had been loaned out, was not necessarily obliged to call in a corresponding amount from a debtor, but might be able to satisfy the depositor with its own notes, by which means the money out of doors would be temporarily increased to the extent of these notes, and thus create a corresponding excess.

Now, as the New York law absolutely prohibits the issue of any other notes than those which represent capital, and as these can not be multiplied *ad in-*

* Book II, Chap. 1.

finitum, as notes can be comparatively under the old system, it is manifest that the banks organised under it, have not the power to augment the currency to the extent that the others have, inasmuch as, like banks of discount, they can only meet the claims of depositors by compelling some of their debtors to pay up a corresponding amount, it being understood, as in the case of those banks, that the usual stock of money is always to be kept on hand to meet occasional or unexpected demands. *

In reference to the other provisions of the law, they must speak for themselves.† If the numerous banks that have been organised under it, and which are daily increasing in number, act wisely, they will invest nearly the whole of their capitals in fixed securities‡ and will be careful not to force into circulation a larger amount of their notes than the currency can readily bear without reaction. They will also take especial care, that in lending the money of depositors, they will discount nothing but business paper, having a short time to run, or they may, if overtaken by a panic, find themselves in the hands of the comptroller before they are aware of it.§

* A clear illustration of the difference here adverted to, is contained in an unpublished pamphlet on the reform of the currency of England, which the author has read, in the following paragraph:

"The business of banking is one thing: that of issuing a paper money is another thing. There is no necessary connection between the two. The bankers in London and Paris are bankers strictly so called. They are lenders of their own and of other people's money. They must obtain it by industry or loan before they can lend it. They do not make it. The business of making and then issuing a paper money on loan, is very different from that of obtaining a paper money on loan, and then re-lending it."

† A copy will be found in the Appendix, marked D.

‡ The whole of the capital of the Bank of England is invested in a loan to the government, and no part of it ever appears in the monthly statements of the assets and liabilities of the bank.

§ For an account of the practical working of this system, see Appendix J.

APPENDIX.

A.

ON THE RELATIVE VALUE OF GOLD AND SILVER.

From the National Gazette, of January 26th, 1822.

Messrs. Editors:—In the autumn of the year 1820, an article written by me was published in your Gazette, explaining *the cause of the disappearance of gold from the United States.* It was there shown that, in spite of all the attempts made by the laws of various nations, to establish *fixed proportions* between gold and silver, those two metals had confirmed their right to be governed by the same laws of *supply and demand,* which regulate the relative value of all other commodities, and had actually in the *market* of the trading world assumed proportions different from those which had for many previous years been maintained. It was also shown, that *one ounce of gold* was at that time worth in Europe near *sixteen ounces of silver,* and that so long as the laws of the United States decreed that the proportions should be as *one to fifteen,* gold would not circulate, but would be exported from the country, in payment of debts, or in exchange for silver. The truth of that assertion has been verified; for although during the year 1820, gold was coined at our mint to the value of $1,319,030, and during the year 1821, to the amount of $185,325, yet not a gold coin is any where to be seen in circulation.

During the last session of congress, this subject of the disappearance of gold was considered by a committee, who made a report, recommending an alteration of the legal proportions, so as to make them correspond with the proportions which were at *that time* supposed to exist in Europe. At the present session, the same matter will probably come before the committee, to whom the subject of the coinage has been referred; and as it is an important one, a few observations in relation to it may not at this time be inappropriate.

Any attempt to fix by *law*, what cannot be fixed by *nature*, carries on its face an air of absurdity. Without animadverting upon the policy which led our predecessors to follow the footsteps of many of the European nations, and which may perhaps be justified by the then existing state of the country, it is certainly not the part of wisdom to pursue a course, which the lights of science and experience so clearly prove to be unsound. The very fact that gold and silver have departed from the proportions established by our laws, is ample proof that no such laws should ever have been enacted; and the *certainty* of a future change, is equally conclusive against any further legislation on the subject. Even since the date of the report of the committee above referred to, a more wide separation between the two metals has taken place; and had a law been enacted a year ago, agreeably to their suggestion, it might possibly have required an additional one in the present year to give it effect. The truth is, that until the physical and moral causes, which operate upon a currency, shall combine to establish an *immutable* relation between gold and silver, laws to determine their relative value can be nothing more than temporary expedients, at war with the true interests of the country, and the genuine principles of political economy. No nation ought to attempt to create *two* legal tenders; and as we have *virtually*, at least for a time, got rid of one of them, we ought not to be hasty in restoring it.

In a discussion upon this subject, it is not essential to consider the question, whether a gold or silver coinage is to be preferred. Many weighty arguments might be advanced in favor of each, but as the American people are best acquainted with silver, and as most ancient contracts stipulate for the payment of silver coins, there would seem to be a propriety in adhering to that metal; especially, too, as the universal establishment of banks of deposite, obviate almost entirely the expense and inconvenience of transporting and counting large sums. I take it for granted, that if one metal was alone declared to be a legal tender, *that* metal would be silver; and under that impression, I submit my remarks.

The first objection against an alteration of the relative legal value of gold and silver, is that there would be no certainty of the new proportions being maintained for any length of time in the general market.—Gold might *rise* still higher, and in that event the law would be of no avail. Or gold, might *fall*, and in that case, the silver would all be exported from the country, upon the principle that gold *now* is, as being the dearest of two commodities, which are declared by law to be equally legal tenders in discharge of the same debt. In case of such an event as the exportation of all our silver, it is easy to foresee what evil consequences would result. Gold would become the only circulating medium, and as it is impossible that the ordinary transactions of life could be carried on with such small pieces of gold as would correspond with our small silver coins, congress would be compelled to pass another law to bring silver back, and there wonld be no end to our legislation on the subject. If silver should be legislated out of the country, and afterwards be legislated back again, the nation would lose the whole value of the expense and risk of a double transportation, without an equivalent in return.

The second objection against this measure is, that it would be an improper interference with the rights of all creditors, public as well as private, in relation to contracts, existing at the time of the change. By the present laws, an individual or the nation has its option, in discharge of a debt, to pay *one* ounce of gold or *fifteen* ounces of silver; but if the proportions were altered as proposed, creditors could be compelled to receive in satisfaction of their claims, a *less quantity of gold* than they stipulated for. It is true, that no absolute injury would be sustained by creditors, so long as the new proportions should be maintained in the market, because with the new quantity of gold they could purchase as much silver, as the debtor had contracted at his option to pay. But the case would be widely different in the event of a falling back in the market to the present proportions. All debts would then be paid in gold, and creditors would be compelled to take in discharge of their contracts, a less quantity of gold than they had bargained for.

Whether or not congress possesses the power of enacting laws which shall thus impair the obligation of contracts, it is not necessary here to inquire. Be that as it may; it is a matter of deep concern, to the people of this republic, that their representatives should cautiously shun every measure, which has a tendency to countenance those frauds upon creditors which some European nations have practised, by debasing their coins, or by diminishing their weight without altering the denomination. The *pound sterling* was originally a *pound of standard silver*, which was coined into twenty equal pieces called shillings. The same quantity of silver is now coined into sixty-six shillings, twenty of which are a pound sterling. The *livre* of France, now worth less than nineteen cents, originally was a pound of silver of the French standard, which is *nine-tenths* pure metal and *one-tenth* alloy. Let it never be said, that the *American eagle* contained at one period of time two hundred and seventy grains of gold, eleven parts fine, and one of alloy, and at another, a different weight or a different degree of purity. Although an alteration of our mint proportions, may not be as flagrant a violation of the public faith, as those above referred to, yet we have seen that creditors, by its operation, may be deprived of their just rights, in case of a restoration of the present legal proportions, of one to fifteen, when perhaps, as a remedy for that evil, *the next* step might be to reduce the quantity or to alter the purity of the silver contained in the *dollar*, and thereby authorise a second fraud more odious than the first. Tampering with the metallic currency of the nation is a dangerous employment, and if it be commenced, there is no foreseeing where it may stop.

But it may be asked, is it not necessary that something should be done in relation to our coinage? In answer to this question I would reply, that *if it is at all desirable* that gold coins should be struck at our mint, it should be upon a different principle from that which prevails. The whole present expense of our gold coinage, *is an absolute loss to the nation.* Nearly all the pieces which are coined are exported to Europe, where they are exchanged *for their proper equivalents*, and melted, and thus our mint is occupied at no trifling cost, in assaying and stamping, *free of charge to the owners, the bullion* which our merchants are daily shipping abroad. I would suggest that the further coinage of *eagles* and their fractional parts be abolished, and that authority be given for the coinage of *new* pieces to be called by *new* names, to contain respectively an *ounce*, a *half an ounce*, and a *quarter* of an ounce of standard gold.

Between these pieces and silver no proportionate value should be attempted to be established, but they should be left to find their value in market like all other commodities. The advantage of such coins over the eagles would be, that as every body would soon become acquainted with their weight, without being obliged to resort to books in order to ascertain the precise number of pennyweights and grains contained in them, the mode of estimating their value in silver would soon become familiar, and those who possessed them would have less difficulty in exchanging them for their proper equivalents, than they would have with any coin, of which the weight could not be universally and readily recollected. The circumstance of the British and American standards being the same, would render this course the more advisable. The quotations of the price of gold and silver, which are brought by every ship, would keep us as regularly advised of the value of an ounce of gold, as of a barrel of flour; and there is every reason to believe, that as the fluctuations in the relative value of the two metals are not diurnal or monthly, nor even always annual, the proposed coins would find their way very readily into circulation.

It is a fact, familiar to all who are acquainted with the affairs of the western country, that *depreciated bank notes* pass amongst the merchants there, with perfect facility *for what they are worth;* and to such a system has this practice been reduced, that the newspapers regularly publish the prices current of bank notes at the principal money markets to be referred to as the scale of value. So would it be with gold coins of a well known weight and standard, which might even maintain for a long period together something like a settled proportion to silver. An additional reason why eagles cannot readily pass by weight, is that the idea of their being by law the equivalent of ten silver dollars, is so deeply rooted in the minds of the community, that it would be next to impossible to eradicate it. Those only who understand the subject, or whose trade renders them conversant with it, are acquainted with the true value of an eagle, and they are thereby enabled to take advantage of those who are less enlightened than themselves. But, let a new coin make its appearance of a familiar and well known weight, untrammeled by legal proportions, new views would present themselves to the public, and even common minds would be able to comprehend, what now appears to them to be enveloped in mystery. Suppose further, that this new coin, instead of containing an *ounce*, should contain the precise quantity of gold contained in the sovereign, or true pound sterling, lately emitted from the British mint, what incalculable benefits would not result? The important question of our exchange with England, would be exhibited in its true light, and the whole clamor about the balance of trade, an excess of imports over exports, and the necessity of laws to restrict the former, would cease, and leave our law makers at liberty to study the true interests of the country. It would then be seen, that the high nominal exchange on England is not the result of a balance of trade against us, but chiefly the effect of a change in the relative value of gold and silver, and that the gold pound sterling is the equivalent of 484 cents, and not 444 cents in silver.*

It has been inquired by some, in case such a coin as the one first suggested were authorised, whether it would not be advisable, in order to give it a currency by tale, to declare by law that it should be receivable in all dues to the government, as the equivalent of a fixed quantity of silver? I reply, that such a course would be liable in a great degree to the objections urged against the principle of establishing legal proportions; and I do not conceive that it would be attended with any advantage sufficient to counterbalance the risk of being obliged to take the gold, if at any time it

* When this was written, the exchange upon London in the United States, was at twelve and a half per cent advance.

should so fall in relation to silver, as to make it the interest of the public debtor to discharge his obligations in the former rather than in the latter metal, in which case the government would be a loser of part of its revenue, and, in addition to that, be obliged to become bullion dealers for the purpose of selling the coin paid into the public treasury. It would also be giving a forced currency to a coin, which, if it cannot find its way into circulation by the operation of *natural means*, had better not circulate at all, and would be laying the foundation for a course of legislation, which might ultimately be productive of mischief. If no such law should be enacted, the price of an ounce of gold would regularly conform to the variations of the market, which, being in their nature slight and gradual, could produce a serious loss to nobody. Whereas a law to establish a fixed value in payments to the government might be repealéd at a moment unexpected by those who had received the coins at such valuation, by which a considerable loss might fall upon many, who were not conversant with the principles which determined the proportions.

It has also been asked, upon the supposition of the establishment of new mint proportions conforming to the actual relative value in the markets in Europe of gold and silver, what would be the effect of a *seignorage* on coins, that is, a charge for coinage at the mint, in restraining their exportation? To this question I would reply.

1. That if the seignorage were of an equal per centage upon *both metals*, it would leave the matter where it stood, inasmuch as their relative value would remain the same, as if no seignorage was exacted; and that as regards the question of exportation, the seignorage would be a nullity. The causes which operate upon the precious metals, in driving them from one country to another, have reference only to the *intrinsic worth* of coins, and not to their *denominations*. The quantity of silver contained in a Spanish dollar, would be

just as much subject to the laws of exportation, as it would be, if it was denominated a French crown, and declared by our laws to be the equivalent of 110 cents; and so would an eagle be just as liable to exportation, if it was called by any other name, and declared by law to be the equivalent of eleven dollars.

2. That if the seignorage was charged upon one of them only, it would be difficult to foresee upon which of them it ought to be charged; for in the course of the ensuing five years, it is quite as possible that silver will rise in relation to gold, as that gold will rise in relation to silver.

3. That if it be placed upon gold only, under the impression that goldmight rise still further, it ought to be ascertained, in order to render it effective, how far gold will rise, *which is impossible;* for unless the seignorage be equal to the extent of the departure of gold from the proportions existing at the time of fixing the seignorage, it would be of no avail. A seignorage of six per cent. on the present eagles, had it been originally imposed, would not have prevented their exportation; for at $10 60-100 a-piece, they would constitute a more profitable remittance to Great Britain, than bills purchased at the present rate of exchange.

A very small seignorage on gold, therefore, might answer no purpose, as a measure restrictive of exportation; for if it were limited to one or two per cent. a change in the relative value of gold and silver abroad to that extent, would neutralise it, if gold should become more valuable, whilst a high seignorage would unquestionably be productive of injurious consequences. This will be shown from the following illustrations, founded upon the assumption of *one to sixteen* as the new mint proportions, *deducting five per cent for the seignorage,* the market proportions being also one to sixteen.

First. So long as the market and mint proportions of the two metals remain exactly the same, gold may be coined as fast as it is brought into the country; for if the holder of one hundred ounces can get it *promptly* coined at the mint into ninety-five ounces of pieces, which are declared by law to be a legal tender of the equivalent of sixteen hundred ounces of silver, it will be the same thing to him, whether he does so, or sells it in the market for sixteen hundred ounces of silver.

Secondly. In case gold and silver should vary in the market, and assume a greater difference than the new mint proportions of one to sixteen, *the event attempted to be guarded against*, then no more gold would be sent to the mint; for the possessor of one hundred ounces of that metal, who could exchange it in the market for even a small fraction more than sixteen hundred ounces of silver, would not be willing to have it coined into ninety-five ounces, which he could by law only pass for 1600 ounces of silver. As regards the coins which had been previously emitted, they would continue to circulate, until ninety-five ounces of them would sell *as bullion* for more than 1600 ounces of silver, and they would then be exported, because the possessor of them would in that case be able to sell them in the market for more than their legal value. This event, if the coins were *new*, would happen when the new market proportions should be about *one to seventeen;* but if they were old, clipped, or worn, it would not happen until afterwards.

Thirdly. A high seignorage on gold would operate as a bounty on *counterfeiting*, and might even be sufficient to induce ingenious rogues to manufacture gold coins of full weight and of the true standard.—This might be done to advantage in those countries from which we should derive our gold when restored to circulation, and we might perhaps import eagles of foreign manufacture of lawful weight and purity, at a cheaper rate than that at which they could be procured at our mint, in the same manner as, it is supposed, many a cask of copper cents has been imported.

Fourthly. If, however, on the other hand, gold, instead of *rising*, as is supposed under the second head, should *fall* in the market in relation to silver, and bear the proportion of *one to fifteen*, in that case, great quantities of gold would be sent to the mint to be coined, for the simple reason, that the possessor of one hundred ounces could, by that means, procure ninety-five ounces of coin, equivalent in the payment of debts to sixteen hundred ounces of silver, whereas, by selling his hundred ounces of gold in the market, he could procure but 1500 ounces of silver. In such an event, the silver would leave the country to be exchanged for gold in order to be coined, and in a few months silver coins would be as scarce as gold ones are now, excepting indeed the small ones, which are so diminished in weight by friction, as already to have lost a considerable part of their intrinsic worth.

In addition to the above observations, it must be kept in mind, that all the objections urged against a variation of the mint proportions, as regards the obligation of contracts, apply with equal force against the adoption of a seignorage, inasmuch as creditors would be compelled, in discharge of debts, to accept a less quantity of gold, than they originally stipulated for.

It may perhaps be useful to some readers to know what are the existing proportions in the relative value of gold and silver in the European market. Of this matter we know nothing more at this moment, than what is furnished by the London quotations, which owing to the facility of intercourse, and the cheapness of transportation of the precious metals between that city and the principal continental cities, may be considered as furnishing materials for an estimate, not far from the truth. By dates of November 2, we learn that *dollars* were 4*s*. 9½*d*. per ounce. The mint price of gold, which is also the present market price, is 3*l*. 17*s*. 10½*d*. per ounce. These two prices stand in the proportions of 1 to 16¼ and a small fraction, but as the purity of each metal is not precisely the same, a nice calculation would vary a trifle from these proportions.

HUSKISSON.

B.

HISTORY OF THE GOLD COINAGE OF THE UNITED STATES.

From the Philadelphia Examiner, Vol. 2, of October 15, 1834.

THE GOLD COINAGE.—The party aspect which has been attempted to be given to the bill passed by Congress in the month of June last, altering the relative value of gold and silver, has rendered the present moment rather unpropitious for an investigation into its real merits. Like the American system, it is looked upon as a measure by which one's devotion to a particular *man* is to be tested; and the same repugnancy to listen to arguments against the tariff, which, a few years ago, was exhibited by the friends of Mr. Clay, is now displayed as regards listening to arguments against the gold bill, by the friends of General Jackson. It is true, that all who approved the gold bill were not friends of General Jackson, and that all who opposed it were not his foes, but as the vote in congress was made, in a great degree, a party vote, the party which so turned it to account are using every effort to reap the fruits of their policy. Truth, however, has a power which no party management can permanently counteract, and the time will come when those who now think that an act of congress has showered gold upon the country, will lament the blindness which prevented them from foreseeing its baneful effects.

Our present design is to make a few remarks on the subject of the coinage, and as we have no party ends to answer, nor no private interest to consult, we shall examine the subject purely as a question of science, with the design of giving to those who desire thoroughly to understand the true state of the case, the elements of an investigation.

Gold and silver, like all other commodities, have an exchangeable value. This exchangeable value, too, like that of all other commodities, is regulated by the cost of production, and by the proportion which the supply bears to the demand, and hence these metals differ in nothing from other commodities in this particular.

If gold and silver could be dug out of the mines, be separated from the ore, be smelted and refined at one half the actual cost, or, if they were as abundant as iron and lead, it is manifest that their exchangeable value would be greatly diminished; that is, they would exchange for a much less quantity of other commodities, than they can now be exchanged for. Each one of these metals, however, is subject to its own particular laws, and each one stands in relation to all other commodities, in regard to exchangeable value, precisely as any other commodity stands in reference to all the rest.

Between gold and silver, therefore, there is not any fixed proportion as to value, established by nature, any more than there is a fixed proportion established by nature, between lead and iron, or between wheat and tobacco. Nature does not say, that one ounce of gold shall always be worth so many ounces of silver, any more than she says, that a certain number of pounds of iron shall always be worth so many pounds of lead, or, that a bushel of wheat shall always be worth a fixed quantity of tobacco. The truth of this proposition must be self-evident to every intelligent mind, and we shall not, therefore, enlarge upon it.

Taking it, therefore, for granted, that the reader admits these premises, the next position to be laid down is, that it is not in the power of human legislation to establish any fixed, unalterable proportions between the value of any two commodities in existence. It is not in the power of human laws to establish that one ounce of gold shall permanently be worth a certain number of ounces of silver, any more than they can fix the proportions at which iron and lead, or wheat and tobacco, shall be permanently exchangable for one another. Laws may indeed undertake to prescribe what they shall be, but such laws are founded in absurdity, and had their origin in days of ignorance, when the lights of political science had scarcely begun to shine.

