The History of Banks:

To Which Is Added, a Demonstration of the Advantages and Necessity of Free Competition In the Business of Banking.

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History of Banks.

Chapter I.
Banks of Venice, Genoa and Barcelona.

The first regular institution resembling what we call a *Bank*, was established at Venice, nearly seven hundred years ago.

In its origin it had nothing to do with the business of banking. It began in this way.

The Republic being engaged in war, and falling short of funds, had recourse to a forced loan. The contributors to that loan, were allowed an annual interest of four per cent on the sums they had been obliged to lend; certain branches of the public revenue were assigned for the payment of that interest; and a corporation, entitled the CHAMBER OF LOANS, was created for the express purpose of looking after this business, managing those branches of the revenue assigned to the lenders; and attending to, and securing the punctual payment of the interest, as it fell due.

So far, there was no bank in our sense of the word. But the Chamber, in the course of its business, sometimes had occasion to purchase and sell bills of exchange; and as the means of the corporation were undoubted, and its character highly respectable, it was soon discovered that its name upon a bill, gave it additional value. The Chamber generally had some funds on hand. It was found an advantageous investment to employ those funds in the business of buying and selling exchange; and in process of time, the Chamber became a regular dealer in that branch of business; that is, it adopted the business of DISCOUNT, or lending money upon mercantile paper, one great branch of the business of a modern bank.

By degrees, the Venetian merchants fell into the habit of placing their money with the Chamber, for safe keeping; and thus was introduced the business of DEPOSIT, a second branch of modern banking.

It was presently found that a credit for money deposited in the Chamber was quite equivalent to so much cash in band; and the custom was introduced of effecting payments by the transfer of these credits from the account of the payer to that of the receiver. In this way the trouble of counting large sums of coin, and of transporting it from one part of the city to another, was wholly avoided. So great were the supposed advantages of this method of doing business, that what at first had been voluntary on the part of the merchants, was afterwards enforced by law. Every merchant was obliged to open an account with the bank; and all payments of bills of exchange and in wholesale transactions were required to be made there, and in the manner just described. This method of effecting payments was plainly a rude approach towards the invention of bank notes; the CIRCULATION of which, constitutes the third and last branch of the business of a modern bank. That part of our circulation which consists of bank checks is only a very slight modification of this Venitian practice.

The Bank of Venice long remained without a rival; but about the beginning of the fifteenth century, similar institutions were established at *Genoa* and *Barcelona,* cities, at that time the pride of Europe, and second only to Venice in extent of trade.

The TABLE OF EXCHANGE at Barcelona, and the CHAMBER OF ST. GEORGE at Genoa were almost exact copies of the Bank of Venice, and soon obtained almost equal credit and celebrity.

Chapter II.
Banks of Amsterdam and Hamburg.

It is not paper currencies alone that are subject to depreciation. Currencies of coin are liable to be affected in the same way. It was formerly a common expedient with kings and states to debase the coin, that they might the easier pay their debts in a depreciated currency; and as violent fluctuations in prices and in trade have been thus produced as were ever caused by the depreciation of paper currencies. The English pound and the French livre were originally a pound troy of silver; but the former has depreciated till its value is less than five dollars, while the livre is hardly worth twenty cents.

But there is another cause for the depreciation of a metallic currency, independent of the dishonesty of governments. Coins are worn and wasted by circulation; they are clipped by the avaricious; and by these means their real, sinks below their nominal value.

At the beginning of the seventeenth century, the Dutch stood at the head of European commerce; and *Amsterdam*, the capital of Holland, was the central point of trade. The currency of Amsterdam consisted not only of its own coins, but principally of the coins of all the neighboring countries; and many of the pieces were so worn and mutilated as to fall short several per cent in point of actual value. But as these coins were commonly received at par, in all small transactions, it was impossible to get any new coin into circulation; for, as fast as it was furnished by the mint, it was collected, melted down, exported as bullion, and its place supplied by a fresh importation of light coins. But payment of bills of exchange would only be accepted in the legal money of the city; and great difficulty was often experienced in procuring such coin as would be received; or if the bills were made payable in currency, their value was in consequence fluctuating and uncertain.

To remedy these evils, the authorities at Amsterdam resolved to have recourse to that system of bank payments, which had so long been in use at Venice. This was the origin of the BANK OF AMSTERDAM. The original subscribers to the bank paid into its vaults certain sums in the current coin, for which they received a credit on its books equivalent to the intrinsic value of the deposit. These credits were known as *bank money;* and it was enacted by the legal authorities, that all payments of bills of exchange exceeding six hundred guilders in value, should be made in this bank money, which was equivalent to, and which represented, the standard coin of the city.