It is true, however, that the relative value of gold and silver in the market of the trading world, is not so liable to fluctuation within short periods, as that of most, or all other commodities. It sometimes remains for years without alteration, but this is no evidence that there are not alterations, and the mere fact of a change within the last twenty years of six per cent., affords an unanswerable argument against the expediency of legal adjustment. For how do we know that in the next twenty years the proportions may not fall back to the old ratio, or advance six per cent. still further? It is also true, that the regulations of governments have an influence upon the relative market value of the two metals. They may drive either metal out of circulation, by rating it too low in reference to the mint price of the other, and thus diminish the demand for it in their respective countries, which effect cannot take place without disturbing the market proportions in all other countries. But this is rather a reason why governments should not interfere, than that they should interfere, inasmuch as greater fluctuations might take place, than would take place from the operation of natural causes alone. Thus, suppose that all the governments of Europe should be seized with the silver mania, as ours has been with the gold mania, and establish their mint proportions at such a ratio as would drive gold out of circulation, and substitute silver in its place, is it not evident that such a measure would enhance the value of silver in Europe as exchangeable for gold, and thus materially influence their relative value? The precise effect of the various mint regulations of the different countries in the world, upon the relative value of gold and silver in the general market, could not be easily ascertained, nor is it essential to our inquiry that it should be.

In the year 1792, when the mint of the United States was about being established, and when bank notes were little known, and intercourse between distant points of the country not easily carried on, it was natural that the people, who before the revolution, had been acquainted with guineas, and had still strongly impressed on their memories the fatal influence of the continental paper money, should desire again to see gold coins in circulation, if for no other purpose than the convenience of transmission. The expediency of adopting one only of the precious metals as the standard of the money of the country, leaving the other to find its relative value by the laws of competition, was not at that time decided, nor, indeed, is it probable that the importance and sound policy of adopting such a measure, was at that day apparent to many. It was accordingly resolved, that gold as well as silver coins should be struck at the mint; and in fixing the relative value of the two metals, *one* to *fifteen* was considered to be the ratio which would establish an equivalent currency, and it was accordingly provided, in the act of 2d of April, of that year, that in the coins of the United States, *one ounce* of pure or fine gold, should be the equivalent of *fifteen* ounces of pure or fine silver.*

It so happened, that for some years after the passage of this law, the *market* proportions abroad, as well as at home, continued to correspond with the *mint* proportions, so that the two metals were both retained in circulation at the legal ratio. Neither one was worth for exportation more than the other, and hence an *eagle* and *ten dollars* were convertible terms, and at the banks either could be obtained in exchange for notes, at the option of the holder.

It was in the early part of the year 1818, when the subject of the resumption of cash payments by the Bank of England (which had been suspended since 1797) occupied the attention of the British public, and prepared the way for the act of Parliament to that effect, which was adopted in 1819, that a change in the relative value of gold and silver in the market of the trading world, first became generally apparent in the United States. One ounce of gold, from the operation of that or other causes which disturbed the then existing proportions between supply and demand, became worth more than fifteen ounces of silver. In cases, therefore, where remittances of coin were made from the United States to England, gold was preferred to silver, for the simple reason that a gold eagle, which could be obtained here for ten silver dollars, could, in London be converted into more pounds, shillings and pence, than ten silver dollars.

This fact of the exportation of the gold coins did not pass unobserved, however, by those who had made the subject of coinage and currency a study. The matter was introduced to the notice of congress

* The weight of the eagle was fixed at 247 50-100 grs. fine, and 270 grains standard gold. The weight of the dollar at 371 25-100 grains fine, and 416 standard silver. The standard of gold was fixed at 22 carats, that is, 11 parts fine, to 1 part alloy. That of silver at 1485 parts fine, to 179 parts alloy.

by Mr. Lowndes, at so early a period as the 27th of November, 1818, when a resolution submitted by him was adopted by the house of representatives, in the following words:

"*Resolved*, That a committee be appointed to inquire whether it be expedient to make any amendments in the laws which regulate the coins of the United States and foreign coins."

On the 26th of January, 1819, Mr. Lowndes, as chairman of the committee appointed under this resolution, made a detailed report, favorable to a change in the mint proportion. This report was accompanied by a bill, providing as follows.

1. That there should be retained by the mint as seignorage, from every 371 grains and 25-100 of a grain of fine silver, (the weight of the dollar established by the act of 2d April, 1792,) the quantity of 14 grains and 85-100 of a grain, so as to reduce the weight of the dollar to 356 grains 40-100 of a grain of fine silver, and to 399 36-100 grains standard silver. Small coins to be in the same proportion.

2. That the Eagle should be reduced from 247½ grains of fine gold, or 270 grains standard gold (the weight established by the act of 2d April, 1792), to 237 98-100 grains fine, and 259 61-100 grains standard gold, and small coins in proportion. No deduction to be made of the quantity delivered at the mint for seignorage as in the case of silver, but the expense of refining all gold and silver below the mint standard to be paid by the owner.

Prior to this report, a communication was made, on the 6th of January, in pursuance of a call from the senate, by Mr. Crawford, secretary of the treasury, accompanied by a letter from Robert Patterson, Esq., director of the mint, dated 28th December 1818, in which that gentleman, adverting to the exportation of the gold coins, recommended a change in the relative value of *ten* per cent, which, had it been adopted, would have expelled every silver dollar and half dollar from the country, in the course of a single year.

Neither of these suggestions was acted upon, nor was the subject resumed at the next session of congress. On the 2d of February, 1821, however, a second report was presented to the house of representatives, by Mr. Whitman, on the part of a committee to which had been referred a resolution directing an inquiry. This report was also accompanied by a bill, simply providing for the reduction of the eagle and its fractions to the weight prescribed by the bill of Mr. Lowndes, leaving the silver coins untouched. This reduction was equal to an increase in the value of gold of 4 per cent. which was at that time considered to be equal to the change in the relative value between that metal and silver, which had occasioned the exportation of the eagles. This is proved by the report, which advances as an argument in favor of the change, that three half eagles, worth in the United States, $15, were worth in Spain or Portugal, $16, in France, $15½, and in England $15 1-5. This bill like its predecessor, remained without being acted on, and the exportation of gold coins continued until early in the year 1822, when not one was to be seen in circulation, although six millions of dollars had been coined at the mint, of which $1,319,030 were struck in 1820, and $185,325 in 1821. Had the measure then recommended been adopted, the bill would have proved inoperative, for at a subsequent period, a greater change than four per cent. in the relative value of gold and silver took place, which has ever since continued to exist, and which would have carried off the new coins.

The death, in the year 1822, of Mr. Lowndes, who was one of the few individuals in congress who had turned his attention to the subject of the coinage, and the reluctance of that body to intermeddle with a subject of so delicate a nature, jointly combined to postpone for a time all legislative action on the subject. The facilities of remittance afforded by bank notes and bills of exchange, and by improvements in rail-roads and steamboats, obviated entirely the necessity of a gold currency; and as the natural course of things, without any breach of public faith or violation of private contracts, had placed the country in the desirable situation of having but one legal tender, we should possibly have for many years remained in that situation, had it not been for a fresh occurrence, by which fancied private interest was brought to bear upon congress. That occurrence was the discovery of gold in North Carolina, and other southern states, respecting which, the following short notice, derived from the annual report of the director of the mint, of January 1, 1831, may be interesting.

"In the last annual report, the progressive development of the gold region of the United States was illustrated by referring to the increase of the annual receipts from North Carolina, which previous to 1824 had been inconsiderable, but from that year to 1829, inclusive, had advanced from $5000 to $128,000: and also to the then novel occurrence of gold having been received at the mint from Virginia and South Carolina, about $2500 having been received from the former, and $3500 from the latter. The past year exhibits in relation to all those states, a conspicuous increase in the production of gold, and presents, also, the remarkable fact of $212,000 in gold received from Georgia, from which state no specimen thereof had been presented at the mint in any previous year."

In the report of January, 1834, the director gives the following statement of the amount of gold received at the mint from the southern states, in the years mentioned, stating at the same time, that he has reason to believe that in the two last years not more than half the gold produced in the country had been received at the mint, the residue having been consumed in manufactures, or exported in bullion.

1824, - - - - -	5,000
1825, - - - - -	17,000
1826, - - - - -	20,000
1827, - - - - -	21,000
1828, - - - - -	46,000
1829, - - - - -	140,000
1830, - - - - -	466,000
1831, - - - - -	520,000
1832, - - - - -	678,000
1833, - - - - -	868,000
	$2,781,000

This gradually increasing production of gold at the south, engendered precisely the same spirit as the increased production of iron had done at the north. The owners of the gold mines cried out for legislative protection, as the owners of the iron mines had previously done, and laws were solicited to enable the former to get more for their gold, or rather for the rent of their land, than they could otherwise have obtained, just as laws were solicited to enable the latter to get more for their iron, or for the rent of their land, than they could otherwise have obtained. This influence annually increasing in strength, constituted a powerful element towards a revival of the scheme of changing the relative value of gold and silver, the history of which is as follows:

On the 29th of December, 1828, Mr. Sanford of New York introduced in the senate of the United States, a resolution which was adopted in the following words, viz:

"*Resolved*, That the secretary of the treasury ascertain, with as much accuracy as possible, the proportional value of gold and silver in relation to each other; that he state such alterations in the gold coins of the United States as may be necessary to conform those coins to the silver coins in true legitimate value, and that he report at their next session."

On the 9th of December, 1829, the same gentleman offered another resolution, which was agreed to, in the following words:

"*Resolved*, That a select committee be appointed to consider the state of the current coins, and to report such amendments of the existing laws concerning coins as may be deemed expedient."

In compliance with this resolution, Mr. Sanford, on the 11th of January, 1830, made an able report, containing a fund of interesting and useful scientific matter in reference to gold, silver, and copper coins, leaving the question of a change in the relative value of gold and silver, unnoticed, with the view, no doubt, of waiting for the communication of the secretary of the treasury, called for on that subject.

That communication was made by Mr. Ingham on the 4th of May, 1830, under the title of a "report from the secretary of the treasury, respecting the relative value of gold and silver, &c."—It was drawn up with great ability, and was the result of much scientific and historical research, eventuating in a conviction on the mind of the secretary, that it was not clearly advisable to act on the subject, but recommending, for reasons given at length, that if congress should otherwise decide, the ratio of 1 to 15.625 would be as near as could be ascertained, the proportions between the two metals which would make them circulate interchangeably.

On the 9th of December, 1830, Mr. Sanford renewed his resolution of the preceding session, which was adopted as follows:

"*Resolved*, That a select committee be appointed to consider the state of the current coins, and to report such amendments to the existing laws concerning coins, as may be deemed expedient."

In conformity with this resolution, Mr. Sanford, as chairman, of the committee, reported, on the 15th of the same month, a bill entitled "An act concerning the gold coins of the United States." This bill reduced the weight of the eagle (and of halves and quarters proportionally) from 270 grains standard gold, to 254 grains and 38-53 parts of a grain, being an augmentation of the value of gold, as compared with silver, of near 6 per cent. This bill passed the senate on the 14th of January, 1831, but was not acted upon by the house of representatives. We are not aware that any change was made in its provisions, or that any opposition was made to its passage, in the senate.

During the same session of congress, viz: on the 23d of December, 1830, Mr. Campbell White, of New York, introduced into the house of representatives, a resolution which was adopted as follows:

"*Resolved*, That a select committee be appointed to inquire into the expediency of providing by law, that dollars, of the new American Governments, and five franc pieces, shall be a legal tender in the payment of all debts and demands; and also, whether any additional regulations are necessary, relative to the re-coinage of foreign silver coin at the mint; and that said committee have leave to report by bill or otherwise."

In March, 1831, Mr. White made a report in pursuance of the foregoing resolution, in which the expediency of having only one standard, and that silver, was urged, and the proportion of 1 to 15.625 between gold and and silver recommended, in case congress should resolve upon a change in the relative value.

On the 15th of December, 1832, Mr. White renewed his motion for the appointment of a committee on coins, which was adopted.

On the 7th of May, 1832, Mr. Wilde, of Georgia, offered a resolution instructing the committee on coins to make some further inquiries; which was adopted, with the following amendment, proposed by Mr. Verplanck;

"And also to inquire into the expediency of making silver the only legal tender, and of coining and issuing gold coins, of a fixed weight and fineness, which shall be received in payment of all debts to the United States, at such rates as may be fixed from time to time, but shall not be otherwise a legal tender."

The session, however, having terminated without any act on the subject, Mr. Root, of New York, submitted some resolutions on the 14th December, 1832, which were adopted, calling upon the director of the mint for information concerning the relative value of gold and silver, which was furnished in a report from that officer on the 14th of January following. Nothing however, was done, until the 28th of June, 1834, when the bill in question became a law.

It thus appears that the matter had been kept in the view of congress for fifteen years, without eventuating in any legislation, and the question naturally presents itself, what could have been the reason why a matter now considered to be so important to the country, should have been so long neglected? To this question, we can give a ready reply. The matter had not been made *a party question*, and being regarded as one of those measures which involved the good faith of the government, and the stability of property, all parties were disposed to approach it with great caution, as it behooved them to do.

The arguments employed before the passage of the bill against interfering with the subject, may be simply summed up as follows:

1. That it is a dangerous policy for governments to tamper with their coinage, as is proved from the fact that the British *pound* sterling, which will now purchase only about four ounces of silver, was originally a *pound* of standard silver, and that the French *livre*, which is now worth only 19 cents, was, as its name imports, originally a *pound* of silver; and that it was to be feared, that, if congress did to day diminish the weight of the gold eagle, it might to-morrow diminish the weight of the silver dollar, and thus cheat all public and private creditors out of a part of their property.

2. That no law could prevent the fluctuations in re-

lative value to which gold and silver are liable, in common with all other commodities, and that a law made to-day might prove inoperative to-morrow, or what would be worse, might require to be changed so frequently, as to leave the coinage of the country in a disturbed or unsettled state, highly prejudicial to that confidence between man and man, which ought to exist in reference to contracts for future payments.

3. That it is an absurdity to have more legal tenders than one, from the impossibility of establishing an immutable equivalency between two; and that as silver was better known to our citizens than gold, especially to the great body of the laboring people, was more convenient for small payments, was less liable to be counterfeited, and was the money in which most contracts for future distant payments were stipulated to be made, it would be unwise to enact a law the effect of which might be to expel all the silver from the country.

4. That if a new proportion corresponding to the present market proportion, were to be adopted, and it should so happen that the market proportion should hereafter fall back towards the rate of 1 to 15, the inevitable effect would be to drive the silver out of the country whenever the course of trade should warrant exports of coin, and for the identical reason that gold had been before driven out.

5. That a law declaring that an existing debt for $10, which, at the time of the contract, meant ten silver dollars, or a gold coin weighing 247½ grains of fine gold, shall now be discharged with a gold coin retaining the same name, but weighing only 232 grains of fine gold, is a law impairing the obligation of contracts and is a breach of the public faith as relates to all public creditors and salary officers.

6. That should the event take place of silver being driven out of the country, its absence would be most sensibly felt in all the small money transactions of the community, owing to the inconvenience, even if they

could be had in sufficient abundance, of a gold coin of so low a denomination as one dollar.

7. That this inconvenience would press so heavily upon the public, that they would call out for a change in the laws, or what is quite probable, that they would fly to *one dollar bank notes*, as a remedy for the evil, and thus render the currency as bad as it was in 1816, in those states where the banks did not pay their notes in coin.

8. That if congress should, in order to prevent this calamity, alter the law, it would not be by increasing the weight of the eagle, but by diminishing the weight of the dollar, and thus, we should lay the foundation for a gradual depreciation of the currency, which at some future day might be employed to the perpetration of the same species of frauds upon public and private creditors, as have marked the course of all governments that have tampered with their coinage.

We are aware that in making these remarks we are treading upon the toes of many of the readers of this Journal in Georgia and North Carolina, and other states where gold is produced, who will not relish a doctrine that *seems* to be at war with their pecuniary interests. We can not, however, permit our reverence for what we conceive to be the truth, to be smothered by any private considerations. We would have prevented the passage of the gold bill, had we been able, believing it to be pregnant with great future evils to the country, and unattended with one single benefit to compensate for the mischief it is likely to produce. We think we can demonstrate, that as a means of breaking up the paper system, it is utterly futile, and that as a means, of putting money into the pockets of the owners of gold mines, beyond that inappreciable sum resulting from the increased value given to the whole supply of gold in the commercial world by the new demand for the American circulation, it will be found wholly delusive. We have, however, said enough for one occasion, and shall resume the subject hereafter, simply remarking, that by the bill, recently passed, a change has been made not only in the weight of the eagle, but in the *standard* also; the eagle *now* containing 232 grains pure, and 258 grains of the *new standard*, which is 21.58 and a small fraction carats fine, instead of 22, which is a *debasement of one and three quarters per cent.*

The gold coinage again.

From the same, of October 29, 1834.

In a former article on this subject, we stated that the discovery of gold in our southern states, and the gradually increasing production of that metal since the year 1824, had occasioned an influence to be exercised upon congress, to which might be ascribed, in a great degree, the passage of the recent law, changing the relative value of gold and silver, from 1 to 15 to 1 to 16 and a fraction. In that article we also stated, that by this change the owners of the gold mines would derive no benefit beyond that resulting from the trifling increase in the value of gold which would be experienced throughout the commercial world, owing to the increased demand for the currency of the United States. We proceed now to prove that position, believing that as much error is prevalent on that subject at the south, as there exists at the north in reference to the benefits resulting from legislative interference with the domestic production of iron.

The common notion prevailing, and that which has been most extensively urged by those who have made the gold coinage *a party question*, is, that the producers of gold are now enabled to get 6 2-3 per cent. * more for their gold than they used to get under the old law, seeing that 232 grains of pure gold are now declared to be the equivalent of *ten dollars*, whereas, under the old law, 247½ grains were the equivalent of that sum. This assertion would have been true, had the old law prohibited the producers of gold from receiving for their gold more than ten dollars for every 247½ grains; but this was not the case. From the very first moment that gold made its appearance in North Carolina, up to the present time, it has commanded a price in the market above the mint price; that is, one ounce of gold has exchanged for more than fifteen ounces of silver, or, what is the same thing, 247½ grains of pure gold have been exchanged for more than ten dollars. We have no official data to refer to, by which we can ascertain precisely the price at which gold has been sold at different periods at the different mines, but it is fair to presume, that it was as near to the Philadelphia market price as it is now, and as it will hereafter be. If, then, we can ascertain what has been the Philadelphia market price since the year 1824, we shall be able to throw some light on this subject, for let it be remembered, that whatever that price has been, it has gone into the pockets of the producers of gold, deducting the expense of transportation to Philadelphia, where the mint is located—an expense which must be borne by them hereafter, as heretofore. Fortunately upon this point we have evidence that no one will dispute, for, as it comes from a strong advocate of the gold bill, it can not be suspected of unfairness.

From the Washington Globe.

"The following statement of actual sales, made by the United States Bank, will show how she has sold *foreign gold:*

* The precise per centage is 6.681, which is a fraction more than 6⅔.

	Guineas. per cent.	Sovereigns. per cent.	Portugues Gold. per cent.
Jan. 5, 1828,	9½	10	6½
Jan. 3, 1829,	8¼	8½	5½
Jan. 2, 1830,	7¾	8¾	4½
Jan. 4, 1831,	5¼	6⅛	3
Jan. 4, 1832,	8¾	8¾	5½
Jan. 3, 1833,	7	7	3¼

"These are a few only out of thousands of sales made by the Bank of the United States. They go as high as ten per cent."

Here, then, we see it shown that foreign gold has been sold by the Bank of the United States, at the periods mentioned, at a premium varying from 3 to 10 per cent. The reason why British gold sold higher than Portuguese gold, which is of the same standard, (22 carats fine, that is, 11 parts pure metal to one part alloy), is, that guineas and sovereigns are cash immediately on their arrival in England, even though somewhat lighter than full weight, whereas, Portuguese gold would be available only as bullion. Now, as American gold coins at the periods referred to were of the same standard as the Portuguese, and, like them, only available in foreign countries as bullion, it is fair to presume that the price of American gold was, in the Philadelphia market, the same as that of the Portuguese.

It would, then, appear, that American gold was worth, in Philadelphia, from 1828 to 1833, a premium varying from 3 to 6½ per cent., or *upon an average*, a fraction above 4½ per cent. In other words, we see that *one* ounce of gold has uniformly been sold for more than *fifteen* ounces of silver, and in one case for very near *sixteen* ounces. Now it must be apparent, that unless the producer of gold gets for his commodity at the mint 6 2-3 and a fraction per cent. more than he used to get in the market, he is not a gainer by the change to the extent asserted. But the new mint price is only 6.681 per cent. more than the old mint price, while the price in the market, upon the average of years quoted, was 4½ per cent. more, and, of consequence, the real advantage to the producer of gold can not possibly have been more than 2.181 per cent., that being the difference between the two rates of premium.

It is not an answer to these positions to say, that the price of gold in the market since October 1833, in consequence of the derangement of commerce and the currency, has been as low, at times, as four, three, two or one per cent., and even less, and thus the benefit to the producer of gold is consequently equal to the difference between those rates and 6.681 per cent. A temporary and unnatural state of things, is not a basis for sound conclusions, and can not, therefore, be admitted into a discussion of general principles.

It would *appear*, however, that although the gain to the producers of gold by the new law was not as much as has been alleged, yet that upon our own admission, it was equal to 2.181 per cent. In other words, it would *appear*, as if the mint afforded a constant market at a steady price, 2 per cent. and a fraction higher than used to be obtained in the market under the old law. Let us examine minutely into this, and see how the fact is.

The *old* mint price of pure gold was $19,39,4-10 cents per ounce of 480 grains, as may be ascertained from the fact that 247½ grains, [the weight of pure gold in an eagle of the old coinage] was the equivalent by law of ten dollars.* The market price, therefore, of pure gold between the years 1828 and 1833 at 4½ per cent. premium, was $20,26 6-10 cents per ounce, which was, consequently, the price that the producer of gold used to get for his commodity in the Philadelphia market.

The *new* mint price of pure gold is $20,69 cents per

* If 247½ grains are equal to $10, 480 grains are equal to $19,39,4.

ounce of 480 grains as may be ascertained from the fact that 232 grains (the weight of pure gold in an eagle of the new coinage) is the equivalent by law of 10 dollars.*

The difference between these two prices is 42 cents and 4-10ths of a cent per ounce, which is equal to 2 per cent. and a fraction, and it thus still *appears* that the present mint price is that much higher than the old market price, and consequently that the producer of gold gains 2 dollars and a fraction on every 100 dollars by the new proportion.

We say *it appears* so, and for the simple reason that *the fact* in reality is not so. To prove this, we must ascertain whether the 20 dollars 69 cents spoken of as the present price of an ounce of pure gold, are the same kind of dollars as those spoken of, where $20,26 6-10 are stated to have been the price of pure gold under the old law. For it must be very evident that the term *dollar* is in itself no sign of fixed quantity or value, and that as quantities and values are the things regarded in all sales and purchases, and not mere denominations, it is absolutely necessary that this point should be determined before any correct opinion can be formed.

Under the *old* law, a dollar was represented by a silver coin containing 416 grains of standard silver, or, by 24 grains and 75-100 of a grain of pure gold, that being the tenth part of the quantity of pure gold contained in an eagle of the old coinage.

A dollar under the *new* law is represented also by 416 grains of standard silver, or, by 23 grains and 20-100 of a grain of pure gold, that being the tenth part of the quantity of pure gold contained in an eagle of the new coinage.

It thus appears that the dollar spoken of at the two different periods, contains the same quantity of silver, but a different quantity of gold, and it is therefore evi-

* If 232 grains are equal to $10, 480 grains are equal to $20,69.

dent that the producer of gold, when he sells one ounce of that metal for silver coins, gets 2 per cent. and a fraction more than he used to get, but when he sells it for gold coins he gets only the same quantity of gold that he used to get. For, in the first case, he gets for his ounce 20 dollars 69-100 of a dollar, each weighing 416 grains standard silver, that is 8607 grains, instead of 20 dollars and 26-100 of a dollar and a fraction, that is 8430 grains standard silver, the price he used to get; and in the second case he gets for his ounce a number of gold coins of a particular weight, and standard, which contain 480 grains of pure gold (that being what the mint is obliged to give for an ounce of pure gold) instead of a number of gold coins of a different weight and standard, but containing precisely the same number, that is, 480 grains of pure gold, which he could have received at the mint, had he taken it there, in preference to selling his gold in the market.

But it may be said, that although this be true, that is, although it be true that the producer of gold can get no more pure gold in coin for an ounce of pure gold in bullion, under the new law, than he used to get under the old law, yet that with his 480 grains of pure gold in coin, received at the mint for one ounce of pure gold, he can procure from the banks or from individuals, 8607 grains of standard silver, so that it amounts to the same thing whether he sells his ounce of metal for gold or silver. This would be true unquestionably, if the fact were as supposed that 8607 grains of standard silver could be permanently purchased for 480 grains of pure gold. That it can be thus purchased, at this time, will not be denied, but that it can permanently remain procurable at that rate, is not admitted. It is not possible for two metals, long to circulate interchangeably at a *legal* equivalency, if there be not at the same time, a *market* equivalency. The dearer one will inevitably be exported whenever the course of trade leads to the exportation of coin, leaving the cheaper one to supply the channels of circulation. Thus in the case before us, whenever exchange shall rise so high as to render it more profitable for an importing merchant to export bullion than to buy a bill, he will export silver, as being more valuable abroad, in consequence of its being undervalued at home, and on the other hand, whenever the course of trade invites the importation of bullion, gold will be imported, because it is overvalued by our laws. Nothing indeed can prevent in process of time the almost complete draining of the country of all its large silver coins of full weight under the present law, if the relative value of gold and silver in the market of the trading world, should continue the same as it now is, or fall back towards the old proportion of 1 to 15.

A gold standard then instead of a silver one, may be fairly considered as the one which must ultimately prevail in the United States, and consequently the gold dollar of 23 2-10 grains of fine gold, and not the silver dollar of 416 grains standard silver will be the money of account, and coin in which bank notes will be payable. When this state of things then arrives, what will the producer of gold in the southern states have gained by the change in the relative value of gold and silver? Positively nothing. He will not be enabled to exchange an ounce of gold for any more commodities than he used to do before the alteration of the coinage.—When people sell goods for gold, they sell them for specific quantities of gold, and not for the jingle it will make, or, for any title it may bear. If a law were to declare that *a dollar,* instead of containing 416 grains of standard silver, should contain but half the quantity, that is, 208 grains, and should be a legal tender at that weight, the consequence would be, that every man who had an article for sale worth *one* dollar before the enactment of the law, would refuse to sell it for less than *two* dollars. The same would be the case, whatever the diminution of weight might be. If 5 per cent. were deducted from the weight of coins, all commodities would rise in price 5 per cent. Nobody would gain by the change, except the class of debtors owing money at the time, and nobody would lose, but the class of creditors, the former by being enabled to discharge a debt with less metal than they had contracted to pay, and the latter by being compelled to accept it. But all new contracts and engagements would have reference to the new coins, which would possess a value precisely in proportion to the quantity of pure metal contained in them.

It may, however, be thought that during the time which must elapse before the standard is changed from silver to gold, by the expulsion of the silver, the producer of gold would be benefitted to the extent of two per cent. and a fraction, by his ability to obtain 8607 grains of standard silver for an ounce of pure gold. But this is not so, for the effect of the law is to *depreciate* the value of the silver down to the level of the gold, for, let it be remembered, that to *increase* the price of gold, which was the design of the gold bill, is to *decrease* the price of silver. The law which says, that a number of gold coins which contain one ounce of pure gold, shall pass for no more than the number of silver coins that contain 8607 grains of standard silver, at the same time declares, that the number of silver coins which contain 8607 grains of standard silver shall pass for no more than the number of gold coins that contain one ounce of pure gold. So long, therefore, as the two metals circulate interchangeably, the one possesses no more value in exchange, than the other, and consequently, a number of coins containing 8607 grains of standard silver, will purchase no more than a number of coins containing one ounce of pure gold. It is only for exportation, or consumption in manufactures, that the silver would possess the superior value referred to, and this superior value would benefit only the exporting merchant, and not the producer of gold. It is true, however, that after silver should have become scarce, it would command a premium in the market, as gold used to do, in which case 8607 grains of standard would no longer be procurable for one ounce of pure gold, and consequently the producer of gold would not have even the shadow of a benefit from the change.

Is there then no advantage to result to the southern producers of gold, from the operations of the measures of the great alchymists who have brought back the golden age? We reply, none whatever, except that trifling and almost inappreciable one to which we adverted at the commencement of this article, arising from the fact, that a new demand for gold has been created by its adoption as the American standard. What this will amount to must be conjectural, but we should suppose, when we advert to the actual stock of gold coin and bullion now in existence in Europe, Asia, Africa, North and South America, the accumulation of centuries, that the demand for the American market can have no *perceptible* influence in raising the value of the whole mass.—Whatever that rise may be, however, it will go to the benefit of the domestic producer of gold, but that is all he will derive from a measure fraught with infinite mischief to the country, and accompanied by a breach of the public faith.

NOTE.

After writing the foregoing article, we were furnished by a respectable broker of this city, with a statement of the price of American gold, during the years for which we have above given the prices of foreign gold, which is as follows:

	Buying price. per cent. prem.	Selling price. per cent. prem.
1828, Jan. 19,	5 to 5½	7
1829, " 1,	5 to 6	6½
1830, " 1,	3½ to 4½	5

1831,	"	1,	$2\frac{1}{2}$ to 3	4 to 5
1832,	"	13,	$2\frac{1}{2}$	$3\frac{1}{2}$

An average of these rates is $3\frac{3}{4}$ for the buying price, and 5 per cent. for the selling price, giving a medium of $4\frac{3}{8}$ per cent. which is sufficiently near to $4\frac{1}{2}$ per cent. for our purpose.

C.

CONDENSED STATEMENT OF THE CONDITION OF ALL THE BANKS IN THE UNITED STATES, AT DIFFERENT PERIODS.

From the Reports of the Secretary of the Treasury.

Date.	Number of banks from which returns are received.	Number of banks the affairs of which are estimated.	Total number of banks	Loans and discounts.	Specie.	Circulation.	Deposites.	Capital.
January 1, 1811,	51	38	89		$15,400,000	$28,100,000		$52,601,601
" 1815,	120	88	208		17,000,000	45,500,000		82,259,590
" 1816,	134	112	246		19,000,000	68,000,000		89,822,422
" 1820,	213	95	308		19,820,240	44,863,344	$35,950,470	137,110,611
" 1830,	282	48	330	$200,451,214	22,114,917	61,323,898	55,559,928	145,192,268
" 1834,	406	100	506	324,119,499		94,839,570	75,666,986	200,005,944
" 1835,	515	43	558	365,163,834	43,937,625	103,692,495	83,081,365	231,250,337
" 1836,	559	8	567	457,506,080	40,019,594	140,301,038	115,104,440	251,875,292
" 1837,	632	2	634	525,115,702	37,915,340	149,185,890	127,397,185	290,772,091
" 1838,	663		663	485,631,687	35,184,112	116,138,910	84,691,184	317,636,778
" 1839,	662		840*	492,278,015	45,132,673	135,170,995	90,240,146	327,132,512
" 1840,	661	61	901*	462,896,523	33,105,155	106,968,572	75,696,857	358,442,692

* In these two years, the number of branches is included.

D.

THE NEW YORK GENERAL BANKING LAW.

AN ACT TO AUTHORISE THE BUSINESS OF BANKING PASSED APRIL 18, 1838.

The people of the State of New York, represented in senate and assembly, do enact as follows:

§ 1. The comptroller is hereby authorised and required to cause to be engraved and printed in the best manner, to guard against counterfeiting, such quantity of circulating notes, in the similitude of bank notes in blank, of the different denominations authorised to be issued by the incorporated banks of this state, as he may from time to time deem necessary to carry into effect the provisions of this act, and of such form as he may prescribe. Such blank circulating notes shall be countersigned, numbered, and registered, in proper books to be provided and kept for that purpose in the office of said comptroller, under his direction, by such person or persons as the said comptroller shall appoint for that purpose; so that each denomination of such notes circulating shall all be of the same similitude and bear the uniform signature of such register; or one of such registers.

§ 2. Whenever any person or association of persons, formed for the purpose of banking under the provisions of this act, shall legally transfer to the comptroller any portion of the public debt now created or hereafter to be created by the United States or by this state, or such other states of the United States as shall be approved by the comptroller, such person or association of persons shall be entitled to receive from the comptroller an equal amount of such circulating notes of different denominations, registered and countersigned as aforesaid; but such public debt shall in all cases be, or be made to be, equal to a stock of this state, producing five per cent. per annum, and it shall not be lawful for the comptroller to take any stock at a rate above its par value.

§ 3. Such person or association of persons are hereby authorised, after having executed and signed such circulating notes in the manner required by law, to make them obligatory promissory notes payable on demand, at the place of business within this state, of such person or association, to loan and circulate the same as money according to the ordinary course of banking business as regulated by the laws and usages of this state.

§ 4. In case the maker or makers of any such circulating notes countersigned and registered as aforesaid, shall at any time, hereafter, on lawful demand during the usual hours of business, between the hours of ten and three o'clock, at the place where such note is payable, fail or refuse to redeem such note in the lawful money of the United States, the holder of such note making such demand may cause the same to be protested for non-payment by a notary public, under his seal of office in the usual manner; and the comptroller on receiving and filing in his office such protest, shall forthwith give notice in writing to the maker or makers of such note to pay the same: and if he or they shall omit to do so for ten days after such notice, the comptroller shall immediately thereupon, (unless he shall be satisfied that there is a good and legal defence against the payment of such note or notes,) give notice in the state paper that all the circulating notes issued by such person or association will be redeemed out of the trust funds in his hands for that purpose; and it shall be lawful for the comptroller to apply the said trust funds belonging to the maker or makers of such protested notes to the payment and redemption of such notes, with costs of protest, and to adopt such measures for the payment of all such circulating notes put in circulation by the maker or makers of such protested notes, pursuant to the provisions of this act as will in his opinion most effectually prevent loss to the holders thereof.

§ 5. The comptroller may give to any person or association of persons, so transferring stock in pursuance of the provisions of this act, powers of attorney to receive interest or dividends thereon, which such person or association may receive and apply to their own use; but such powers may be revoked upon such person or association failing to redeem the circulating notes so issued, or whenever, in the opinion of the comptroller, the principal of such stock shall become an insufficient security; and the said comptroller, upon the application of the owner or owners of such transferred stock in trust, may, in his discretion, change or transfer the same for other stocks of the kind before specified in this act, or may retransfer the said stocks or any part thereof, or the mortgages, or any of them hereinafter mentioned and provided for, upon receiving and cancelling an equal amount of such circulating notes delivered by him to such person or association, in such manner that the circulating notes shall always be secured in full either by stocks or by stocks and mortgages, as in this act provided.

§ 6. The bills or notes so to be countersigned, and the payment of which shall be so secured by the transfer of public stocks, shall be stamped on their face, "Secured by the pledge of public stocks."

§ 7. Instead of transferring public stocks as aforesaid to secure the whole amount of such bills or notes, it shall be lawful for such person or association of persons, in case they shall so elect before receiving any of the said bills or notes, to secure the payment of one half of the whole amount so to be issued, by transferring to the comptroller bonds and mortgages upon real estate, bearing at least six per cent. interest of this state, payable annually or semi-annually; in which case all such bills or notes issued by the said person or association of persons, shall be stamped on their face, "Secured by pledge of public stocks and real estate."

§ 8. Such mortgages shall be only upon improved, productive, unincumbered lands within this state, worth, independently of any buildings thereon, at least double the amount for which they shall be so mortgaged; and the comptroller shall prescribe such regulations for ascertaining the title and the value of such lands as he may deem necessary; and such mortgages shall be payable within such time as the comptroller may direct.

§ 9. The comptroller may, in his discretion, reassign the said bonds and mortgages, or any of them, to the person or association who transferred the same, on receiving other approved bonds and mortgages of equal amount; and when any sum of the principal of the bonds and mortgages transferred to the comptroller shall be paid to him, he shall notify the person or association that transferred the bonds and mortgages of such payment, and may pay the same to such person or association on receiving other approved bonds and mortgages of equal amount.

§ 10. The person or association of persons assigning such bonds and mortgages to the comptroller, may receive the annual interest to accrue thereon, unless default shall be made in paying the bills or notes to be countersigned as aforesaid, or unless in the opinion of the comptroller the bonds and mortgages or stocks so pledged shall become an insufficient security for the payment of such bills or notes.

§ 11. In case such person or association of persons, shall fail or refuse to pay such bills or notes on demand in the manner specified in the 4th section of this act, the comptroller, after the ten days' notice therein mentioned, may proceed to sell at public auction, the public stocks so pledged or the bonds and mortgages so assigned, or any or either of them, and out of the proceeds of such sale shall pay and cancel the said bills or notes, default in paying which shall have been made as aforesaid; but nothing in this act contained shall be considered as implying any pledge on the part of the state for the payment of said bills or notes, beyond the proper application of the securities pledged to the comptroller for their redemption.

§ 12. The public debt, and bonds, and mortgages, to be deposited with the comptroller by any such person or association, shall be held by him exclusively for the redemption of the bills or notes of such person or association put in circulation as money, until the same are paid.

§ 13. The plates, dies, and materials to be procured by the comptroller for the printing and making of the circulating notes provided for hereby, shall remain in his custody and under his direction; and the expenses necessarily incurred in executing the provisions of this act, shall be audited and settled by the comptroller, and paid out of any moneys in the treasury not otherwise appropriated; and for the purpose of reimbursing the same, the said comptroller is hereby authorised and required to charge against and receive from such person or association applying for such circulating notes, such rate per cent. thereon as may be sufficient for that purpose, and as may be just and reasonable.

§ 11. It shall not be lawful for the comptroller, or other officer, to countersign bills or notes for any person or association of persons, to an amount in the aggregate exceeding the public debt, or public debt and bonds and mortgages at their value, as provided in the 2d section of this act, deposited with the comptroller by such person or association; and any comptroller or other officer who shall violate the provisions of this section, shall, upon conviction, be adjudged guilty of a misdemeanor, and shall be punished by a fine not less than five thousand dollars, or be imprisoned not less than five years, or by both such fine and imprisonment.

§ 15. Any number of persons may associate to establish offices of discount, deposite, and circulation, upon the terms and conditions, and subject to the liabilities prescribed in this act; but the aggregate amount of the capital stock of any such association shall not be less than one hundred thousand dollars.

§ 16. Such persons, under their hands and seals, shall make a certificate which shall specify:—

1. The name assumed to distinguish such association, and to be used in its dealings.

2. The place where the operations of discount and deposite of such association are to be carried on, designating the particular city, town, or village.

3. The amount of the capital stock of such association, and the number of shares into which the same shall be divided.

4. The names and places of residence of the shareholders, and the number of shares held by each of them respectively.

5. The period at which such association shall commence and terminate; which certificate shall be proved or acknowledged and recorded in the office of the clerk of the county where any office of such association shall be established, and a copy thereof filed in the office of the secretary of state.

§ 17. The certificate required by the last preceding section to be recorded and filed in the office of the clerk of the county and secretary of state as aforesaid, or copies thereof, duly certified by either of those officers, may be used as evidence in all courts and places for and against any such association.

§ 18. Such association shall have power to carry on the business of banking, by discounting bills, notes, and other evidences of debt; by receiving deposites; by buying and selling gold and silver bullion, foreign coins and bills of exchange in the manner specified in their articles of association for the purpose authorised by this act; by loaning money on real and personal security; and by exercising such incidental powers as shall be necessary to carry on such business; to choose one of their number as president of such association, and to appoint a cashier, and such other officers and agents as their business may require, and to remove such president, cashier, officers and agents at pleasure, and appoint others in their place.

§ 19. The shares of said association shall be deemed personal property, and shall be transferable on the books of the association in such manner as may be agreed on in the articles of association, and every person becoming a shareholder by such transfer, shall, in proportion to his shares, succeed to all the rights and liabilities of prior shareholders; and no change shall be made in the articles of association, by which the rights, remedies, or security of its existing creditors shall be weakened or impaired. Such association shall not be dissolved by the death or insanity of any of the shareholders therein.

§ 20. It shall be lawful for any association of persons organised under this act by their articles of association, to provide for an increase of their capital and of the number of the associates, from time to time, as they may think proper.