Thus was created a perfectly uniform currency for the transactions of commerce, and bank money rose at once to an agio, or premium above the current coin. This premium varied from time to time. It may be looked upon as nearly equal to, and generally as representing the average depreciation of the current coin below its nominal value.

The Bank of Amsterdam, after its first establishment, admitted no new subscribers; but it sold bank money to all who wished to purchase, at a premium varying with the market price. It also sold current coin, when it was needed for exportation, upon receiving an equivalent transfer of bank money. It received coin and bullion upon deposit on the following terms. When the coin or bullion was deposited, a certain sum of bank money was transferred to the account of the depositor, equivalent to the current value of the coin or the mint price of the bullion, with a small deduction varying according to circumstances. At the same time a receipt was issued to the depositor, entitling him or any bearer, to withdraw the coin or bullion from the bank, at any time within six months from the date of the receipt, first transferring to the bank, the same sum of bank money which had been granted to the depositor, and paying a commission for the keeping, of one quarter per cent for coin and silver bullion, and one half per cent for gold bullion. If the deposit was not demanded within six months, it became the property of the bank.

The profits of the bank were made by these commissions, and by the premium it obtained on the sale of coin, bullion, and bank money. It made no loans; and therein differed essentially from our modern banks. It professed to keep in its vaults a sum of coin and bullion, equivalent to the whole amount of bank money in existence. Such was universally believed to be the fact; though, according to that foolish system of secrecy once thought essential to trade, the actual state of the affairs of the bank were kept a profound secret from all but the magistrates, who were a sort of self-perpetuating oligarchy.

Banks on the same principle with the Bank of Amsterdam were afterwards established at *Hamburg*, and some other of the commercial towns and free cities of Germany.

Chapter III.
Bank of England.

The bank of England, first chartered in 1694, is the prototype and grand exemplar of all our modern banks; its history, therefore, will deserve the more particular attention.

The original capital of this bank was 1,200,000 sterling. This capital did not consist in money, but in government stock. The subscribers to the bank had lent the government, the above sum of 1,200,000. at an interest of *eight* per cent, besides an additional annuity of 4,000. and the privilege of acting as a banking company for the term of twelve years. These hard terms are a pretty clear proof how low was the credit of king William s government in the first years of its establishment.

The business which this new corporation principally intended to do by virtue of its charter, was the purchase and sale of bills of exchange. But as its whole capital was lent to the government, how was it to do any business at all? This state of things led to the invention of bank-notes. Instead of giving coin for the bills which it discounted, the Bank gave its own notes, which, as they were made payable at the Bank on demand, were received by the merchants, and circulated among them as money.

The conveniency of these notes soon spread them over the kingdom; and as the capital and credit of the Bank increased, they continued to gain an increasing circulation. Previous to the year 1796, that circulation was generally about equal in amount to the capital of the Bank. The Bank was obliged to keep on hand a large sum of coin to meet the payment of such of its notes as might be presented for that purpose; but as a large portion of these notes were constantly circulating from hand to hand, and not at all likely to be presented for payment, the sum of coin kept in the Bank was always much smaller than the amount of notes in circulation. The interest on the difference between these two sums was evidently so much net gain to the Bank.

The charter was renewed from time to time, always on condition of some new loan to the government. But the credit of the government had so much improved that the Bank was obliged to purchase the renewal of its charter, not by loans at eight per cent, but at a very moderate rate of interest; and sometimes without any interest at all, that is, by gifts to the government.

The last increase in the capital of the Bank took place at the renewing of the charter, in 1781. It was then raised to 11,642,400, or about fifty-six millions of dollars, at which amount it has ever since remained. The whole of this capital is lent to the government, and so its capital ever has been since the Bank commenced business. Of course, the whole of that business is carried on by means of its notes. That business is of four kinds. First, the Bank manages the public debt, and pays the interest as it falls due, being supplied by the government with the necessary funds, and receiving an annual allowance for its trouble. Second, it advances money to the government in anticipation of the taxes, which sums are paid off, with interest, as the taxes come in. Third, it circulates and discounts exchequer bills. These exchequer bills are treasury notes bearing interest, and payable at the pleasure of the government; the credit which the Bank gives to these bills, enables the government to raise money upon them, as its exigencies demand. Fourth, it discounts short bills of exchange, with three good names, and thus accommodates and assists the merchants.

Chapter IV.
Private Banks.

With the increase of wealth and commerce in Europe, private bankers established themselves in all the principal cities and towns. They received money on deposit; they managed the money affairs of states and individuals; they lent money to such borrowers as could give the necessary security; and they bought and sold bills of exchange, bullion, and coin.