§ 21. Contracts made by any such association, and all notes and bills by them issued and put in circulation as money, shall be signed by the president or vice president and cashier thereof; and all suits, actions, and proceedings brought or prosecuted by or on behalf of such association, may be brought or prosecuted in the name of the president thereof; and no such suit, action, or proceeding, shall abate by reason of the death, resignation, or removal from office of such president, but may be continued and prosecuted according to such rule as the courts of law or equity may direct, in the name of his successor in office, who shall exercise the powers, enjoy the rights, and discharge the duties of his predecessor.

§ 22. All persons having demands against any such association, may maintain actions against the president thereof; which suits or actions shall not abate by reason of the death, resignation, or removal from office of such president, but may be continued and prosecuted to judgment against his successor; and all judgments and decrees obtained or rendered against such president for any debt or liability of such association, shall be enforced only against the joint property of the association, and which property shall be liable to be taken and sold by execution under any such judgment or decree.

§ 23. No shareholder of any such association shall be liable in his individual capacity for any contract, debt, or engagement of such association, unless the articles of association by him signed shall have declared that the shareholder shall be so liable.

§ 24. It shall be lawful for such association to purchase, hold, and convey real estate for the following purposes:—

1. Such as shall be necessary for its immediate accommodation in the convenient transaction of its business; or

2. Such as shall be mortgaged to it in good faith, by way of security for loans made by, or moneys due to such association; or

3. Such as shall be conveyed to it in satisfaction of debts previously contracted in the course of its dealings; or

4. Such as it shall purchase at sales under judgments, decrees, or mortgages held by such association.

5. The said association shall not purchase, hold, or convey real estate in any other case or for any other purpose; and all conveyances of such real estate shall be made to the president, or such other officer as shall be indicated for that purpose in the articles of association; and which president or officer, and his successors, from time to time, may sell, assign, and convey the same, free from any claim thereon, against any of the shareholders, or any person claiming under them.

§ 25. Upon the application of creditors or shareholders of any such association, whose debts or shares shall amount to one thousand dollars, and stating facts, verified by affidavit, the chancellor may, in his discretion, order a strict examination to be made by one of the masters of his court of all the affairs of such association, for the purpose of ascertaining the safety of its investments, and the prudence of its management; and the result of every such examination, together with the opinion of the master and of the chancellor thereon, shall be published in such manner as the chancellor shall direct, who shall make such order in respect to the expenses of such examination and publication as he may deem proper.

§ 26. Such association shall on the first Mondays of January and July in every year after having commenced the business of banking as prescribed by this act, make out and transmit to the comptroller, in the form to be provided by him, a full statement of the affairs of the association, verified by the oath of the president or cashier, which statement shall contain

1. The amount of the capital stock paid in according to the provisions of this act, or secured to be paid.

2. The value of the real estate of the association, specifying what portion is occupied by the association as necessary to the transaction of its business.

3. The shares of stock held by such association; whether absolutely or as collateral security; specifying each kind and description of stock, and the number and value of the shares of each.

4. The amount of debts due to the association, specifying such as are due from monied or other corporations or associations; and also specifying the amount secured by bond and mortgage or judgment; and the amount which ought to be included in the computation of losses.

5. The amount of debts due by such association; specifying such as are payable on demand, and such as are due to monied or other corporations or associations.

6. The amount of claims against the association not acknowledged by its debts.

7. The amount of notes, bills, or other evidences of debt, issued by such association.

8. The amount of the losses of the association; specifying whether charged on its capital or profits, since its last preceding statements, and of its dividends declared and made during the same period.

9. The average amount in each month during the preceding six months of the debts due to and from the association; the average amount of specie possessed by the same during each month, and the amount of bills and notes issued by such association and put in circulation as money, and outstanding against the association, on the first day of each of the preceding six months.

10. The average amount in each month during the preceding six months due to the association, from all the shareholders in the association; also the greatest amount due the association in each of the said preceding six months, from all the shareholders in such association.

11. The amount which the capital of the said association has been increased during the preceding six months, if there shall have been any increase of the said capital; and the names of any persons who may become parties to the said articles of association, or may have withdrawn therefrom since their last report.

It shall be the duty of the comptroller to cause the statement required to be made by this section, to be published in a newspaper printed in the county where the place of business of such association is situate, and in the state paper; the expense of which shall be paid by such association.

§ 27. If such association shall neglect to make out and transmit the statement required in the last preceding section, for one month beyond the period when the same is required to be made, or shall violate any of the provisions of this act, such association may be proceeded against and dissolved by the court of chancery, in the same manner as any moneyed corporation may be proceeded against and dissolved.

§ 28. If any portion of the original capital of any such association shall be withdrawn for any purpose whatever whilst any debts of the association remain unsatisfied, no dividends or profits on the shares of the capital stock of the association shall thereafter be made until the deficit of capital shall have been made good, either by subscription of the shareholders, or out of the subsequently accruing profits of the association; and if it shall appear that any such dividends have been made, it shall be the duty of the chancellor to make the necessary orders and decrees for closing the affairs of the association, and distributing its property and effects among its creditors and shareholders.

§ 29. Such association shall be liable to pay the holder of every bill or note put in circulation as money, the payment of which shall have been demanded and refused, damages for non-payment thereof, in lieu of interest, at and after the rate of fourteen per cent. per annum, from the time of such refusal until the payment of such evidence of debt, and the damages thereon.

§ 30. The president and cashier of every association formed pursuant to the provisions of this act, shall at all times keep a true and correct list of the names of the shareholders of such association, and shall file a copy of such list in the office of the clerk of the county where any office of such association may be located, and also in the office of the comptroller, on the first Mondays of January and July in every year.

§ 31. It shall not be lawful for any association formed under the provisions of this act, to make any of its bills or notes of a denomination less than one thousand dollars, to be put in circulation as money, payable at any other place than at the office where the business of the association is carried on and conducted.

§ 32. The legislature may at any time alter or repeal this act.

§ 33. No association of persons authorised to carry on the business of banking under this act, shall at any time, for the space of twenty days, have on hand at their place of business, less than twelve and a half per cent. in specie on the amount of the bills or notes in circulation as money.

State of New York, Secretary's Office.

This bill having been approved and signed by the governor of this state, on the 18th of April, 1838, I do hereby certify that the same became a law on that day.

JOHN A. DIX, *Secretary of State.*

[See Appendix J.]

E.

LETTER FROM THE AUTHOR TO JOHN W. COWELL, ESQ., AGENT OF THE BANK OF ENGLAND IN THE UNITED STATES.

Philadelphia, April 15, 1839.

MY DEAR SIR:

As you are upon the eve of departure for England, after, as I understand, a highly successful issue to your financial mission to this country, I take occasion to hand you a copy of the "Treatise on Currency and Banking," of which you have seen a few of the early chapters, in the hopes that you will find them, in the main, in accordance with your own views of those important subjects. I am the more inclined to this expectation, from recollecting the tenor of the frequent conversations I have had with you, from which I need hardly say, I derived much valuable, instructive, and practical information, as well as from a perusal of the unpublished pamphlet, with a copy of which you favored me, setting forth your individual opinions upon the best system of reform for the paper currency of England.

In regard to the latter subject, I am free to confess, that the United States have a deep interest in its discussion, and they will owe much to the political economist or statesman, who shall be so fortunate, as successfully to advocate a reform that shall prevent fluctuations in the currency of Great Britain. It was some years since remarked in our congress, by a member, that the barometer of the money market of the United States was hanging up in the stock exchange of London. Since the conflagration of that building, I would say that the barometer has been hanging up in the "parlour" of the bank of England; and in truth; so closely allied are our two currencies by the ill-advised change in our gold coinage, which took place in the year 1834, that it is impossible that any expansion or contraction of the currency can take place in England, that will not be felt here; in the one case, inviting our banks to extend their discounts, and thereby excite overtrading and speculation, and in the other case, compelling them to contract their loans, and thereby produce a general commercial embarrassment.

The plan you have suggested, and to which I have above referred, appears to me to be eminently adapted to accomplish the end proposed; and if the paper currency of this country were under the control of a single legislative body, as it is in England, instead of thirty bodies, as it is, I would recommend it as the best plan I have yet met with, for enabling the public to enjoy all the benefits of a paper circulation, without any of its evils.

According to that plan, as I understand it, the mint is to issue certificates for sums of one pound, five pounds, and any greater denomination, upon a deposite of gold of equal amount; and such fixed proportion of the gold so deposited, as may be ascertained, from experience, to be the amount that may, with the most perfect safety, be withdrawn by exportation from the metallic portion of the currency, is to be immediately invested in the public funds, by commissioners appointed for that purpose. By this process, the following results will be effected:

First. The mixed currency, after the exportation of the gold above referred to, will be precisely equal to the quantity of coin that would have existed in the country, had there been no mint certificates.

Secondly. The country would derive the profits resulting from the employment of a certain amount of capital in commercial pursuits, which would otherwise have been unprofitably employed as currency.

Thirdly. The public, and not private corporations, or individuals, would enjoy a profit resulting from the circulation of the paper money, precisely equal to the accruing interest on the public debt held by the commissioners; and,

Fourthly. The country would be entirely exempted from any fluctuation in the currency, other than that to which a metallic currency is liable; it being necessarily incident to the plan, that whenever mint certificates should be returned for payment in gold, the commissioners should obtain in the market, by a sale of public securities, an amount of coin precisely equal to that which was invested, on the issue of the notes so returned.

Against the soundness of this plan, I am not able to see any objections. How far a general panic, arising from war, or domestic disturbance, might render it difficult to sell public securities in a time of emergency, you are better able to judge than I am. Certain is it, however, that no depression of the stock market could result from a reaction of an expanded state of the currency, the most frequent cause of depressions at the present day, for, as there would be no expansion, there could be no reaction.

Before parting, I can not omit the occasion to say to you, that, although the political horizon is, at this moment, somewhat over cast, I can not persuade myself that two countries like Great Britain and the United States, so peculiarly adapted to supply each other's wants, and whose mutual interest it so manifestly is to maintain an eternal friendship, can, at this enlightened day, be guilty of the folly of going to war. And now, wishing you a safe and expeditious voyage,

I subscribe myself, very truly and respectfully,

Your friend and servant,

CONDY RAGUET.

F.

Imports and Exports of the United States, from the 1st of October, 1789, to the 30th of September, 1838, taken from documents accompanying the Secretary of the Treasury's annual Report to Congress, of the 3d of December, 1839.

Years.	Total value of Imports.	Total value of Exports.	Domestic.	Foreign.
1790	$23,000,000	$20,205,156	$19,666,000	$539,156
1791	29,200,000	19,012,041	18,500,000	512,041
1792	31,500,000	20,753,098	19,000,000	1,753,098
1793	31,100,000	26,109,572	24,000,000	2,109,572
1794	34,600,000	33,026,233	26,500,000	6,526,233
1795	69,756,268	47,989,472	39,500,000	8,489,472
1796	81,436,164	67,064,097	40,764,097	26,300,000
1797	75,379,406	56,850,006	29,850,026	27,000,000
1798	68,551,700	61,527,097	28,527,097	33,000,000
1799	79,069,148	78,665,522	33,142,522	45,523,000
1800	91,252,768	70,971,780	31,840,903	39,130,877
1801	111,363,511	94,115,925	47,473,204	46,642,721
1802	76,333,333	72,483,160	36,708,189	35,774,971
1803	64,666,666	55,800,033	42,205,961	13,594,072
1804	85,000,000	77,699,074	41,467,477	36,231,597
1805	120,600,000	95,566,021	42,387,002	53,179,019
1806	129,410,000	101,536,963	41,253,727	60,283,236
1807	138,500,000	108,343,150	48,699,592	59,643,558
1808	56,990,000	22,430,960	9,433,546	12,997,414
1809	59,400,000	52,203,231	31,405,700	20,797,531
1810	85,400,000	66,757,974	42,366,679	24,391,295
1811	53,400,000	61,316,831	45,294,041	16,022,790
1812	77,030,000	38,527,236	30,032,109	8,495,127
1813	22,005,000	27,855,997	25,008,152	2,847,845
1814	12,965,000	6,927,441	6,782,272	145,169
1815	113,041,274	52,557,753	45,974,403	6,583,350
1816	147,103,000	81,920,452	64,781,896	17,138,556
1817	99,250,000	87,671,569	68,313,500	19,358,069
1818	121,750,000	93,281,133	73,854,437	19,426,696
1819	87,125,000	70,142,521	50,976,838	19,165,683
1820	74,450,000	69,691,669	51,683,640	18,008,029
1821	62,585,724	64,974,382	43,671,894	21,302,488

Years.	Total value of Imports.	Total value of Exports.	Domestic.	Foreign.
1822	$83,241,511	$72,160,387	$49,874,185	$22,286,202
1823	77,579,267	74,699,030	47,155,408	27,543,622
1824	80,549,007	75,986,657	50,649,500	25,337,157
1825	96,340,075	99,535,388	66,944,745	32,590,643
1826	84,974,477	77,595,322	53,055,710	24,539,612
1827	79,484,068	82,324,827	58,921,691	23,403,136
1828	88,509,824	72,264,686	50,669,669	21,595,017
1829	74,492,527	72,358,671	55,700,193	16,658,478
1830	70,876,920	73,849,508	59,462,029	14,387,479
1831	103,191,124	81,310,583	61,277,057	20,033,526
1832	101,029,266	87,176,943	63,137,470	24,039,473
1833	108,118,311	90,140,433	70,317,698	19,822,735
1834	126,521,332	104,336,973	81,034,162	23,312,811
1835	149,895,742	121,693,577	101,189,082	20,504,495
1836	189,980,035	128,663,040	106,916,680	21,746,360
1837	140,989,217	117,419,376	95,564,414	21,854,962
1838	113,717,404	108,486,616	96,033,821	12,452,795
1839*	157,609,560	118,359,004	100,951,004	17,408,000

NOTE.

For the early years the aggregate of the value of imports does not appear on the official statement, and has been estimated at different amounts by different persons, and thus that column will not always correspond with former reports. But the difference will not be found so great as to affect materially any general result. [In former reports it is stated, that prior to the 1st of October 1820, the official returns do not show the value of imports. Previous to 1796, the returns of exports did not discriminate between domestic and foreign productions.—*Author.*]

* The imports and exports, for 1839, are estimated thus by the secretary, the exact returns not having been received by him.—*Author.*

G.

ON UNLIMITED LIABILITY.

By James Cox Esq. of Philadelphia.

THE question of the extent of the liability of individuals, and of their natural right to limit that liability, is one which, in its moral as well as in its economical aspects and relations, is of the highest interest and importance, and the satisfactory solution of which is intimately connected with the investigation of those general and fundamental principles of justice and of expediency, which should form the basis of all positive enactments.

Prominent among the many plausible yet shallow fallacies which have, with a zeal and a perseverance worthy of a better cause, been urged in favor of the device of a *limitation* of individual liability—of a *restriction* upon personal responsibility—is the vain and contradictory assumption that the adoption and extension of this system of *restraints* is required by an enlightened adherence to the doctrines of the free trade theory—a theory in the general truth of the conclusions of which there is, as we think, no sufficient reason to doubt.

What would be the condition of individuals living in a state of the largest liberty consistent with the protection of each in the enjoyment of his natural rights, and under the control of no laws except such as might be necessary to enforce that performance of engagements which is required by a regard to the paramount obligations of morality, and to the demands of justice? A. B. and C. would, as it is perfectly manifest, trade with each other upon the condition of the natural and *unlimited* liability of each. And should A. B. and C. associate together in order to trade with D. E. and F., it would still, in strict conformity with the moral law, be upon the basis of the natural and *unrestrained* responsibility of each, not merely for the consequences of his own individual actions, but for those of the association of which he was a member. And from this condition of natural and inherent obligation, from this state of subjection to the moral law, neither A. B. nor C. could, by his own unaided act or by his individual effort, liberate himself. To effect this, the efficacy of *positive* enactments must be called to his assistance. Recourse must be had to far fetched and fanciful analogies, to subtile refinements and to legal figments. Privilege usurps the place of right. Rights cease to be enjoyed upon the only proper condition of the full performance of duties. Perfect freedom is no longer demanded upon the sole ground of perfect responsibility. Liberty and liability are rent asunder; an appeal must be made to the legislative power to put a *limitation* upon that which was before unlimited—to *restrict* that which, in a state of freedom, was unrestrained. The very expression of "*limited* liability" betrays the weakness of the argument; whilst it suggests, and of necessity implies, from the force of the terms, the idea, not of freedom, but of restraint and of restriction.

We are thus irresistibly led to the conclusion that the fancied advocacy of the right freely to trade in commodities, resolves itself into an argument for the limitation of that which, but for the intervention of the law, and the interference of the law-makers, would be unlimited—for the restriction of that which, in the absence of positive and special enactments, would be unrestricted. The argument for restraints is not the less remarkable as occasionally proceeding from those who thrust themselves forward as the select and chosen champions of the beneficent doctrines of commercial freedom; and who complacently assume to themselves the character of the freest of the free.

"There seems to prevail," says Mr. Tooke, "among those who incline to the introduction of the *commandites*" (or limited liability) " system, a vague notice that something like a right exists, on the part of individuals, to circumscribe their liability" * * "and that it is only by the special interference of the law of partnership that they are prevented from exercising that right, that the law is an interference with what would otherwise be the free, and probably, therefore, the best direction of capital in trade." * * * "On the slightest reflection, however, it must be obvious that the *commandite* is a *privilege*, and has not the shadow of foundation as a natural right. The general. if not universal, rule of commercial transactions is, that the individual is liable to the full extent of his means, for the engagements entered into by himself, or on his behalf, or jointly with others, and it is only by the intervention of a *special* law that he can be shielded from the more general one." And whilst this interposition must be considered as granting "a privilege, it operates as a *distinct inducement—a premium*—to individuals to employ the inferior, instead of the better instrument for carrying on the trade of the country."

But, possibly, it may be objected that individuals are at liberty, by mutual agreement, to limit their responsibility. This, however, in the sense intended, is a mere groundless assertion, without force or foundation. For, although it should be admitted that an individual may, in the performance of a specific contract, limit his liability to the extent of the pledged security, it would by no means necessarily follow that he can thus restrict and restrain his general liability. This liability, as we have seen, is the result of *natural* obligation. It arises from the operation of the moral law. It is binding upon the one party, from the mere force of moral considerations; and it is entirely independent of the claim of the other party. It results from the very nature of man as a moral agent. To be relieved from its practical operation, recourse must be had to artificial distinctions, and to legal fictions. The proposition attempted to be sustained is neither more nor less than that men are born under a liability even less than that of corporations. For the latter being, by a legal refinement, considered as *artificial persons*, are responsible to the whole extent of their corporate property. It is true that the most ready resources of these artificial persons are frequently found to consist in an available fund of public credulity.

"If it should be urged that when a person intrusts property to another, he knowingly undertakes the risk of that other's insolvency, and that if the contingent loss happens, he has no claims to justice on the other, the answer is this: that whatever may be thought of these claims, they are not the grounds upon which the debtor is obliged to pay. The debtor always engages to pay, and the engagement is enforced by morality: the engagement, therefore, is binding, whatever risk another man may incur by relying upon it. The *causes* which have occasioned a person's insolvency, although they greatly affect his character, do not affect his obligations; the duty to repay when he has the power is the same; whether the insolvency was occasioned by his fault or his misfortune." Being then able to pay, "does the legal discharge exempt him from the obligation to pay? No: and for this reason, that the legal discharge is not a moral discharge; that as the duty to pay at all was not founded primarily on the law," the law cannot cancel the obligation.

If then individuals can, under no circumstances, except those of a distinct and special contract, be justified in limiting their responsibility to each other, much less can they limit it in reference to third parties, and least of all, can the banker and the bank debtor have, as has been most absurdly assumed, a natural and indefeasible right to impose, for the promotion of their own interested and sordid purposes, upon whole classes—upon the mass of the community—the absolute necessity of receiving, in payment of their dues, the promissory notes of associations made up of irresponsible persons. And vain and frivolous is the assertion that, as bank notes are not a legal tender, their circulation is the consequence of their voluntary reception. For, whatever bank notes may be by law, it cannot be denied that they are virtually, practically, and in fact, a legal tender. In cases innumerable there is no option, and their circulation is thus made compulsory. As is notorious, the great mass of the people are, at all times, totally without power to refuse them. Paper forms almost the whole of the circulating medium, and the only real alternative offered to a large proportion of the laboring and mechanical classes is to accept of bank notes, or to cease from their occupations. Thus there is resting upon the supreme authority the same obligation to prevent the circulation of worthless paper, as there is to preserve the purity of the coin. And the duty is the more binding, inasmuch as the country has sustained far more injury from the issue of fraudulent promises, than from the circulation of base coin. The great "commodity of contract" should not be left to fluctuate in value at the caprice, or to gratify the cupidity of irresponsible or unprincipled parties.

Obligation is involved in the very nature of that which is morally good. "Obligation to action and *rectitude* of action are obviously coincident and identical." If men are morally responsible for the consequences of their own actions, and for those of their agents, (a proposition which will hardly be contested,) then should the legal liability be commensurate with the moral obligation.

But it has been said: "Grant to your neighbor the same secure exercise of the rights of person and of property that you desire for yourself." And again:

"if the *abolition of restrictions* will tend to enable men more rapidly to improve their condition, there can be no moral objection to the *passage of a law* granting to all men permission to trade with each other upon such terms as they may agree upon among themselves." That is to say: secure to others, by means of *positive* enactments directly at variance with all sound and settled principles of moral and inherent accountability, the same legal exemption from the performance of duty—the same licence to disregard the requirements of moral rectitude—which you desire for yourself, and the climax of perfect freedom will then be attained. A will be at liberty to defraud B, because B will be free to cheat C, who, in his turn, may, with impunity, defraud A. The reciprocation of dishonesty is thus made perfect—the circle of deceit is complete. Than which, we are told, "nothing would tend more to promote the cause of morality!"

It is not at all surprising that such a chain of argument should assume, as its first link, the truth of the proposition that "the abolition of restrictions," by which is intended the *granting of exemptions*, "will tend to enable men more rapidly to improve their condition;" thus proving the point at issue, by simply taking it for granted; and instead of reasoning directly for the expediency of a measure from its justice, adopting the inverted process—the retrograde and crab-like procedure of inferring its justice from its assumed expediency. Neither, under the circumstances, need it be an occasion of wonder, that whilst men are discoursing upon the truth and beneficent tendency of the doctrines of free trade, and expatiating upon the advantages to ensue to society from "the abolition of restrictions," they should also be found pleading for "*the passage of a law* granting to all men" exemptions, to which, in the absence of all interference, on the part of the law-makers, with the natural state of perfect freedom upon the natural condition of perfect responsibility, they could make no valid claim whatever.

The doctrine of a limitation of liability thus strikes, as it is perfectly plain, at the very foundations of moral rectitude. It assumes the right of individuals to release themselves, and the possibility of their being released by others, from the bond of moral obligation; of being relieved from all other than a very limited measure of responsibility for the consequences of their own acts, or of those of their authorised and accredited agents. An assumption, as we have just seen, as little in accordance with sound principles of integrity, as it is irreconcilable with an unreserved obedience to positive precepts of the highest possible authority. The dogma has as slender a basis in natural equity, as it derives little support from enlightened views of expediency. Hence the entire correctness of the remark of a practical banker, of excellent understanding and of great experience, that "the *commandite* principle seems to involve something very nearly approaching to injustice, inasmuch as in the case of the insolvency of a concern, it tends to remove a portion of the loss, which must be borne by some party, from those who have voluntarily engaged in the concern, who have had the means of watching and controlling its progress, and who would have been the sole participators in the benefits of its success, for the purpose of throwing it upon those who had no means of insight into the state of the concern, no power over the management of it, and no share in its advantage. The partners may be but slightly injured, whilst the creditors are ruined. The difficulties too of guarding against fraud and intricate legislation are very great." And where these difficulties have been in any considerable degree surmounted, it has usually been only by subjecting the privilege to such qualifications, and by imposing upon the exemption itself such restraints as have rendered it almost nugatory and altogether unacceptable to the parties desiring to profit by the limitation of their natural liability.

If such, then, is the true character of all devices intended to limit the liability of individuals, to put restraints upon the responsibility of moral agents, and to grant legal exemptions from the weight of natural obligations, how happens it that "the nicest conscience is not offended by holding stock in incorporated institutions?" The answer, in its application to incorporations for *trading* and banking purposes, the only description of associations contemplated, is obvious. Even of conscientious persons, some have never had the subject practically brought home to them—have never had their attention aroused and stimulated to a serious investigation of the merits of the question. Some are unconsciously biassed and swayed by interested motives; or they are influenced by plausible fallacies and by specious sophistries. Many are content to take things as they find them, without being at the pains to inquire into the truth of what they may persuade themselves are merely theoretical refinements and metaphysical abstractions. And of all it may be affirmed, such is the wide spread sway of vicious legislation, and especially in relation to the right to issue currency, that a strict adherence to undoubted principles—a rigid observance of maxims which, in a different and a better state of society, would bind the conscience—becomes, in a great degree, impracticable and superorogatory.

Whilst the objection noticed, furnishes not even a palliation, much less a justification of a system equally at variance with the dictates of justice, with the promptings of expedieney, and with that *natural order* of things to advocate and to sustain which is the aim and the object of the political philosopher, it affords one of the strongest arguments against the prolonged existence of a policy fraught with evils of such magnitude, and obnoxious to objections so serious.

The efficient principle of liability thus brought into view is one highly conservative, and from the free and unrestrained operation of which individuals, neither singly nor in their associate capacity, should ever be permitted to feel themselves emancipated. Upon its uncontrolled influence, in conjunction with that of its antagonist principle—the love of gain—depend the strength and conclusiveness of the arguments in support of the beneficent doctrines of commercial freedom.

Free trade may be defined to be that system, under which every one is left in the enjoyment of his natural liberty of making such a disposition of his property, and of giving such a direction to his industry, as may to himself appear most conducive to his interests. It is that state of the law in which men, subject merely to the requirements of truth and of justice, are allowed to trade together as they like, it being reasonably presumed that, in the vast majority of cases, individual sagacity, sharpened by competition and by individual interest, will secure to the community the ultimate attainment of results more positively and diffusively beneficial, than can possibly flow from the interference of the (so called) collective wisdom of legislators. Upon the "tentative" efforts of interested parties reliance may securely be reposed for a satisfactory adjustment of conflicting claims, and for the establishment and continuance of that natural order of things which alone can be permanently and generally advantageous. This freedom, however, degenerates into a wild and unrestrained licence; individual sagacity ceases to be a solid and secure ground of confidence, when any one of the leading and influential principles, by which moral and responsible agents are governed, is impaired or weakened in its natural and healthy action—when men cease to be, under all contingencies, answerable for their doings—when the love of gain is inordinately stimulated by the hope of high profits; whilst the fear of loss is banished by the facility with which much of that loss may be thrown upon others—upon those who, under no circumstances, would have participated in the gains. The natural equilibrium of wisely balanced motives is disturbed. The just equipoise of conflicting influences is destroyed. The spirit of enterprise is unduly excited, and the public is thus deprived of the stability and security resulting from the salutary operation of a natural principle—the fear of loss—implanted in our natures for wise purposes; and which, in all cases of individual risk, undertaken and prosecuted under a sense of *unlimited individual liability*, constitutes a most wholesome restraint upon every scheme of doubtful utility—upon every project of questionable legality.

Thus it is that a writer, displaying a perfect familiarity with all the practical details of the subject, as well as a full comprehension of the great moral and economical principles involved in its discussion, adverting to the admitted truth that the spirit of speculation is already "too strong," expresses his convictions in the following unreserved language: "Great danger is to be apprehended from any step that would tend to give *unnatural* inducement to persons not bred to, and not acquainted with mercantile pursuits, to embark their property in such concerns. Without the least hesitation, I pronounce it to be a scheme full of danger to the interests of the commerce and manufactures of this country," (England) "placing them in a position of extreme hazard and likely to produce the most extensive mischief, if adopted." And again: "Any thing that would attract capital in an *unnatural* way to speculative objects, I consider to be very disadvantageous." And he concludes his summary of objections against the scheme with the observation that: "In my opinion there is no sound or safe system that can admit of limited liability."

So also a practical and most judicious writer of ample experience, and enjoying every opportunity of the most extended observation: "In proportion as the consequences of failure are rendered less serious, must we not expect that concerns will be undertaken with a more speculative feeling, and be conducted with less vigilance and sobriety? We should consider well the tendency which the sense of *limited* responsibility has to *elicit the spirit of gambling*."

As the principle of the limitation of the liability of individuals is thus obnoxious to the heaviest objections on the score of its evident and injurious tendency to promote an artificial distribution of the national capital, and thus to diminish its productiveness and to prevent its rapid accumulation, thereby retarding the natural progress of society, so its influence is no less sinister upon the moral and intellectual character of individuals. "Removing the risk of general liability would, in the existing state of society, have a tendency to separate still more than they are now, the partner bringing capital from the partner bringing labor. The idleness of the capitalist is now checked by the risk in which it involves the monied partners. The natural laziness of mankind would induce capitalists to unite in large partnerships for the most ordinary business matters, doing little or nothing themselves, and leaving the management to subalterns. The check upon this is the unlimited liability under the existing law, and the result of thus superseding industry in the principal, would be to deteriorate the talents and characters of the mercantile and manufacturing classes." The question, too, it may be added in the words of an eminent moralist, "is not whether some men," in view of the risks to be incurred, "would not prefer indolence to the calls of justice," now so commonly disregarded, "but whether the public should judge accurately respecting what those calls are."

If then the principles of free trade, which are but the principles of justice, of equality and of common sense, do not admit of unnecessary restraints upon the liberty of human action, much less, when properly understood, can they sanction or tolerate a limitation of individual liability.

The nature of the arguments frequently employed by the champions of the doctrine of a limitation of liability, especially in its application to associations of individuals for the manufacture and the issue of a paper currency, furnishes abundant evidence of the prevailing confusion of ideas in the discussion of economical questions; of the inability to discriminate between things possessing some few points of resemblance, yet in their real nature perfectly distinct; and of the too common deficiency of analytical sagacity, in considering as identical, propositions essentially different. Assuming, *since it cannot be proved,* that the opinion is correct that partnerships for commercial and manufacturing purposes—for dealing in commodities possessed of intrinsic value—for trading in corn, cotton or coin, may be safely and beneficially formed upon the principle of a limitation of liability; does it, therefore, follow that the same principle is equally applicable to associations for the manufacture and the issue of paper promises—of promises intended as a substitute for coin—of promises which, in the actual condition of affairs, no man can conveniently refuse, and which no man can, with entire safety, take? Is the grant of a bank credit, or the issue of a species of currency which, whilst it requires little expenditure of labor or of capital for its production, by the facility with which it is exchanged for articles possessed of intrinsic value, is in the highest degree profitable to the issuer, and thus holds out the strongest inducements to over-production, an over-production, the constant tendency to which is feebly, if at all, restrained by the apprehension of the remote contingency of possible and ultimate loss—is this process to be compared with the production of commodities? Or is the *trade in promises* to be put upon the same footing with the exchange of material products—with the trade in real, not representative values? Is that which may be true of the substance, necessarily true of the shadow also?

The fallacy of the argument usually employed in the defence of a most pernicious and demoralizing doctrine, in its application to the question of the right to issue currency, consists in the dexterous employment of the term money in its double sense of *coin*, and of *promises to pay* coin. And, because it may possibly be admitted that the trade in coin, as in corn or in cotton, may properly be conducted upon certain principles, it is cunningly or ignorantly inferred that the same conclusion is applicable to the trade in promises. The truth of the proposition A is conceded, and the artifice or the blunder consists in taking for granted that the proposition B is identical with A, and that it is, therefore, equally true. This is one among the many instances of attempts, made by interested parties, or by deluded partisans, to mystify clearly ascertained principles, and to pervert established doctrines. If the major proposition is true, the minor is so also. If the trade in capital—if the borrowing and lending of coin, of metallic money possessed of intrinsic and indestructible value—cannot safely be allowed with a *limitation* of the liability of the dealers, much less can the trade in mere promises.

To the plan of subjecting associations for banking purposes to the regulation and restraint resulting from the natural and quiet operation of the equitable and salutary principle of the *unlimited liability* of individuals, it has been objected that the multiplication of banks being thereby effectually stayed, a wholesome competition is prevented.

The answer to this objection is as easy as it is conclusive. We assert, as that which cannot be disproved, that the multiplication of banks has no where been in this way improperly or unduly checked. On the contrary, under the application of the principle assailed and notwithstanding its *assumed* incompatibility with the freedom of the banking business, these establishments have not only increased in number, but their increase has been rapid, excessive and hurtful.

Thus, in Scotland, where joint stock banking companies are organised and administered upon the sound and salutary principle of the liability of each partner "to the whole extent of his fortune for the whole debts of the company," and where this liability of individuals furnishes to note-holders and depositors the firmest ground of confidence and of security, there are no fewer than 26 banks, with 314 branches. Eight of the former and 113 of the latter have been established since 1824; and such is their general diffusion over the country, that "there is scarcely a town, or even a village, into which branches of the Scotch banks, equivalent to so many separate and distinct banks have not penetrated."

The consequence of this condition of the banking business is, that the dividends upon bank stock—the profits of the shareholders—are reduced to the lowest point consistent with the continued investment of capital in this department of commercial industry and enterprise. So little foundation is there for the positive assertions which have been so recklessly ventured as to the assumed necessity of holding out the expectation of exorbitant profits, as an inducement to capitalists to incur the risks of individual liability. It may, in truth, be questioned whether these risks have been *practically* at all increased; and whether the unrestrained responsibility of the parties has not been more than compensated by a commensurate increase of circumspection, of prudence, and of good management and by a consequent and coresponding enlargement of credit. Individual sagacity, in this as in all other analogous cases, has been sharpened, and individual caution has been stimulated by the absence of all positive and artificial restraints upon individual liability. Hence these banks are administered with a view to the promotion of the interests, not of the borrowers, as is too often the case in this country, but of the owners of bank capital. And there is no reason to believe that stockholders have in Scotland suffered as much as the same class of capitalists have endured in this country; whilst the losses of the public have been in a greatly diminished ratio.

Thus, also, in England where previous to 1826 companies for banking purposes were not allowed to consist of more than six partners, and where, as in Scotland, the unlimited liability of the associated individuals lies at the foundation of the system, such, since the repeal of the restriction upon the number of partners, has been the rapidity with which these associations have increased, that there were in 1836, in addition to several hundred private banks, 101 joint stock companies with very numerous branches. Of these 45 were registered in one year alone, and counting their branches "which are often removed from the parent establishment, and conduct all sorts of banking business, it may safely be affirmed that considerably more than 200 banking establishments were set on foot in England and Wales in 1836." Hence, whilst, by the most enlightened and strenuous advocates of the joint stock banking system, it has been freely and unreservedly admitted that "too many banks" have been established, by others, this increase has been represented as "alarming," and the speculative spirit which thus developed itself, has been correctly characterised as a "mania," to the prevalence of which there proved to be no serious obstacle, either in the unrestrained responsibility of the shareholder, or in the existence of a powerful national bank, possessed of monopoly privileges, and sustained by the whole force of government patronage and of government influence.

Are there not then, it may confidently be asked, ample and satisfactory reasons for admitting the entire propriety of the conclusion drawn by Mr. Quin, who, at the close of his most elaborate abstract and review of the evidence taken before the Parliamentary committee of 1832, remarks: " If men with *sufficient capitals* are already found *in abundance* disposed to embark in the banking trade at the risk of their own fortunes, there is no reason why speculators should be allowed to establish banks of issue upon a less responsible system."

But again, we affirm, without the fear of refutation, that the beneficial tendency of competition to prevent excessive production, in its application to associations, not for the manufacture of articles requiring for their creation the expenditure of capital and the application of industry, but for the making and the issuing of currency–of promises to pay—of paper costing comparatively nothing, has never yet been demonstrated. *It has merely been taken for granted.* In the case of commodities possessing not a representative, but an intrinsic value, the public are in general, secure from an over-production from the simple consideration that no man will knowingly continue to produce and to bring to market an article which does not realize to the producer the cost of production, together with at least the ordinary return upon the investment of capital, and the ordinary reward for the application of labor. And should an individual, from inexperience, from ignorance, or from any other cause, fall into the error of increasing the supply beyond the effective demand—beyond the demand of those able and willing to purchase, he would soon become satisfied of his mistake; and would be obliged, at his own expense, to correct the error. Now what is true of one individual is true of many. What is true of many, is true of the mass. Thus we may safely trust to "the spontaneous operation of private interests," for the proper apportionment of the supply to the demand; and all interference of the governors with the governed must prove to be not merely ill advised and uncalled for, but ultimately and absolutely pernicious.

Widely different, however, is the case, when we proceed to an investigation of the causes which operate upon the manufacture of bank promises; to examine into the motives which influence in the issue of a currency possessed of little or no intrinsic value. Here the gain to the issuer is immediate, is considerable, is certain; whilst the cost of production is relatively insignificant, and the loss of profit consequent upon a re-action, is future, distant, contingent and uncertain. It may be avoided. It may be thrown, as it usually is, upon the shoulders of the public—and in few instances is the return of paper upon the issuer attended with a positive loss. Its effect is simply a diminution of anticipated profits. The actual loss is incurred by those bank debtors who may be compelled to make heavy sacrifices in order to sustain their credit and to honor their engagements; or by those bank creditors, who are in possession of obligations which are disregarded—of promises which are not performed. Thus there exists every inducement to banks to lend their credit, and to increase the supply of their paper; that is to say, there is every stimulus to an expansion; whilst, on the other hand, inasmuch as bank *credit* in the form of bank notes, so long at least as the ultimate solvency of a bank is thought not to be impaired, is to the borrower just as available as *capital*, the demand is limited only by the extent of the opportunities, or of the supposed opportunities, for profitably employing capital; that is to say, it is *practically unlimited.* "The constant tendency, therefore, of banks is to lend too much, and to put too many notes in circulation."

Fancifully and absurdly to compare banks of issue —paper mints—to "shoe shops," as has been done by some, and to assume that the one are subject to the same influences, and are governed by the same general laws as the other, may, to the unreflecting and to the superficial, present an appearance of plausibility and of acuteness; but to the mind of the philosophical inquirer, who perceives the entire absence of any analogy upon which to rest a parallelism of argument, such far-fetched comparisons can bring no conviction.

It is not merely a demonstrable truth, but a truth that has again and again been demonstrated, that banks issuing paper really and thoroughly convertible can neither expand nor contract the general mass of the currency to an amount *permanently* greater, or *permanently* less, than it would be with a medium exclusively metallic; and that, therefore, the *average* quantity of the currency, and consequently the average money values, or prices of real estate and of commodities generally, will in any given country be the same or nearly the same, whether the currency consists exclusively of *convertible* paper, or of coin; or whether it is compounded in any conceivable proportions of both. But it is equally true, in fact, it cannot be denied, that in this country the convertibility of paper is at all times exceedingly imperfect; and that there is constant danger of this imperfect convertibility ceasing altogether.

Neither, after the experience of all countries employing a paper medium, can there "any doubt be entertained that an excess of paper money, even when freely convertible into specie, may exist for some time unredressed; and although the check of convertibility must ultimately prevail, very considerable effects on prices may be produced in the interval." And as this redundancy, however hurtful it may be, is surely and inevitably followed by a deficiency still more pernicious, "it is of great consequence that a paper currency should not only be subject to repression from without, but be placed under such a system of management as will prevent any excess in quantity from being issued." But the only "system" which can possibly accomplish this most desirable object—the only policy at all entitled to be termed *preventive*—will be found to consist in an entire separation of the incompatible functions of banks of issue and of banks of discount. A paper currency, *if such a currency is thought to be indispensable or desirable*, should be furnished by banks purely of issue, automatically expanding and contracting the circulation simply in reference to the demand for paper in exchange for the precious metals and the demand for the metals in exchange for paper. On the other hand, commercial securities should be discounted, as is the practice in London, by banks not of issue, but of discount and deposite—by banks not "trenching on the perogatives of sovereignty by coining money"—but by banks which are properly mere borrowers and lenders of capital, and dealers in coin.

The functions of banks of discount are in their nature purely commercial, and the only supervision either necessary or justifiable on the part of government, is that the parties to contracts should be held strictly responsible for their performance. Banks of issue, on the contrary, cannot be kept too distinct in their operations not merely from all mercantile dealings, but they should be removed from all sympathy with money lenders and money borrowers.

The inevitable consequence of combining the issue of paper money with the proper and the appropriate business of banks of discount, is to aggravate commercial embarrassments, and to give redoubled intensity to commercial revulsions.