The English bankers were not slow in perceiving the profits which the Bank of England derived from the circulation of its notes. They imitated its example. They issued their own notes, payable on demand; and these notes, according to the credit of the issuers, obtained a greater or less circulation in the neighborhood of the bankers who issued them.

The Bank of England was highly alarmed at the progress made by these competitors for the circulation. It resolved to clip the wings of its rivals; and it had influence enough with the government, to obtain the passage of an act of Parliament, by which it was prohibited, that any banking firm which issued notes, should consist of more than six partners.

This artful and insidious law, by limiting the means and diminishing the credit of the private banks, accomplished its purpose in part. But still the private banks continued to increase, and more and more to dispute the circulation with the Bank of England.

Chapter V.
Scotch Banks.

Two banks were established in Scotland by charter from the king; one the *Bank of Scotland,* in 1695; the other, the *Royal Bank of Scotland,* in 1727. These two banks have branches in most of the principal towns of Scotland; but as they never obtained any exclusive privileges, a multitude of private banks sprung up to dispute the business with them, and to divide its profits.

This free competition among the banks, produced a new sort of bank loans, which has given celebrity to the Scotch system of banking. The Scotch Bankers, instead of confining themselves to the discount of mercantile paper, open what they call *cash accounts;* that is, upon the credit of a bond for repayment, signed by three responsible persons, they agree to advance money, for a certain time and to a certain amount, to the individual with whom the account is opened; but he is not obliged to draw out the money except at such times and to such amounts as he may think proper; interest begins only from the payment of his drafts; and be is at liberty to pay money into the bank, according to his own convenience, which payments cancel so much of his debt to the bank, and stop the interest upon it.

This amounts, in fact, to allowing their customers interest upon their deposits with the banks; and this great advantage to the customer, is one of the fruits of that free competition in banking for which Scotland is distinguished, and to which it is doubtless indebted for some part of that great extension of business and increase of wealth, for which it has been so remarkable within the last fifty years.

Chapter VI.
Law's System of Banking. Land Banks.

Bank-Notes had been introduced into Great Britain, and furnished a considerable portion of the circulating medium of the country; but the theory of their operation was not understood.

As these notes were observed to take the place of coin, and to perform all its offices, it was thence concluded that they were essentially the same thing as coin. Now, according to the mercantile theory of political economy, at that time universally prevalent, coin is the only substantial, actual wealth; and as, according to that theory, the great object of the trade of a country, is, or ought to be, to increase the quantity of coin, bank-notes came to be looked upon as a sort of gold mine, which could be wrought without expense, and to vast profit. For, as bank-notes, provided their payment was secure, had been determined to be the same thing as coin; and as, according to the mercantile theory, coin was the same thing as capital or wealth; to increase the capital of a country, it was only necessary to lend bank-notes freely to every one who could give competent security. This security, it was argued, was the same thing as the provision of a fund for the payment of the notes; and their payment being thus secure, they were every way equivalent to coin.

These reasoners were ignorant of a fact quite fatal to their system. It is now well understood, that the currency of any country, whether it be coin or bank-notes, cannot be increased beyond the mercantile wants of that country, without producing a depreciation in the parts which compose the currency. The total value of the currency of a country, business being supposed to remain the same will always be a fixed and settled amount; and if the coins or notes which compose that currency be increased, and if there is no outlet by exportation, it follows, that the value of all the separate coins and notes composing that currency, will diminish in a just proportion, so that altogether they may make up exactly the same sum total as before.

Ignorant of this fact, and flattering themselves with the idea that they could increase capital at pleasure, the British banks, and the Bank of England among the number, proceeded to act to a greater or less extent, upon the principles above explained. But they soon found, to their great astonishment and alarm, that every attempt to increase their circulation, was followed by *runs* upon them for coin, which obliged them to buy up gold at extravagant rates, and often brought them to the brink of a stoppage.

These runs are easily explained. The increased issue of bank-notes increasing the currency beyond the mercantile wants of the country, and depressing the value of all its parts, the gold, the only part that was movable, instantly began to flow out of a country where it was no longer so valuable as elsewhere. The least troublesome means of collecting gold in large quantities, was to get together a large amount of bank-notes, and present them at the banks for payment. Hence the runs so alarming to the bankers.

This explanation of the matter was far beyond the knowledge of the practical men of that day; but experience soon taught them, that there was a certain limit, beyond which it was useless to go; and that any attempt at a further increase of their circulation, was sure to involve them in trouble and expense. Of course they found it necessary to put a limit to their loans, and not to go beyond a certain amount.