The system of paper money banking as it exists in this country, and the prominent feature of which is the confiding to associations of irresponsible traders and speculators the discharge of one of the most important and vital functions of sovereignty, and thus giving to interested parties the control over the great "commodity of contract," is a system evil in its essence, vicious in its very constitution, and irremediably and irresistibly pernicious in its influences, tendencies and consequences.

In the fabrication and the issue of *promises to pay* there will be, as has been already shown, a constant tendency to excess, because the manufacture costs comparatively little or nothing; because the issue is highly lucrative; and because the performance of the promise can be evaded, and, as is perfectly notorious, constantly is evaded, whenever it becomes burdensome; or the burden will, at all events, be shifted to the shoulders of others. "Convertibility at the will of the holders, and a sense of this power in them, on the part of the issuer is not, as experience has proved and is proving, any restraint in the way of over-issue. It is not a preventive, but a painful method of cure.—And it appears to exercise no more influence on the mind of the issuer than the fear of future punishment is found to exercise on the majority of those who are in full possession of health and vigor." On the contrary, the production and the supply of material commodities, possessed of intrinsic value, will not ordinarily be in excess; because the creation of such products involves an expenditure of capital, and the employment of industry; and because an excess in the supply, by causing a fall in price, whilst it benefits the consumer, entails a certain loss upon the producer.

But it is said that, under a system of free competition, banks of issue will effectually check each other, and thus prevent all undue expansions in the volume of the currency, and all injurious fluctuations in the value of its denominations.

Now, admitting, (the admission being in direct contradiction to all observation and to all experience,) that the banks of a community ordinarily act, not in combination and in concert, but in competition and in conflict with each other; still, as the object common to all banks, conducted with a reference to the promotion of the interests of the share holders, is, as far as possible, to extend their circulation and to lend their credit, and thus to swell their profits, this competition can manifestly have ultimately no other effect than to secure to each bank its *just proportional share* of the general circulating mass, and, also, its proportional share of any increase in that circulation—of any addition to the general mass; and the only consequence of an individual bank magnanimously declining to take its portion of growing profits, would be "that the rejected business would go to some other bank."

Thus it is that, as with an expanding currency, banks emulously blow up the inflation, so, when the subsequent and surely consequent reaction has commenced, and when, from the *external pressure* of a demand for coin to be exported, constituting the only really operative check upon excessive issues, they are compelled to contract, they vie with each other in the haste with which they curtail. The competition, so far as it has an existence, consists at one time in a struggle to push out, and at another time in a convulsive effort to draw in as many notes as possible. This very elasticity of the circulation—this power of suddenly expanding and contracting its volume, which has so often been represented as forming one of its highest recommendations, thus rendering it eminently dangerous and explosive, and conferring upon it unequalled powers of mischief. This is the constitutional disease, the incurable taint inherent in the system, and against the destructive consequences of which no effective *preventive* has hitherto been, or is likely hereafter to be discovered, short of such a radical change as shall abolish the exercise of the abstract right to issue, and thus suppress all paper money; or as shall bring about an entire and complete separation between the conflicting, the incompatible and the irreconcilable functions of banks of issue and of banks of discount—of issuers of *currency* and of mere dealers in *capital*. Hence the entire correctness of the observation of one of the most able of our own writers, and one, too, of the most discriminating and logical of reasoners: "That the *general tendency* to an expansion of the currency, to be succeeded of course by a contraction of it, is much more considerable where many than where a few banks are competing with each other to obtain as large a portion of the circulation as they respectively can." Hence, also, the justness of the conclusion of a foreign authority: "That the more banks are multiplied, the greater is the chance of fluctuations in their issues, and consequently in prices, credit and so forth." It is not, on that account, the less true that so long as the system is allowed to exist, in the language of the same distinguished economist, "If the names of the partners in deposite banks, or in banks issuing *notes on security*, be given; and if these partners be bound jointly and severally to the whole extent of their fortunes for their engagements, nothing more can be done by law for the protection of the public interests. Every thing else should be left to individual sagacity and prudence."

Thus the guarantee against abuses, as it is perfectly evident, is found not in the competition, but in the thorough responsibility of the parties for whose benefit the issues are made, and who derive the whole of the profit accruing from the gainful process of converting paper into money— of exchanging promises for commodities.

In this unrestrained responsibility, and not, as is frequently and absurdly taken for granted, in any amount of competition real or imaginary, lies much of the secret of the *comparative* stability, solidity and security of the Scotch banking associations. To insist, however, upon the interference of the Legislature to regulate the *number* of banks, as it would be justly liable to other objections, so it would be to advocate the odious scheme of granting monopolies and exclusive privileges; and to all the evils inherent in our present vicious banking system, to add the abuses of special and of partial legislation. "The proper objects of government," as stated by a writer of the most penetrating sagacity, and one of the most powerful and conclusive reasoners in favor of the free trade theory, "are to provide that paper money be perfectly secure, and at all times convertible into the coin which it represents; and that the danger of over issues should be met by adequate preventive, or remedial checks." And as remarked by another economist, as the result of the most matured experience and of the closest observation: "The knowledge of who the partners are in a bank, and their *unlimited responsibility*, are the only securities that, speaking generally, are worth a pinch of snuff. If these cannot protect the public from fraud or loss, nothing else will; and the question will come to be, not whether the system should be reformed, but whether it should be abated as an incurable nuisance." In the language of Mr. Ricardo: "Is it not inconsistent that government should use its power to protect the community from the loss of one shilling in a guinea, but does not interfere to protect them from the loss of the whole twenty shillings in a one pound note."

To exonerate individual partners from the payment of partnership debts, is to encourage both rashness and fraud. "Under any circumstances," in the words of an able writer and experienced banker, "it seems inexpedient, as regards the public, and unjust as regards private bankers, to favor especially joint stock banks, by making a particular law in their behalf." And the practical operation of a legislative act granting to associated parties the privileges and the immunities conferred by their being invested with the corporate character is, that "they may contract debts to any amount, while they are bound to pay only to a specific amount; their charters thus vitiating the fundamental principle of all business, and the essence of all confidence, viz: the integrity of contracts. This surely may be termed a premium upon great villany."

In favor of individuals and of associations of individuals, the claim has been advanced that they have the right to issue their paper promises intended as a substitute, and in fact, forming a substitute for the coin of the country—for the currency of the constitution.

As a mere theoretical question—a metaphysical abstraction, it may, perhaps, be admitted that such a right may be classed among those which have been termed natural. A similar concession might be made as to the right to coin metallic money. It is not, however, the less true that both the justice and the expediency of the unrestrained and unconditional exercise of the right has been assumed, rather than attempted to be proved. In former and in barbarous ages, powerful individuals have been allowed to coin money; but at more civilized periods, and among enlightened nations, the right to coin has always and everywhere been assumed and exercised by the supreme authority, to the entire exclusion of all participation of individuals in the discharge of a function properly described as sovereign. Hence, although it may be pushing the argument too far to assert that there are "no grounds for any claim of natural right in any individual to furnish, by his own notes, the whole or any part of the currency of the country," it is undoubtedly true that the argument in favor of the policy of government assuming to itself the exclusive control over the metallic money of the country, is, at least, equally conclusive against allowing individuals to manufacture and to issue that which forms, and which is intended to form, the almost universal substitute for that money.

Thus the right to issue the substitutes for metallic money, intended to circulate in the place, and as the representatives of the precious metals, can be derived only from the right to coin that metallic money. "The exclusive power of regulating the metallic currency of the country would seem necessarily to imply, or more properly to include, as part of itself, a power to decide how far that currency should be exclusive —how far any substitute should interfere with it, and what that substitute should be." If this were not true, it must necessarily follow that the prerogative of coining money, which has every where been exercised by the sovereignty, might be restrained, impeded, counteracted and defeated by the action of individuals or of associations. In the words of Mr. Tooke, a practical and scientific writer of the highest reputation: "Hitherto the legislature has restricted individuals under the severest penalties, from establishing private mints, and uttering metallic money of intrinsic and indestructible value; yet, with a degree of inconsistency which strikes us as most extraordinary the more attentively we consider it, our law-makers have permitted individuals to establish private banks of circulation—and to utter paper money which *a breath of panic may at any time destroy.* On the same principle that the government protects the public against the probable insecurity which might arise from individuals being permitted to utter metallic currency, it should guard against the more probable, nay *certain insecurity* which is created when individuals utter a paper currency. In every civilized country, supplying and regulating the circulating medium is a function of the sovereign prerogative." And the author of the admirable "Essay on Value," who is among the most able and zealous of the advocates of the doctrines of free trade in their widest application, states it as an obvious and incontestable truth, that government having undertaken the supply of the currency, "in order to facilitate or insure the accomplishment of its purposes, private persons may be very properly restrained from any proceedings which would tend to defeat them." * * * * "If then government has determined, for any reason, to have a metallic currency, consisting of certain coins, here would be a plain ground for restricting the dealer in money from such issues of paper as would defeat the design."

"The business of banking," observes an acnte reasoner and a practical banker, "is one thing; that of issuing a paper money is another thing. There is no necessary connection between the two. The bankers in London and Paris are bankers strictly so called. They are lenders of their own and other people's money. They must obtain it by industry or by loan, before they can lend it. They do not *make* it. The business of making and then issuing a paper money on loan is very different from that of obtaining a paper money on loan, and then re-lending it." The two operations, although thus clearly distinct and widely different, are, by those who find their account in the present vicious system, sedulously sought to be confounded. To banks of issue is confided the *creation* of the circulating medium. The office of banks of discount is to assist in the *distribution* of that medium. The duty of the former is to issue the circulation upon such principles as shall cause its amount, and the value of its denominations to vary, as they would, were the currency metallic. The only object of the latter is so to use their available funds, as to secure upon their employment the highest rate of profit.

Thus it is that in all civilized countries the issue of notes for circulation is always with the consent, express or implied, of the supreme authority, which, at its discretion, regulates and restrains this issue. Hence in all cases in which the discharge of this important function has been committed to individuals, or to associations, there arise the questions—What are the conditions upon which the trust shall be delegated? What are the regulations and restraints proper to be imposed for the protection of the public? Evidently such, and such only, as, while they interfere in the smallest possible degree with the free application of capital, and the natural direction of industry shall have for their object to assimilate, in all desirable properties, these issues to a currency composed of the precious metals, and as far as practicable to confer upon the former the steadiness and the stability in value which, being inherent in the latter, have made them the universally received medium of exchange, and the "commodity of contract" preferred to all others. Prominent and most efficacious among these conditions is the unlimited individual liability of the issuing parties.

Let it be observed, however, that whilst the *unlimited responsibility* of individuals is, with entire propriety, represented as furnishing to the public a very strong guarantee against fraud; and as holding out to noteholders and to depositors increased protection against all danger of ultimate loss; the principle affords little or no security against those alternate expansions and contractions in the volume of the currency, and those fluctuations in the value or purchasing power of its denominations, which tend to give to all commercial undertakings a gambling character; but which are inseparable from the issue, by *trading* associations, of paper substitutes for metallic money; and which necessarily flow from a system of banking and of currency essentially vicious in its constitution, and defective in the very elements of its organisation. We admit the correctness of the assertion of Sir H. Parnell: "That all the public has lost by bank failures in Scotland, since banks were first established, amounts to £36,444, and that no such thing ever occurs in Scotland as a panic." We are satisfied of the truth of the facts stated by Mr. M'Culloch, that "In 1793 and in 1825, when so many of the English country banks were swept off, there was not a single establishment in Scotland that gave way." And we may very satisfactorily account for much of this superior stability, by the *then* greater freedom in Scotland of the banking business: this freedom being enjoyed upon the only proper condition of the thorough responsibility of the associated parties. We are convinced of the accuracy of the statement made by the first Lord of the Treasury and by the Chancellor of the English Exchequer: "That the Scotch banks have stood firm amidst all the convulsions in the money market in England." It is, no doubt, true, as affirmed by Mr. Gilbart, a bank manager of great experience and a practical writer of established reputation, that "The enactment which renders the whole property of every shareholder answerable for the debts of the bank is very just and satisfactory. It is satisfactory to the public and satisfactory to the shareholder." It can not be denied that whilst in 1837 and 1838, bank creditors were every where in this country defrauded by the depreciation of bank paper, and by the non performance of bank promises; and whilst the same thing has again partially occurred in 1839; in Great Britain "neither depositors nor noteholders have lost a shilling." Mr. Bailey, a writer of the very highest character for power of logical discrimination, and for penetrating sagacity and analytical skill, is clearly in the right when he asserts that the legislature "acted wisely in not interfering to lessen," by the grant of *exceptions*, "the liability of individuals." Mr. Norman, a prominent director of the Bank of England and a writer of signal ability, was, no doubt, correctly informed, when he admitted the "general solidity of the Scotch banks," when he stated, that "insolvency was almost unknown among them;" and when he referred to their well established reputation as "secure places of deposite."

All these authorities (and their number might easily be extended) are direct in the testimony which they bear to the justice and the expediency of the principle of the unrestrained liability of individuals; and their evidence is conclusive as to the beneficial nature of the results springing from its practical application. It is, however, not on that account the less true that the only infallible test of the soundness of any scheme of paper issues, is to be found in the identity of the phenomena with those which would take place with a currency purely and exclusively metallic, and "it is as *issuers of paper money* that the Scotch banks are chiefly open to criticism. In times of prosperity they push out their notes and credits to an undue extent, and are consequently compelled to diminish them as violently when circumstances alter—thus inflicting on the public oscillations in the currency much more violent than could occur *with a metallic circulation, or with paper regulated on sound principles.*"

Of the Scotch banks, as of all others assuming the discharge of incompatible functions, and organised upon the unsound and pernicious system of making their credit issues in competition, and in the discount of commercial securities bearing interest, it may with truth be affirmed that "in periods of excitement and rising prices, they stimulate speculation unduly, and afford a spectacle of specious and factitious prosperity; while, when the recoil takes place, they sweep the solvent and comparatively prudent trader into the same net with the rash adventurer, and lead to awful and wide-spread ruin." Hence it is that in periods of commercial difficulty, "no country is said to suffer from insolvency more severely than Scotland, whilst of Manchester, "where banks of *issue* have never existed until recently, and then to a small extent," it is remarked that "it furnishes an interesting and instructive contrast."

It is also notorious and not denied that in Scotland the use of gold is almost unknown, and that under the appearance of a nominal competition, a real combination exists against demands for specie and for the maintenance of an exclusive paper currency.

"There is no principle in the law better settled than that whatever has an obvious tendency to encourage guilty negligence, fraud or crime, is contrary to public policy." And such, in the very nature of things, is the tendency of allowing the trader, and especially the banker, to limit, to throw off, or in any way to restrict his natural responsibility or his legal liability. From this liability there should be no escape, "not even by express promise or special acceptance any more than by notice."

H.

HISTORY OF THE MONEY CRISIS OF 1818.

Extracts from the report of the Committee of the Senate of Pennsylvania, appointed to inquire into the extent and causes of the present general distress.

In the Senate of Pennsylvania, December 8, 1819. A motion was made by Mr. Raguet and Mr. Grosh, and read as follows, to wit:

Whereas it appears that a scene of distress and pecuniary embarrassment unexampled in former years, has been of late exhibited throughout this commonwealth. And whereas, at a period of general calamity, it is natural for the people to expect from the legislature such an investigation into the causes which have produced the evils under which they labor, as may be likely to mitigate their sufferings, or at least to prevent their recurrence. And whereas, a proper regard for the interests of posterity, as well as of our constituents requires, that an exposition of the actual condition of our suffering fellow citizens, as well as of the causes which have been instrumental in producing their distress, should be recorded in durable characters on the journals of this house. Therefore,

Be it resolved, That a committee be appointed to inquire into the extent and causes of the present general distress, and to recommend to the consideration of the legislature, such measures as in their opinion may be calculated to alleviate the public suffering, and to prevent the recurrence of a similar state of things.

On motion, made on the 10th of December, said resolution was again read, considered and adopted, and

Ordered, That Messrs. Raguet, Hurst, Eichelberger, Markley, M'Meens, Rogers and Breck, be a committee for the purpose therein expressed.

January 29, 1820. Mr. Raguet from the foregoing committee, made report, which was read as follows, to wit.

In the performance of a duty of such high importance as that which has been entrusted to your committee, they have felt it incumbent on them to enter at large into the investigation of the subject contemplated by their appointment, in order that the people of the present day may be correctly informed as to the extent and causes of the evils by which they are oppressed, and that the records of the house may be furnished with a document, which may afford evidence at a future day of the miseries which it is possible to inflict upon a people by errors in legislation and by the bad administration of incorporated institutions.

In ascertaining *the extent* of the public distress, your committee has had no difficulties to encounter. Members of the legislature from various quarters of the state have been consulted in relation to this subject, and their written testimony in answer to interrogatories addressed to them by the committee, has agreed with scarcely an exception, upon all material points. With such a respectable weight of evidence added to that which has been derived from the prothonotaries, recorders and sheriffs of the different counties, from an intercourse with numerous private citizens residing in different parts of the state, as well as from the various petitions presented to the legislature, your committee can safely assert, that a distress unexampled in our country since the period of its independence, prevails throughout the commonwealth. This distress exhibits itself under the varied forms of

1. Ruinous sacrifices of landed property at sheriff's sales, whereby in many cases lands and houses have been sold at less than a half, a third, or a fourth of

their former value, thereby depriving of their homes and of the fruits of laborious years, a vast number of our industrious farmers, some of whom have been driven to seek in the uncultivated forests of the west, that shelter of which they have been deprived in their native state.

2. Forced sales of merchandise, household goods, farming stock and utensils, at prices far below the cost of production, by which numerous families have been deprived of the common necessaries of life, and of the implements of their trade.

3. Numerous bankruptcies and pecuniary embarrassments of every description, as well among the agricultural and manufacturing, as the mercantile classes.

5. A general scarcity of money *throughout the country*, which renders it almost impossible for the husbandman or other owner of real estate to borrow even at a usurious interest, and where landed security of the most indubitable character is offered as a pledge. A similar difficulty of procuring on loan had existed in the metropolis previous to October last, but has since then been partially removed.

5. A general suspension of labor, the only legitimate source of wealth, in our cities and towns, by which thousands of our most useful citizens are rendered destitute of the means of support, and are reduced to the extremity of poverty and despair.

6. An almost entire cessation of the usual circulation of commodities, and a consequent stagnation of business, which is limited to the mere purchase and sale of the necessaries of life, and of such articles of consumption as are absolutely required by the season.

7. An universal suspension of all large manufacturing operations, by which in addition to the dismissal of the numerous productive laborers heretofore engaged therein, *who could find no other employ*

ment, the public loses the revenue of the capital invested in machinery and buildings.

8. Usurious extortions, whereby corporations instituted for banking, insurance and other purposes, in violation of law, possess themselves of the products of industry without granting an equivalent.

9. The overflowing of our prisons with insolvent debtors, most of whom are confined for trifling sums, whereby the community loses a portion of its effective labor, and is compelled to support families by charity, who have thus been deprived of their protectors.

10. Numerous law suits upon the dockets of our courts and of our justices of the peace, which lead to extravagant costs and the loss of a great portion of valuable time.

11. Vexatious losses arising from the depreciation and fluctuation in the value of bank notes, the impositions of brokers and the frauds of counterfeiters.

12. A general inability in the community to meet with punctuality, the payment of their debts even for family expenses, which is experienced as well by those who are wealthy in property, as by those who have hitherto relied upon their current receipts to discharge their current engagements.

With such a mass of evils to oppress them, it cannot be wondered at that the people should be dispirited, and that they should look to their representatives for relief. Their patient endurance of sufferings, which can only be imagined by those who have habitually intermingled with them at their homes and by their fire sides, merits the commendation of the legislature, and prefers a powerful claim to their interference.

Having thus enumerated the most prominent features of the general distress, your committee will proceed to point out the cause which in their opinion has occasioned it. That cause is to be found chiefly in the abuses of the banking system, which abuses consist, *first*, in the excessive number of banks, and *secondly*, in their universal bad administration. For the first of these abuses the people have to reproach themselves, for having urged the legislature to depart from that truly republican doctrine, which influenced the deliberations of our early assemblies, and which taught *that the incorporation of the monied interest already sufficiently powerful of itself, was but the creation of odious aristocracies, hostile to the spirit of free government, and subversive of the rights and liberties of the people.* The second abuse, the mismanagement of banks, is to be ascribed to a general ignorance of the true theory of currency and banking, and to the avarice of speculators, desirous of acquiring the property of others, by an artificial rise in the nominal value of stock, and by the sharing of usurious dividends.