But this necessary prudence, or as it was described, this short-sighted folly and injurious and illiberal caution on the part of the banks, was highly displeasing to diverse persons, especially landed proprietors, who wished to borrow upon a long credit, and whom the banks refused to accommodate. In this state of the public mind, the famous John Law came forward with his scheme for a *Land Bank.*

That scheme was briefly, as follows. A bank was to be created in which all the landed proprietors in the kingdom were to be allowed to become stockholders; and as a security for the payment of their respective amounts of the stock, their landed property was to be conveyed to the bank by way of mortgage. These stock- holders were to be allowed to borrow the notes of the bank, to the amount of their respective shares in the stock, pledging that stock to the bank, as a security for the due repayment of the loans. Thus, said Mr Law, we shall be able to issue notes to the amount of the whole landed property of the kingdom, and shall increase the capital and wealth of the country exactly by that amount.

This splendid scheme was first submitted to the parliament of Scotland, the native country of Mr Law; but owing to the caution habitual to Scotsmen, or for some other reason, it was not approved. However it made many converts; and according to the notions then current, it was impossible to detect its theoretic fallacy. Several private banks were established more or less, upon this principle, but they all ended in the disappointment and loss, if not the ruin, of their projectors.

Chapter VII.
Mississippi System.

But the grandest experiment upon the system of Mr. Law, was tried in France. During the minority of Louis XV. while France was governed by the regent duke of Orleans, Mr Law went to Paris. He established a bank there in 1717, under a patent from the king. This bank, upon its first establishment, assumed the modest title of the *Bank of Law and company.* It issued bank- notes, the first ever seen in France; and as the bank was careful to sustain its credit, and to meet all its engagements with promptitude and alacrity, those notes soon obtained an extensive circulation.

In December 1718, an act of council was published, informing the nation, that the king had bought out the Bank of Law and company, and that henceforward it would be known as the *Royal Bank.* Mr. Law was appointed director general, and branches were established in the chief provincial towns.

To carry out Mr. Law s principles, and to create a borrower which might be able to borrow the notes of the bank to any amount, a trading company had previously been created under the title of the *Company of ike West,* To this company was conveyed the entire province of Louisiana, with the vast tracts claimed by France on both banks of the Mississippi, and hence the name of *Mississippi System* by which the company was commonly known. But that the borrowing might go on to an indefinite amount, it was necessary that the business of the borrower should be indefinitely extended, so as to monopolize in fact, the whole trade and business of the country. With this view, the Company of the West bought out the charters, privileges and effects of the Senegal Company, the India Company, and the China Company; and now assumed the title of the *Company of the Indias.* The Company next acquired the privilege of farming all the taxes and the whole revenue of the kingdom; and presently bought out the mint, and the right of coinage, lor a sum of money paid to the king. Finally the Company advanced to the king 1500 millions of livres on an interest of three per cent, to enable the government to pay off the public debt; so that besides engrossing all the most lucrative business of the country, the Company now became the sole public creditor.

To raise the immense sums necessary for these vast undertakings, new stock was occasionally created. The original shares in the company, were 500 livres each; but the new stock which was created from time to time, was rated at an advanced price; at the last creation of new shares, the subscription price was advanced to 5000 livres: and so much were the expectations of the public excited, and such was the competition for the possession of the stock, that these same shares sold on the public exchange for 10,000 livres. Such of the old proprietors as sold out at this advance, realized immense fortunes.

As the company did all its business through the medium of banknotes, the circulation of the bank was very much increased; and what tended to increase it still more, was that state of preternatural excitement, which had turned all France into a grand stock-exchange, and which required a large amount of circulating medium to facilitate this new branch of traffic.

As a natural consequence of the issue of all this paper the coin was rapidly leaving the kingdom; this circumstance alarmed the managers of the bank; and as the circulation of banknotes had now become immense, the effects of a run were regarded with great apprehension. To prevent the likelihood of a run, or to guard against its consequences, successive edicts were issued in January, February and March, 1720, making the notes a legal tender in payment of rents, customs and taxes; restricting payments in specie to small sums; and prohibiting any individual or company to have in possession at any time, more than 500 livres in coin, under pain of heavy fine, and confiscation of the sums found in their custody. These edicts made coin scarcer than ever. Those who put implicit confidence in the bank, carried their coin thither to be exchanged for notes; those whose faith was weaker, concealed such specie as they had, or sent it out of the kingdom.

The Royal Bank and the Company of the Indias were now incorporated together. But the king remained a guarantee for the banknotes as before.

The French government, according to a practice mentioned in a preceding chapter, had long been in the habit of changing the standard of the coin, to suit its own convenience. To guard against this species of swindling, so far as the bank-notes were concerned, it had been expressly mentioned upon the face of the notes, that the livres therein spoken of, were to be of the weight and fineness of those current when the bank commenced operations. To favor the circulation of the notes, the government had been constantly altering the standard of the coin, during the preceding four years; and it now stood at half the real value of what it had been, at the establishment of the bank.