In order that this subject may be clearly understood, your committee have thought that the following concise history of banking in Pennsylvania, would be acceptable.

The first bank which was established in the state, and indeed in the United States, was the Bank of North America, which was chartered by congress on the 31st day of December, 1781, with a capital not to exceed ten millions of dollars, and without any limits being assigned as to its duration. This charter was confirmed by the state of Pennsylvania, on the 1st day of April, 1782. This bank commenced and continued its operations upon a capital paid in of $400,000, and as its credit stood high, and the Union was deficient in a circulating medium, it was enabled to extend its issues vastly beyond the amount of its capital. The extent of its loans may be inferred from the rate of its dividends, which were as high as 12 and even 16 per cent. per annum. The extensive and distant circulation of the notes of this bank occasioned by the disbursements of the general government which was a heavy borrower, emboldened its directors, and led them to overstep the bounds of discretion. The channels of circulation becoming overcharged with paper, and the public beginning to doubt the ability of the bank to redeem its notes on demand, naturally led to the consequences, which, with the unerring certainty of fate, will sooner or later result from an evtravagant emission of paper. The notes returned for payment, and with the diminution of its specie means, the bank to sustain its credit, was compelled to resort to the measure of calling upon its debtors for payment. This reduction of bank loans operated in its day, in precisely the same manner that we have seen it in ours. A general pressure for money, bankruptcies, usurious extortions, the disappearance of specie, and an impossibility of procuring loans at legal interest, were among the evils attendant upon it. For the truth of this assertion, your committee beg leave to refer to the journals of the House of Representatives of the 21st and 23d days of March, 1785, by which it will appear, that so great were the evils which resulted from the operations of this bank, that a petition from a number of inhabitants of Philadelphia and of the counties of Chester and Bucks were presented to the legislature, praying for a repeal of its charter. These petitions were referred to a committee, who on the 25th of the same month reported* that a bill should be brought in to repeal the charter, *which was accordingly done at the ensuing session, on the 13th day of September*, 1785. The bank however claiming the right of prosecuting its business under the charter which it held from congress, continued its operations, and the legislature at a subsequent date, viz. on the 17th day of March, 1787, revived its charter, limiting its capital to 2,000,000 of dollars, (of which about 830,000 only were raised,) and its duration to fourteen years. This charter has

* See the report at full length in Journal of 28th March, 1785.

been since extended for two successive periods of fourteen and ten years, on the 29th of March, 1799, and the 28th of March, 1814, and will expire on the 17th day of March, 1825.

On the 25th day of February, 1791, the first bank of the United States was chartered by congress with a capital of ten millions of dollars, and located at Philadelphia. Its charter expired without renewal on the 4th day of March, 1811.

On the 30th day of March, 1793, the Bank of Pennsylvania was incorporated for twenty years. The charter was renewed on the 14th of February, 1810, for twenty years longer, with an increase of capital which is now $2,500,000, and will expire the 4th of March, 1833. This bank was authorised to have branches, of which it established four, viz. at Lancaster, Reading, Easton and Pittsburgh, the last of which has been discontinued.

On the 5th of March, 1804, the Philadelphia Bank was chartered, after having been some time in operation without a charter, to continue until 1st of May, 1814, with a capital not to exceed two millions of dollars; of which 1,800,000 were raised. On the 1st day of March, 1806, it was renewed for 10 years, and will expire on the 1st day of May, 1824. It was authorised by an act of 3d March, 1809, to institute branches, of which it established four, viz. at Wilkesbarre, Washington, Columbia and Harrisburg, the last two of which have been withdrawn.

On the 16th of March, 1809, the Farmers and Mechanics' bank was incorporated, with a capital of 1,250,000 dollars, to continue until the 1st of May, 1824.

Some two or three years prior to the expiration of the charter of the Bank of the United States, application was made to congress for its renewal; which having failed, overtures were made to the legislature of Pennsylvania, but without success. The anxiety displayed by the stockholders of this bank to continue their business, and the successful appearance of their dividends *added to the location of branches by the Pennsylvania Bank in the country*, very naturally excited the attention of the public, and particularly of the inhabitants of some of the interior counties of the state, who fancied that much of the prosperity of cities was to be traced to the establishment of banks, and that if that were the case, there was no reason why the country should not participate in their advantages. Such considerations as these, urged on by the desire of accumulating wealth without the dull exercise of labor, engendered a spirit of speculation. It was supposed that the mere establishment of banks would of itself create capital, that a *bare promise to pay money*, was money itself, and that a nominal rise in the prices of land and commodities, ever attendant upon a plenty of money, was a real increase of substantial wealth. The theory was plausible, and too well succeeded. The Farmers' Bank, with a capital of $300,000 dollars, was established in the county of Lancaster, in the beginning of the year 1810, and was accompanied by several others in the city, as well as in other parts of the state.

These early symptoms of a mania for banking induced the legislature, on the 19th of March, 1810, to enact a law prohibiting unincorporated associations from issuing notes, or pursuing any of the operations of banks, but in defiance of its provisions, the system was persevered in, and even companies incorporated for the purpose of constructing bridges, departed from the spirit of their charters, converted themselves into banks, and emitted notes for circulation.

The evils, however, which would have flowed from this banking spirit, would soon have been checked, by the usual corrective, viz. *the return of the notes for payment*, had not the war which was declared in June, 1812, interposed. Prior to that period, the emissions of our banks were regulated with a constant regard to their liability to be called upon for the payment of their notes in coin. The periodical demand for dollars for the China and India trade, which regularly occurred every spring, was a check upon the overtrading spirit, which has always characterised corporations exempt from individual responsibility. The merchants at that day, were not afraid to demand their rights, and those who held claims upon the banks in the nature of notes or deposites, would make a demand for an hundred thousand dollars, with less hesitation than they now display in asking for a single thousand. Banks were then, what they should always be, the servants of the public, and until they are again reduced to the relation in which they ought to stand to the community, their operations must ever continue to be injurious. *Without liability to prompt payment, uninfluenced by any considerations of fear, forbearance, or delicacy, on the part of the public, the community has no guarantee against a depreciated and fluctuating currency.*

The war, as might naturally be expected, put a temporary stop to the exportation of specie, and thereby removed the only sure check against inordinate issues of paper, which can possibly exist. This cessation of the returning of notes for payment, had the effect of inviting the banks to enlarge their issues. Loans were made to government to an immense amount, and to individuals vastly beyond what the absence of foreign commerce justified, and a gradual depreciation of the currency was the result. The increase of dividends and the facility with which they appeared to be made, extended throughout the whole commonwealth the spirit of speculation, already introduced into some counties. The apparent success of the Farmers' Bank of Lancaster, which from the enormous extent of its issues, was enabled to divide upwards of *twelve per cent.* per annum; *and to accommodate its stockholders with loans to double the amount of their stock*, had a powerful influence upon the public mind. A bank by many was no longer regarded as an instrument by which the surplus wealth of capitalists could be conveniently loaned to their industrious fellow citizens, but as a mint in which money could be coined at pleasure, for those who did not possess it before. Under these delusive impressions, associations of individuals sprang up in every quarter, holding out inducements to the farmer, the merchant, the manufacturer and mechanic, to abandon the dull pursuits of a laborious life, for the golden dreams of an artificial fortune.

The liability however to individual ruin, attendant upon unchartered copartnerships, restrained in a degree, the banking mania, and impelled the projectors to apply for a legislative sanction. During the session of 1812–13, a bill to incorporate twenty-five institutions, the capitals of which amounted to 9,525,000 dollars, was passed by both houses of the Legislature by a bare majority of one vote in each. The bill was returned by the governor with his objections, which were sensible and cogent, and on a reconsideration the votes were 38 to 40. At the following session the subject was renewed with increased ardor, and a bill authorising the incorporation of forty-one banking institutions with capitals amounting to upwards of 17,000,000 of dollars, was passed by a large majority.—This bill was also returned by the governor with additional objections, but two thirds of both houses (many members of which were pledged to their constitutents to that effect) agreeing on its passage, it became a law on the 21st of March 1814, and thus was inflicted upon the commonwealth an evil of a more disastrous nature than has ever been experienced by its citizens. Under this law thirty-seven banks, four of which were established in Philadelphia, actually went into operation, the charters of which will expire on the 1st of April, 1825.

The immediate commencement of a number of these banks, with scarcely a *bona fide* capital equal to the first instalment, *for the convenient mode of discount-*

ing stock notes to meet the subsequent payments was soon discovered, increased the mass of paper credits already too redundant, and depreciated the whole circulating medium so far below a specie value, as to excite a want of confidence in its convertibility. In the absence of a *foreign* demand for specie a *domestic* one arose. The laws of the New England states had been so rigorous upon the subject of banks which were liable to a penalty of 12 per cent, per annum for the non-payment of their notes, that no depreciation of *their* currency took place. The consequence thereof was, that the difference between the New England prices of commodities, stocks and foreign bills of exchange, and those of Pennsylvania was equal to the extent of the depreciation of the currency of the latter, and as our bank notes were at that time redeemable on demand, the most profitable remittance which could be made to New England in exchange for her commodities was specie, and this demand created a run upon the banks, which they were not able to withstand. The situation of the southern and of the western banks was precisely similar to that of our own. All had over issued, and a general depreciation had ensued. The same causes produced the same effects, and a general stoppage of payment of all the banks in the United States, except those of New England, took place in August and September, 1814.—The New England demand, it is true, was increased by two causes, viz: *first*, by facilities in foreign trade through neutral vessels, which were afforded them by an exemption from the blockade of the enemy, and *secondly*, by a well grounded apprehension, that the southern banks from their extensive emissions would necessarily become embarrassed. Certain it is, however, that all these causes combined, could not have produced a general suspension of payment, *had our banks observed the same caution in their issues as that which characterised the banks of the Eastern states.*

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.

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 obligation 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 until then been attempted to be formed, and a scene of indiscretion in the loaning of bank credits was every where exhibited, which realised the anticipations of those who had foretold the ruinous effects of the paper system. Money lost its value. The notes of the city banks became depreciated 20 per cent. and those of the country banks from 25 to 50, 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 store 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 into 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 used to individuals to become borrowers, under promises as to indulgence, the most tempting.

Such continued to be the state of things until towards the close of the year 1815. At that time the doctrine so generally taught and so generally received by the great mass of the community, that the paper currency was not depreciated but that specie had risen in value, began to be abandoned. The intelligent part of the people became convinced, that although the nominal prices of property and commodities had been advanced, the substantial wealth of society had absolutely diminished, and the evils attendant upon a depreciated and a perpetually fluctuating currency were universally acknowledged. Each city, town and county, had its own local currency, bearing no equivalency with, or a fixed proportion to any other; the consequence of which was, that a new and extensive class of brokers sprang into existence, who have ever since been supported at the expense of those who have been defrauded by the banks of their just and indisputable rights. Counterfeiters also added to the mass of paper in circulation, and the difficulty of detection where so many signatures were current, invited to an increase of their numbers.

The plan about this time projected of establishing a national bank with a commanding capital, held forth an expectation, that the desired restoration of the currency was about to be effected. Petitions in favor of the measure were presented to congress, and the general government weary of the embarrassments to which its fiscal concerns had been subjected, from a currency varying not only in every state but in almost every village, (for the banking system had by this time extended itself through the middle, southern and western states) chartered the present Bank of the United States with a capital of thirty five millions of dollars on the 10th day of April, 1816, with corporate powers which will expire on the 3d of March, 1836.

No sooner was this measure adopted, than the numerous city banks, alarmed for their safety, resolved upon a retrograde movement, and with the reduction of their loans, commenced a reaction, which was accompanied by great mercantile distress. The result of this procedure, however, was a gradual melioration of the currency,' insomuch that by the month of July of that year the depreciation of the notes of the banks in Philadelphia was brought to 7 or 8 per cent. and by the month of December to considerably less.

The Bank of the United States, the subscriptions to which were opened on the 1st Monday of July, 1816, commenced its operations about the 1st of January, 1817, and had it been conducted with the discretion and wisdom which were essential to so powerful a machine, its influence might have been productive of the most happy results. The public was aware that the currency of the state banks was still depreciated from excess, and that nothing but a further reduction of their issues, could remove its unsoundness; and yet with this fact, evident to the most limited capacity, the directors of the new bank fancied, that if they could only persuade the city banks to *call* that a sound currency which was in reality an unsound one, the evil of depreciation would be cured, and they accordingly proposed to them to enter into an agreement to resume specie payments on the 21st of February following. The city banks, sensible that their power over the community was so great, that few individuals would have the boldness to make large demands upon them for coin, and relying upon that forbearance which had hitherto been extended to them by an injured public, who had been for two years and a half paying them 6 per cent. per annum for the use of their dishonored bills, consented to the arrangement, and specie payments were accordingly *nominally* resumed on the appointed day. We say *nominally*, because in point of fact, a *bona fide* resumption did not take place as is evident from the well known circumstance, that for a long time after that period, *American* as well as foreign *coins* would command on the spot a price in city bank notes above their nominal value. Depreciation can as well result from the forbearanee of the public to demand their rights, as from the refusal of the banks to pay their engagements; and the arrangement alluded to, was not any real resumption of cash payments, but a mere change of one species of inconvertibility for another. No sooner, however, had the directors of the national bank succeeded in the desirable object of rendering depreciated paper an equivalent for their own convertible notes, than, instead of reflecting from an acquaintance with general principles, and from the experience of the past, that the channels of circulation could contain without depreciation, but a limited amount of paper credits, and that that amount was already in those channels, they began to add to the mass already redundant, by emissions of their own notes; and in the course of a few months added to the mass of bank loans an amount greatly beyond the reductions which had been made. By this means the currency, although *nominally* convertible, was depreciated below its former low state, and was thrown back, instead of being advanced on the road of restoration; and thus was rendered nugatory all the pain and embarrassment which the public had suffered from the former curtailments of the state banks.

This unwise procedure of replunging the people into the debts from which they had been partially extricated, and of involving others who had hitherto escaped, was continued for a time; but the dreadful day of retribution at length arrived. The bank discovered almost too late, that its issues had been extended beyond the limits of safety, and that it was completely in the power of its creditors. It also foresaw that the payment of that portion of the Louisiana debt, redeemable on the 21st of October 1818, which was held by foreigners, might occasion a demand for a considerable amount of coin, that the enhanced prices of China, India and other goods *occasioned by the depreciation of the currency from the over issues of itself and the state banks*, would lead to a demand for specie, and that as it was professedly a specie bank, liable, under a penalty of 12 per cent. per annum to pay its notes on demand, the same delicacy and forbearance would not be extended towards it as to the state banks. These considerations impelled it to seek its own safety, and from that moment a system of reduction commenced. This reduction operating upon the state banks, which had not profited by the opportunity afforded them of contracting their loans whilst the other was extending, obliged them also to diminish their transactions, and a general curtailment ensued, which has not yet had its consummation. The severity of the second pressure commenced in the city in October 1818, and was continued without intermission for a year; at the expiration of which time it is said that the reductions made there by the national bank alone have exceeded seven millions of dollars, and those by the other banks probably two or four more. The reductions of the country banks during the three last years may be inferred from the following statement which exhibits the amount of their notes in circulation at four different periods.

November 1,	1816,	$4,756,460
Do.	1817,	3,782,760
Do.	1818,	3,011,153
Do.	1819,	1,318,976

From the foregoing history it will be seen, what influence has been produced upon the affairs of the community by the operations of the banking system. Real property has been raised in nominal value, and thousands of individuals have been led into speculations, who without the facility of bank loans would never have been thus seduced. The gradual nominal rise in the price of land, has produced an artificial appearance of increasing wealth which has led to the indulging of extravagance and luxury, and to the neglect of productive industry. Foreign importation and domestic consumption have thus been carried to an extent, far beyond what the actual resources of the country and people would justify, and in pursuing a *shadow* the community has lost sight of the *substance.* * * * * * * *

Your committee is sensibly impressed with the dangers which may hereafter arise from the renewal and creation of bank charters, and as they have deemed it to be within the limits embraced by the resolution under which they act, they take the liberty of giving to the Senate their ideas of the provisions which should be incorporated in every charter of a bank hereafter sanctioned by the legislature. They are as follows:

First. A penalty of twelve per cent. per annum in addition to a forfeiture of the charter, should be imposed upon the amount of all notes and deposits not redeemed in specie on demand.

Secondly. No bank should be allowed at any time to loan more than fifty per cent. beyond the amount of its capital.

Thirdly. All profits above *six per cent.* should be equally divided between the stockholders and the state, the amount accruing to the latter to be specifically appropriated to internal improvements. The justice of this provision is founded upon the consideration, that although high dividends have been made, yet none but the original subscriber gets the benefit of them, for all subsequent purchasers are compelled to pay for the stock a speculative advance upon its par value, at least equivalent to the extraordinary interest.

Fourthly. No director except the president should be re-eligible for more than three years, in any period of six, and none should be entitled to loans beyond a limited amount.

Fifthly. The affairs of the bank and the private accounts of the directors should at all times be open to the inspection of the legislature.

Sixthly. No note for less than five dollars should be issued, inasmuch as no solid system of paper credits can any where exist, unless the minor channels of circulation are exclusively supplied with coin.

Without such provisions as these, the propriety of which has been established by the dear bought experience of the past, your committee conceive, that it will be impossible to guard the public in future, against the evils of excessive issues, which, whenever they are made, must sooner or later re-act upon the community, with effects in a greater or less degree, similar to those which our fellow citizens now so unhappily experience.

I.

PRICES AT LONDON OF AMERICAN SECURITIES, AT THE DIFFERENT DATES MENTIONED.

October 23d, 1838.

New York	Fives	- - -	91	to	95
Pennsylvania	"	- - -	92	"	96
Louisiana	"	- - -	95	"	96½
Alabama	"	- - -	83	"	84
Indiana	"	- - -	83½	"	84½

Ohio (1856)	Sixes	- - -	100½ " 101½
Mississippi	"	- - -	93 " 94
Virginia	"	- - -	95 " 96
Illinois	"	- - -	83½ " 84½
S. Carolina,	Sterling Fives	- -	95 "
Alabama	" "	- -	93 " 94

April 30th, 1840.

N. York	Fives,	1845 to 1860,	86	to 87	
Penn'a	"	1854 " 1865,	74	" 76	
Louisiana	"	1844 " 1852,	90	"	St'g bonds.
Alabama	"	1863 " 1868,	68	"	
Do.	"	1859 "	80	"	St'g bonds.
Indiana	"	1864 "	65	"	
"	"		80	"	St'g bonds.
Ohio	Sixes,	1850 to 1860,	90½	to 91½	
Illinois	"	1870 "	75	"	
Mas's	Fives,	1868 "	101	"	
Maryland	"		80	"	
Mississippi stocks,			no quotation.		

From the New York American. Extract from a letter dated London, April 30th, 1840.

"We are in some respects mending in the American Stock Market. United States Bank shares are done at 15*l*. 15*s*. to day, and there are two or three buyers at 15*l*. 10*s*. Pennsylvania stock is very heavy, and holders are loud in their expressions of dissatisfaction at the legislature for not passing the bill for taxes. Several parties have sold in alarm—and there is now some in the market of 1856, at 75. This is a bad state of things, when we have four millions of dollars pledged here for the United States Bank, and $400,000 for the Girard, and new loans making. If there had been any care evinced by that state for maintaining its credit, no doubt we should have had a considerable and rational improvement. The state of money, and the opening of the continental market for the stock, would have enabled the French bankers to add Pennsylvania to their administration of

American stocks, and it would have given satisfaction to all.

J.

NEW YORK GENERAL BANKING LAW.

Extract from the annual Report of the Comptroller made to the Legislature of New York in January, 1840.

OPERATIONS UNDER THE ACT TO AUTHORISE THE BUSINESS OF BANKING.

THE press of business under this act existing at the time the present comptroller came into office and which continued to increase until very recently, rendered it indispensably necessary to employ additional aid. There are now engaged five registers and a book-keeper, and yet it has been necessary to pay a large amount to clerks for services out of office hours, and to other individuals for numbering circulating notes. At times, with all the force which could with propriety be put in requisition, the demand for notes could not be supplied promptly. That demand has now abated and it is supposed that hereafter a less number of registers may be able to answer all calls for bills within a reasonable time.