It was represented to the regent, by some of his advisers, that this discrepancy between the livre of coin and the livre of paper, ought not to be tolerated; and that it was necessary to raise the standard of the coin, or to lower the value of the paper. It was in vain that Mr Law protested against this advice, and appealed to the promise borne upon the notes. An edict was issued on the 21st of May, reducing the value of the notes in the proportion of ten to eight; on the first of July another reduction was to take place; and another yet, at the commencement of every following month, till after the first of December, when the value of the notes was to remain fixed at half their former rate. A like reduction was simultaneously to take place in the rated value of the stock of the company.

This edict was instantly fatal to the circulation of the notes. Apart from the shock it gave to their credit, and as one edict had taken away half their value, another might take away the other half, it destroyed their conveniency as a circulating medium. Their value was to remain in a state of fluctuation for a period of six months, during any moment of which it was impossible to estimate their actual worth according to any satisfactory standard. An instant run commenced upon the bank; but to avoid its effects, and to escape parting with the coin it had accumulated, the bank was closed.

It is easy to imagine the consequences of these procedures. All business came to a sudden stand. Thousands who had imagined themselves rich, sunk at once into poverty and distress; and as coin was hardly to be had, and nothing but coin would be accepted in payment, it was difficult to find the means of purchashing the necessaries of life.

The notes of the bank in circulation, amounted it is said, to 2,235 millions of livres. To absorb these notes, and thus to quiet the public discontent, which threatened to burst out into open rebellion, the government at length offered to fund them at an interest of about two per cent; and to compel the holders to accept these terms, an edict was issued prohibiting the circulation of the notes after the 1st of November. Thus ended Mr. Law s paper money.

The immediate blame of the explosion belongs to the regent and his advisers. But the whole fabric of the bank and the company, was based upon a false foundation. It must necessarily have fallen; and though the shock of so sudden a downfall was most distressing and tremendous, it may well be doubted, whether it were not the best thing which the circumstances of the case permitted. The effects of a more lingering disorder would not have been so obvious and so striking, but in all probability they would have been far more fatal to the French nation.

Chapter VIII.
Continuation of the History of the Bank of England. Stoppage and Resumption of Specie Payments.

The connection between the Bank of England and the British government had long been extremely intimate. The Bank Directors were frequently consulted upon all such public measures as were likely to affect the trade and money concerns of the kingdom; and their advice was always listened to by the minister with the most profound attention.

But this intimate connection became much closer in consequence of Mr. Pitt s anti-jacobin war against the French Republic. The war had not lasted three years, before that minister was reduced to the humbling necessity of making an express promise to the Bank, that he would enter into no political engagement likely to affect the rates of foreign exchange, and through them, the circulation of bank-notes, without first consulting with the Directors.

In the year 1796, the alarm of an apprehended French invasion reached a great height. The ministers were suspected, and not without reason, of fomenting this alarm, for the sake of strengthening their popularity, and keeping up the national phrensy against the French republicans, which was now beginning to flag.

But this alarm produced an effect which the ministers had not foreseen. The people took up the idea that if the invasion actually took place, the Bank might, perhaps, stop payment; and to be provided against every emergency, they began to present their bank-notes, and demanded the gold.

The Directors had instant recourse to their old and tried expedient in cases of the like nature, namely, a sudden reduction of discounts. But the alarm continued to increase; the run went on; the stock of specie began to diminish with great rapidity; and the Directors sent word to the minister, that there was great reason to apprehend they would be driven to an actual stoppage of specie payments. A consultation, was held; and as the fruit of this consultation, an order of council was issued, enjoining the Bank to discontinue the payment of their notes till the meeting of Parliament. That is, to avoid becoming bankrupt, the Bank was ordered to fail!

This order was made known to the public on the 27th of February, 1797; and at the same time the Directors published a notice, that the general condition of the Bank was never more affluent, and that they intended to go on discounting mercantile paper exactly as before!

The first announcement of this news produced a great sensation. But the Directors were playing a sure game. The government was on their side. The merchants knew not how to dispense with the accomodations afforded by the Bank; and to secure their continuance, it was necessary to support the Bank in the measure it had seen fit to take. The people at large knew very little about the matter; but satisfied with the acquiesence of the government and the merchants, they followed in the wake; and presently things went on exactly as if the Bank had never failed.

Parliament met; and the suspension was ordered to continue to the end of the session. It was afterwards extended to the commencement of the next session. Then, it was annually renewed. The short peace of 1802 3, expired without any attempt at the restoration of specie payments; and, finally, the suspension was ordered to continue till the conclusion of a definite treaty of peace.

The Bank of England, now that it did not pay its notes in specie, was very much the same sort of thing with Mr. Law s Royal Bank. But though equally dangerous, it was managed with much greater prudence. At first, the Directors proceeded with very cautious steps. They made no attempt to increase their circulation; and the notes in consequence remained for some time nearly at par. The ministers and the practical men were surprised and delighted with the admirable working of their non-speciepaying-bank; and the opinion gradually crept in among them, that bank-notes were the same thing as coin; and that it was in the power of the Bank to manufacture money at pleasure; a truly comforting idea for people engaged in so expensive a war. This was precisely the opinion and the error of Mr Law; and thus was revived a blunder which Adam Smith had most amply explained and refuted years before. Mr Pitt boasted that he had never read the Wealth of Nations, so that his being thus deceived is not so much to be wondered at; but that so many able and well informed men among the merchants and the land holders, should have fallen into the same mistake, is a most striking instance of the facility with which men suffer themselves to be deceived, when that deception is consonant to some fancied interest.

The Directors gradually adopted the opinion that the amount of their issues ought only to be limited by the validity of the bills offered for discount. But as great bodies move slowly, it was sometime before they began to act up to their new opinions. By the year 1803, the depreciation of the bank notes amounted to about three per cent; but this depreciation was still concealed from the public, under the specious phrases of an unfavorable exchange, a high price of bullion, &c. &c. It was perceived and pointed out by a few reflecting men; but they were instantly pounced upon by the ministerial newspapers, denounced as theorists, jacobins, traitors to their country, and favorers of the French; and when some persons began to talk of refusing to accept the bank paper in payment of rent and other debts, an act of Parliament was passed making the notes a legal tender.

Encouraged by this show of favor, the Directors went on with new confidence; they issued their notes with increased profusion, so that by the year 1810, the depreciation amounted to twenty- five per cent.

It is a fact familiar to all who have the slightest acquaintance with political economy, that a rise in prices is the greatest stimulus to trade. Now, one of the effects of a depreciating currency, so long as that depreciation is gradual and unperceived, is the production of a rise in prices, which, though only apparent, has for the moment, all the effects of a real rise. Under this delusion the people of England had been laboring for ten years. Prices had been constantly rising; business had been advancing; people fancied that they were rapidly growing rich; and the practical men, who always judge from first appearances, eulogised the new system of banking, as the origin and foundation of the national prosperity.

But times changed. Bonaparte excluded British commerce from the continent; and the American embargo, brought on by the attempts of the British ministry to gratify the short sighted avarice of British ship-owners by securing a monopoly of navigation, cut off a lucrative branch of trade. Business was impeded; failures began; and it soon became evident that much of the supposed acquisitions of the last ten years, were altogether illusory, consisting only in figures. When the property was sought for, it was not to be found.

In this state of things, the practical men began to change their minds; and a committee of the House of Commons was moved for, and appointed, to enquire into the cause of the high price of bullion.

The minister and the Bank Directors used their utmost efforts to procure a favorable report from this committee. They strenuously insisted that the notes had not depreciated a jot. But the evidence to the contrary was overwhelming. The honesty and the courage of a majority of the committee, proved too strong for the arts and the threats of the minister and the Directors; and, at length, a long and argumentative report was brought into the House, in which it was proved, that the notes *had depreciated*, and were liable to a continued depreciation. The report concluded by recommending as the only effectual cure, the resumption of specie payments at the end of two years.

The publication of this report provoked a furious discussion. It was instantly assailed by the partisans of the ministry and the Bank, in newspapers, pamphlets, and octavo volumes. Some of the facts stated in the report, were not well established, and, some of the reasoning was very questionable. This gave the assailants an advantage which they did not fail to improve. But so great is the force of truth, that if once it can be fairly presented to the public mind, it is almost certain to prevail; and, notwithstanding every effort to prevent it, the British public presently settled down into the unanimous opinion, that the bank-notes had depreciated; that the new system of banking was all a bubble; and that a return to specie payments was absolutely necessary.

But how was that return to be effected? The ministry were straining every nerve against Bonaparte. The avarice of the British shipowners, having first destroyed the American trade, had now involved the nation in a war with America. The government was in no condition to make sacrifices, or to lessen its demands upon the national purse. The merchants, many of whom were trembling upon the verge of bankruptcy, could not bear to think of a curtailment of bank accommodations, and it was agreed on all hands, that so long as the war lasted, the resumption of specie payments was not to be thought of. But, in the mean time, the Bank was prohibited from increasing the issue of its notes; and the depreciation was thus prevented from increasing.