With a view to arrive at some degree of certainty in regard to the title and value of the real estate mortgaged, and to the accuracy of the conveyances, all the bonds and mortgages, with the deductions of title and appraisals of the land, which had been received in security or deposite, previous to the period when the present comptroller took charge of the office, were submitted to a professional gentleman of high standing for a thorough and critical examination, to the end that all defects or omissions might be supplied. The result of that examination showed its necessity and the propriety of a similar course thereafter, and therefore all papers relating to the pledge of real estate have been strictly examined and approved, before any circulating notes were delivered upon such securities. All the defects that were discovered have been supplied, and there is every reason for believing that the titles to property mortgaged are valid, the appraisals generally fair and reasonable, and that the papers are in due form.

Some months since, one of the associations which had elected to deposite state stocks and securities on real estate under the seventh section of the act, and had received bills stamped on their face "secured by pledge of public stocks and real estate," applied for a further amount of bills to be stamped "secured by the pledge of public stocks," tendering at the time of demand other stocks as a security on which the bills stamped as last mentioned were to be issued. The claim being contrary to the decision of the late comptroller, and in which the present comptroller acquiesced, the receipt of the stocks and the delivery of the bills was declined. Whereupon an application was made by the association to the Supreme Court for process to compel a compliance with such demand, which after argument of counsel on both sides, resulted in the award of an alternative mandamus. The comptroller, under these circumstances, came to the conclusion to yield to the alternative of issuing bills on stocks only to the association applying—a new account was opened with the same institution with a view to keep the two discriptions of bills separate, as well as the securities on which they were issued. Several other associations have been furnished circulating notes in like manner since that period.

In regard to receiving the stocks of other states, there has been a wide difference of opinion between persons engaged in banking and the comptroller, as to the amount at which those stocks should be received in pledge. The act having vested a discretion in the comptroller, in the receiving, and also in respect to the amount at which they might be received, constituted that officer the guardian of the interest of the bill holder; and in maintaining and protecting that interest, it is not surprising that there should have arisen a collision of opinion on the question of value. It was, among other things, alleged "that the late comptroller had decided to admit or receive the six per cent stocks of other states at par, or as equal to the five per cents of this state, and that purchases had been made with reference to that decision. As the prices of stocks had materially declined in market, and could not with propriety be received at that rate, to remove all ground of complaints arising from misapprehensions, the comptroller on the 9th March last, gave public notice as follows: "Notice to persons forming associations under the general banking law—

"To meet the inquiries that are constantly made respecting the principles which govern the comptroller in receiving stocks as collateral security for circulating notes, he thinks proper to state—that the stocks of this state, and those of the United States, at or about five per cent. will be received at par value, and notes will be delivered to an equal amount on such stock being deposited; and that stocks of other States of the United States, will be received or not according to circumstances existing at the time they shall be offered, and when received will be estimated at a rate not exceeding the market value, and notes will be delivered accordingly." Since which six per cent. stocks of other states have been received from time to time, at 95, 90, 85, 80, and 70 per cent, and five per cent stocks at nearly corresponding rates.—The entire amount received is \$4,984,700 38-100, of which \$478,200 38-100 are of this state \$1,099,000 of Arkansas, \$872,000 of

Michigan, $1,045,000 of Illinois, $1,043,000 of Indiana, $10,000 of Ohio, $69,000 of Missouri, $207,000 of Alabama, $110,000 of Maine, $50,000 of Kentucky, and $1500 of United States.

Fully to carry into effect the manifest intention of the Legislature, by providing an ample security for all circulating bills delivered to the associations, it became a duty to fix a price at all times approximating to the actual market value of the different stocks offered and to do this, and at the same time to give general satisfaction to depositors, imposed a duty of extreme delicacy and much perplexity. There seemed to be no means within reach, by which the actual value of stocks could be ascertained with any tolerable degree of certainty. Stocks were evidently continually on the decline, and the comptroller felt it to be his duty to keep at or below the supposed value in market, for the reason that the disposal of the stocks pledged will most probably be called for at a time of the greatest pecuniary difficulty, and the sale must be promptly made at whatever sacrifice, to meet immediate demands that admit of no delay. In rating the value of stocks, this consideration has been steadily kept in view, to the end that, under the most adverse circumstances, there should be an adequate redemption fund; a matter of vital importance to the stability of the system, as well as to retain the confidence of the community, which has been so strongly manifested in favor of the circulation of these banks.

To some of the associations a larger amount of circulating notes has been delivered than the present estimated value of the stocks pledged will warrant, and in such cases the dividends on the stock will be retained to increase the security, agreeably to the fifth section of the act. The stocks received have been made payable to the comptroller in trust for the institution depositing, or have been assigned in writing, or an endorsement made upon each bond, specifying that the same has been deposited in pledge for circulating notes by the association making the deposite; this was done to prevent any unauthorised transfer of the securities. Although this is not in accordance with the custom among dealers in such securities, which authorises transfers by delivery, yet it has been deemed prudent to adopt every practicable measure tending to the safety of the deposite. As transferred or endorsed, these securities cannot become again negotiable without the signature and seal of the comptroller.

Beside this guard, and a safe place of deposite, the farther precaution has been taken to provide a suitable book, in which a general description of each certificate of state stock or bond is entered, in order that if any of the securities should be missing, a description and notice could be given to the proper officer of the state which issued the paper, and thereby prevent its payment to the holder. These measures are supposed to be all that are necessary for the safe keeping of the securities deposited. Less precaution seemed required in relation to the bonds and mortgages, as that class of securities is assigned to the comptroller, and the mortgages and assignments thereof have been duly recorded in the counties where the lands conveyed by them are situated, and notice of the assignment given to the obligors, and an acknowledgment of the amount due thereon taken of the mortgagors, where the mortgages were of long standing.

The joint committee appointed to examine the Treasurer's accounts and the accounts in the Canal Room, has been invited to extend its examination to the Bank Department. The invitation was accepted, and a general examination has been had in relation to the situation of the securities, the manner of keeping the books and the general condition of that department.

The past year has not furnished a fair criterion by which to judge of the operation of the system. About half of the new banks have been in business but a few months, embracing a period of unusual derangement of the currency. As part of them, at least, were formed and put in operation without due preparation, and have been managed by officers of limited experience, it could scarcely prove otherwise than that difficulty and embarrassment should attend their operation. It is an experiment; and a much longer period of time will be required than has yet been given fully to test the practical effects of the system. A restriction which had existed for many years was suddenly removed; the right of banking by complying with certain conditions was opened to all; the occasion has been seized with avidity; 134 certificates of the formation of associations have been filed, seventy of which have commenced business, and also three private individual banks, making seventy-three new banks.

Such securities as are mentioned in the act have been sought, obtained and deposited to the amount of $7,168,507, and upon which over $6,000,000 in circulating notes have been issued from the office within the last fifteen months. A sort of banking mania seemed to prevail which alarmed the community at its extent and possible results. The comptroller felt that nothing short of the most rigid performance of the duty assigned to him in relation to the securities pledged, would sustain that confidence upon which the whole circulation of the free banks depends. One bank has been wound up without loss to the holders of its bills; two others are now coming to that point, and it is confidently believed that the result will be the same. If in times like these the redemption fund proves adequate to its object, additional confidence will be accorded to this class of circulation. During the influx of this new medium in the absence of organization and concert among the new banks, it is not surprising that the emission should become somewhat depreciated, more especially when it is considered how extremely difficult it has been to preserve the safety fund circulation of the country banks from a like depreciation, notwithstanding an organization of years standing, and the great experience of the officers of these institutions, and the privilege of availing themselves to some extent of the aid of the State by receiving its deposites.

The heavy expenses incident to the organization of so large a number of institutions, have with few exceptions, been paid on the draft of the comptroller, at sight. Such part of their circulation as has been returned for redemption has been promptly met, except by those associations in New York now closing.

The amount of circulation of the safety fund banks, as appears by the report of the bank commissioners,

Jan. 1st, 1839, was - - -		$19,373,149 00
The amount of circulating notes of free banks, Jan. 1st, 1839, was -		396,300 00
Making the whole circulation of the state, on the 1st of Jan. 1839 -		$19,769,449 00
The total amount of circulating notes issued up to the 1st Dec. 1839.	$6,012,019 00	
Estimated amount of safety fund notes in circulation on 1st Dec. 1839 - -	12,000,000 00	
Making the entire circulation on 1st of Dec. 1839, - - - -		18,012,019 00
By this it is shown that the circulation has diminished - - -		$1,757,440 00

And it is apparent that as that of the free banks expanded, that of the safety fund institutions contracted in about the same proportion. The aggregate of circulation of the state, (allowing all the notes delivered to the new banks to be out,) does not equal the aggregate of 1st January, 1839, by the sum above stated,

This does not include the amount of post notes issued by a very limited number of the free banks.— The comptroller has not deemed that a legitimate issue, and has therefore dircouraged the practice, and it is believed that it has not obtained to any considerable extent.

Such issues if allowed by law, will operate injuriously upon the credit of the new system. No pledge is made for the redemption of that species of paper a fact unknown to many, and therefore its circulation is deceptive.

Arrangements were made in the month of September last with the deposite bank in this city, to receive the bills of the associations from the treasurer in deposite at par, which enabled him to receive those bills for all sums due to the state. This arrangement put the bills of this description on an equal footing with the safety fund bills, so far as regarded the moneys receivable for the general and other funds of the state, (except the canal fund,) and large sums have been received by the treasurer in that kind of paper. As to receiving the bills of the free banks for tolls on the canal, the commissioners of the canal fund found that by the existing law, they were only authorised to deposite the moneys belonging to that fund with "safe incorporated moneyed institutions of this state;" consequently the canal board are compelled to select incorporated banks to receive tolls during the season of navigation. Having no right to direct what description of money or paper the selected banks should receive for tolls, the comptroller, in his communication, requested them to receive all kinds of bills provided they could do so without loss; and directions were given to the collectors to receive all kinds of bills which the deposite bank would receive of them.

Many of these banks have received of the collectors the bills of the associations in their vicinity, and some of those that were more remote. New banks were springing into existence as if by magic, and a part making no provision for the redemption of their bills in New York or Albany, the deposite banks felt unwilling to receive notes about which they could know little or nothing. Had the commissioners of the canal fund been able to give time to convert the new currency, an arrangement might have been made to receive them. But the constant heavy drafts of the canal commissioners in favor of the contractors, during a period of unprecedented pecuniary distress, placed it beyond their power to extend the time requisite to make such conversion. While no directions, therefore, could be given to receive the notes of the free banks for tolls, for the reasons mentioned, many of the deposite banks have taken freely of such as have taken the precaution to make arrangements to redeem their bills at New York or Albany, at similar rates as the safety fund banks. Had all adopted this course, there would have been little if any difficulty in the reception of the bills of all, in ordinary times. It is confidently hoped that hereafter, when the associations shall have had time to perfect a system of redemption and give a fair standing to their several institutions, no such difficulty will then be experienced.

It is one of the first and most sacred obligations of these associations and all other institutions enjoying the privilege of supplying a currency for the country, to render that currency equal to gold and silver at its place of payment. As a debtor cannot well be required to pay at two or more places, because that would require a double provision for his debts; and as the place of payment may be, and often is, distant from the point to which the currency is carried by the course of trade, there will naturally and necessarily be a depreciation in such currency equal to the expense of transporting gold and silver to such point. This is reasonable, but any farther depreciation is unjust to the community which has to sustain it.— The great question then arises how is this to be prevented in regard to the circulating notes issued by the banking associations under the general law.

A recent arrangement into which the safety fund banks, and many of the associations have entered, has proved in practice so successful in its operation, that nothing more seems required than to give it the sanction of law, and thereby compel its universal adoption by all the associations, to render their notes a sound and safe currency, equal to gold and silver in every part of the state, abating the slight deduction justified by the distances of the respective associations from the place where their notes may be concentrated. The following might be substantially the provisions of such law. The banking associations should each be required to appoint a delegate to meet at some central point in the state to represent them, and the majority of such delegates to select some bank or banking association in the city of Albany as an exchange agent, and agree with it upon the terms on which it would perform the duties of the agency. Should the associations neglect to make such selection and agreement, some state officer or officers should be authorised to do it for them.

The agency being established, every association should be at liberty to send to it the notes of all the others for exchange and redemption. On a given day in each week the exchange agent should assort, count and arrange in separate packages all the notes received at the agency, adjust the balances between the different associations, seal each package, and give notices by mail to the respective associations, of the amount due from each, which notices should require the balances to be paid at the agency, at times to be adapted to the distance of the debtor association from it. The associations at and east of Utica might be required to pay in ten days after mailing the notice; those at and east of Rochester in fifteen days; those at and east of Buffalo in eighteen days; those at and south of Whitehall fifteen days; those at New York eight days; those at Poughkeepsie and north of it five days. Their times of payment would of course be regulated according to distances and facility of intercourse, and the same principle may be applied to all the counties in the state.

In case of a default to pay a balance at the appointed time, the exchange agent shall furnish proof of the fact to the comptroller, who should be authorised immediately to dispose of so much of the securities deposited with him, by such defaulting association, as shall be necessary to pay such balances, and thereupon redeem its notes sealed up, take them into his possession, and cancel the same. But if the comptroller should be of opinion that at the time, and under the circumstances, when such balances accrued, the securities deposited with him might not be immediately available to redeem the whole circulation of any defaulting association, he might be authorised to pay a just proportion on the amount of notes so sealed up, and in that case the notes sealed up should be delivered to him for the purpose of making such proportionate payment to owners of them. The comptroller may be authorised when no doubt is entertained of the sufficiency of such securities, to advance from the treasury the sum necessary to discharge such balances, to be refunded, with seven per cent. interest, with all costs and charges, out of the sale of the securities of the delinquent association. Upon the occurrence of such default, if the balance be not paid within ten days, with the interest, costs and charges the attorney-general should be required to apply to the chancellor, or a vice chancellor, for an order, which such officer should be authorised to grant, to restrain the officers and agents of such association from transacting any business, except the payment of its notes then in circulation, and to receive payment of debts due to it.

Upon granting such order, the officer to direct some master in chancery or some other proper person, to be designated, at the expense of the association, to examine into and report forthwith the condition of the same; and on such report coming in, the court to be authorised to dissolve the association and appoint a receiver to take charge of the effects and pay the debts. This plan will abundantly secure the holders of the circulating notes, and enable them at all times promptly to convert them into cash at a discount equal to the time allowed for payment of balances, which may be from ¼ of one per cent. to 1 per cent. and will not probably exceed the latter amount. It at the same time affords a reasonable time to the associations to meet their balances, and save them the necessity of providing funds in the principal cities to meet any larger amount. The clause requiring them to keep 12½ per cent. of the amount of their circulation in specie at the place of their business, may be so modified as to allow of a deposite to their credit at the agency for redeeming their notes, as an equivalent.

The rates at which compensation may be made to the exchange agency, in case no agreement be made by the associations, should be limited by the act.

It is believed that such a plan would render the circulation of these associations all that their most ardent friends have anticipated; no good reason can be perceived why the proposed system of redemption might not be applied also to the safety fund banks, thereby at once placing the whole circulation of the state on the same footing.

The following is also submitted as necessary amendments to the act authorizing the business of banking, viz:

1. No circulating notes to be delivered to any association or individual, until satisfactory proof shall be produced to the comptroller, showing that the capital paid in or secured to be paid in, amounts to $100,000.

2. No stocks, other than such as have been, or shall be issued by the authority of, and for the redemption of which the faith of the United States or

of this state is or shall be pledged, shall be received in security for circulating notes, except where satisfactory evidence shall be adduced that such stocks cannot be procured without the payment of an exorbitant price.

3. Individual bankers, who shall commence business after 1st January, 1840, shall comply with the same regulations which are applicable to associations. Such bankers who had commenced business before that day shall hereafter make semi-annual reports in like manner as associations, and comply with all regulations prescribed by law for associations.

4. Bonds and mortgages made direct to the comptroller by the president or other officers of the associations, or individual bankers, shall be valid, and such bonds and mortgages in such cases may hereafter be received in like manner as if transferred according to the 7th section of the act aforesaid.

5. No association or individual banker shall make, issue, or put in circulation as money, any notes, bills or other evidences of debt, except such as shall be obtained from the comptroller according to law.

6. Mutilated circulating notes may be returned and others issued in lieu of them, if the securities shall be sufficient to warrant it.

7. All protest fees shall be paid by the person procuring the services to be performed, and for which fees the association or individual banker shall be liable. No part of the pledged fund shall be applied in payment of such fees. There shall be but a single fee for protest allowed on all bills held by the same person, or persons, jointly interested at the time of protest.

8. When the dividend on stocks, or interest on mortgages shall be retained by the comptroller, he shall receive the same and deposite it in some safe bank or association in trust for the institution or banker to whom it belongs, at the highest rate of interest which can be obtained, to remain in deposite till the securities will authorise it to be paid over.

9. The committee annually appointed to examine the treasurer's accounts, shall also examine all the securities, account books and other papers which may be necessary, in their opinion; to enable them to report the true state and condition of that department to the legislature.

NOTE BY THE AUTHOR.

During the late session of the New York Legislature, two laws were passed relating to the Free Banks, copies of which could not be procured in time, but, the principal features of which are as follows:

From the New York Journal of Commerce of 25th April.

Redemption of Country Bank Notes.—The bill passed by the assembly on Tuesday in relation to this subject, provides that every bank, banking association and individual banker, except those in the cities of New York, Albany and Brooklyn, shall appoint an agent in the city of New York for the redemption of their notes, at a rate of discount not exceeding one half of one per cent.; that the bank, banking association or individual banker, whose agent shall neglect or refuse to redeem such notes on demand shall pay interest on the same at the rate of 20 per cent. per annum; and if such redemption and payment of interest is not made within 20 days after demand, such bank, banking association or individual banker, shall be liable to be proceeded against by the bank commissioners; that every association and individual banker who shall hereafter commence business, shall appoint an agent before receiving any circulating notes from the comptroller. That any number of banks, banking associations and private bankers, may, by agreement associate to raise a joint fund to be placed in the hands of the common agent for the redemption of their notes in the city of New York; and also the circulating notes of other banks, banking associations and individual bankers; and that no bank, banking association or individual banker, shall purchase, buy in or take up, their circulating notes at an amount less than what purports to be due thereon, at any other place or in any other manner than is directed by the present bill.

From the New York Commercial advertiser of May 20th.

Act to amend the act authorising the business of banking.—The second section of the act is amended so as to authorise the issue of notes by the comptroller to an amount equal to that of stocks of this state deposited with him by any person or association—such stocks to be equal to a five per cent stock of this state, and not to be taken at a rate above their par value, or above their current market value.

Stocks now held by the comptroller may hereafter be transferred to and received by him at their market value.

No association shall commence business until stocks to the amount of $100,000 have been deposited.

No person or association shall put in circulation any note not payable on demand. Violation of this provision punishable with fine and imprisonment, as a misdemeanor.

Comptroller shall receive mutilated notes, and issue others in place of them.

Thirty-third section of the act repealed.

When the securities deposited with the comptroller are in his judgment insufficient, he may receive the dividends on stocks and interest on bonds and mortgages, and deposite the same in some bank of Albany in trust, at such rate of interest as he may deem most advantageous; to be withdrawn and paid over when the sufficiency of the security shall render it proper.

The joint committee appointed to examine accounts of the treasurer shall also examine securities deposited with the comptroller, and books and papers.

President of any banking association may execute bonds and mortgages to the comptroller, as security for circulating bills.

Fees for protest of circulating notes to be paid by the person at whose instance the protest is made—association to be liable therefor—but not the securities deposited.

Bankers and associations made liable to inspection and supervision of the bank commissioners.

Refusal to submit books and papers for examination or to be examined under oath, or any violation of law, subjects parties to the same proceedings as in the case of incorporated banks.

An additional bank commissioner appointed, to be paid out of interest of securities deposited.

Bodies corporate may receive and hold transferable shares in stocks of banking associations, the same as in other stocks.

THE END.

The fluctuations in the money market of merchants and stock-jobbers, and even at times in the market of mortgages, by which sometimes a high rate of interest is paid for capital, are generally of a temporary nature, and to be accounted for upon the principle that wherever there is credit, and especially if there be banks, there will at times be over-trading and over-speculation. The rate of interest upon capital must in the long run be governed by the rate of profit to be made by its employment.

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