At last in 1815, came the long-wished-for peace; but it was attended, as the commencement of the war in 1793, had been attended, by such a sudden revolution in the commercial relations of the country, as produced a severe mercantile crisis, and very numerous failures. In this condition of things, the nation, the ministry, and the merchants had not the courage to rosolve upon an instant resumption of specie payments. Few people are bold enough to meet an evil in the face. How many suffer with the tooth-ache till the nerve decays, rather than encounter the momentary aggravation of toothdrawing? This timidity is not confined to women and children. It prevails to a great extent in England, where the doctrines of *gradualism* have been exalted into a mystery of political science; and where the advocate of reform is so often met with the sage observation, that Time is the safest innovator.

This doctrine prevailed in the case of the Bank. It was resolved that the issue of banknotes should be gradually curtailed till they rose to par; and then the Bank was to resume specie payments, which would take place, it was said, without the slightest shock, and in fact, would be imperceptible to the nation. This process went on so slowly, that it was not till 1823, that, in consequence of Peel s Bill to that effect, the Bank at last began to fulfil its engagements by resuming the specie payment of its notes.

Now, what was the natural, certain, and inevitable consequence of this mode of proceedure? I have mentioned already, that the effect of a depreciating currency is a constant rise in prices, and a temporary stimulus to trade. The effect of a gradually appreciating currency is exactly the opposite. It produces a fall in prices; and this constant fall in prices has a most depressing and discouraging effect upon all kinds of industry. But it was the necessary effect of that system of gradual appreciation which the British Parliament had seen fit. to adopt; and it continued constantly to operate till the bank-notes rose to par.

When to this steady and regular source of embarrassment, we add the loss of that monopoly of manufactures, trade, and navigation which the war had secured to the British nation; together with the loss of their best customer, by the stoppage of the war-demand on the part of their own government; and when we recollect how slowly practical men apprehend the consequences of such a change, and how reluctantly they adapt themselves to a new state of things, it will not be difficult to account for the great depression under which the industry of Great Britain labored, for several years subsequent to the peace. Those who had refused to risk their existence in the cause of honesty and honor, by submitting to an immediate resumption of specie payments, perished by thousands, under the lingering torments of a gradual pressure.

It so happened that presently after the actual resumption of specie payments, the independence of the Spanish American Republics was acknowledged by the British government. This acknowledgement was attended with an increased intercourse with those states; loans were opened in London on their behalf; companies were established with large capitals, to work the American mines; and the most magnificient reports were manufactured and circulated, touching the certain profits of these new undertakings. In the depressed state of every kind of business for several preceding years, it had been a very difficult matter to invest capital with any tolerable certainty of a profitable return, or even of preserving it from diminution. These new investments were eagerly caught at; and as one humbug generally produces a whole litter, joint-stock companies were got up for a great variety of purposes; and business resum- ed quite an air of activity.

But this activity had no solid foundation. It was forced and unnatural. Most of the new investments of capital turned out to be totally unproductive. A panic took place in the stockmarket, and presently extended to every other. Prices fell at once; business came to a stand; a run began upon the country banks; some scores of them stopped payment; merchants, farmers, and manufacturers, followed in their wake; and the distress and alarm was universal. It is to be observed, that of those who now failed, great numbers had been doing a ruinous business for ten years past. Prices had been steadily falling, and they had been steadily losing, till, at length, their capital was exhausted. They had been insolvent for some time; and the panic of 1825, was not the cause, it was only the occasion, of their failure.

The practical men, if two things happen at the same time, however little connection there may be between them, are sure to discover the relation of cause and effect. The resumption of specie payments had nothing to do with the panic of 1825, except, indeed, that the delay with which that resumption had been attended, had been constantly producing, as I have already shown, a most disasterous influence upon the industry of the country. But these two events were now connected together, by the ignorance and passion of many of the sufferers; and Mr Peel and the resumption of specie payments, were denounced as the causes of all the distress.

But the shock of 1825, soon passed by. The nation was at last delivered from a currency, which, by a natural and necessary operation, had produced a constant fall of prices, and a consequent discouragement to industry. The agriculture, the manufactures, and commerce of Great Britain had been at length forced into an adaptation to the new condition of things which a general peace had caused; and that general peace, which had been regarded by many as destructive to trade and ruinous to mankind, now began to produce its natural and blessed effects. Within the last five years, British industry has re-established itself upon a basis of sound, solid, and substantial prosperity, such as had hitherto been unknown to the nation since the commencement of Pitt s anti-jacobin war.

Chapter IX.
Continuation of the History of English Private Banks. Joint Stock Banks.

During all this long period, the English private banks were constantly gaining ground. While specie paymcntswere suspended they were obliged to redeem their paper in Bank-of-England notes, but still they came in for their share of the increased profits derived from the increased quantity of notes in circulation; and, as it was necessary for the Bank and the ministry to keep them well disposed towards the new arrangement, they were treated with unusual liberality.

After the peace of 1815, the private banks suffered of necessity, with all the other branches of British trade and industry. Before the expiration of ten years, many of them had become insolvent; but as they retained their credit, after they had lost their capital, they were still able to go on, till the crash of 1825, betrayed the reality of their condition.

But the private banks recovered, with the revival of business and industry, and soon regained their former credit and circulation. The charter of the Bank of England expired in 1835; and though it has been provisionally extended for twenty-one years, the Bank is shorn of a part of the exclusive privileges, which have always been its boast, and on which, if we believe the Directors, the successful working of the Bank essentially depends. It is provided in the new charter, that the law prohibiting private banks to have more than six partners, shall not extend beyond a circle of sixty-five miles round London. The rest of the kingdom is open to free competition; and its effects are already remarkably visible.

There have sprung up in all the provincial towns, joint-stock banks, which are precisely the same thing with our American incorporated banks, except in a single particular. The responsibility of the stockholders, in an incorporated bank, is limited by the respective amounts of their stock; whereas, in a joint-stock bank, it is only limited by the liabilities of the company. The one is a limited, the other an unlimited partnership.

These joint-stock banks by reason of their larger capitals, and that publicity in their affairs which is not possible in the case of a merely private partnership, are rapidly displacing the private banks. They have already excited the serious jealousy of the Bank of England; and there are strong indications, that relying upon their means, their credit, and their popularity, they mean to dispute with the Bank, and that shortly, the arbitrary and exclusive control, which has so long been exercised by its Directors, over the monetary affairs of Great Britain.

Chapter X.
Government Paper Money.

All schemes for issuing government paper money, have been essentially founded upon the same idea upon which Mr Law erected his system of banking.

Bank-notes, according to that idea, provided the solvency of the issuer is undoubted, are the same as coin. Now the means and the solvency of a government are only limited by the total amount of property in the country; therefore the government may safely go on issuing notes, to the total amount of that property.

Where it has been attempted to put this scheme into operation, the first effects have been such as to delight the projectors, and to confirm them in the idea that their resources are inexhaustible. For a time the notes keep perfectly at par; and on account of their superior convenience, are even preferred to coin. This state of things continues so long as the issues of paper do not exceed the amount of the currency previously circulating in the country. But so soon as that limit is passed, and it soon is passed, a rapid depreciation instantly commences; and if the issues continue, this depreciation soon becomes so great as to destroy the conveniency of the notes for a circulating medium, to ruin their credit, and to drive them out of circulation. If the government provided the means of absorbing these notes as fast as they were issued, or of paying them in coin on demand, they would always remain at par. But after a short time, this would only be receiving with one hand and paying back with the other, and would entirely defeat the object of governments in issuing such a currency, which object always is, to pay their debts not in *coin* but in *promises.*

At the commencement of the American Revolution, the circulating currency of the country, which at that time consisted entirely of coin, was estimated at about five millions of dollars. So long as the paper money issued by Congress and the States, did not exceed that sum, the notes remained at par. But five millions were spent the first year of the war; and new issues became necessary. A depreciation instantly commenced and betrayed itself by a rise, in prices, which soon became, if we regard only their nominal amount, extravagant and outrageous. It was in vain that Congress and the States, declared their notes to be a legal tender for all payments, and perfectly equivalent to coin. It was in vain that the States enacted the most tyrannical laws for the regulation of prices, and denounced one price in paper and another in coin, as wicked, traitorous, and a sure sign of disaffection. These double prices soon became perfectly established. By the year 1780, the issues of paper by Congress alone, amounted to two hundred millions of dollars, and the depreciation stood at forty of paper for one of coin. It was to no purpose that Congress yielding at last to the necessity of the case, issued a new set of bills, by which the depreciation of the old ones was acknowledged. This public acknowledgement of the worthlessness of their paper, was fatal to its credit, and it fell, almost at a leap, to two hundred for one, and very soon to a thousand for one. At this rate nobody would take it; and it dropped silently out of circulation.

The history of the American paper money, is the history of the French Assignats; it is the history of the government paper currencies in Austria and Russia, their history indeed in every country in which the experiment has been tried.

Chapter XI.
Colonial Currencies of Paper Money in America.

But the experience of America in the matter of paper money was earlier than the revolution.

In consequence of the accession of William of Orange to the English throne, the AngloAmerican colonies became involved in a series of expensive and bloody wars with their French neighbors of Acadie and Canada; which wars were only terminated by the conquest of the French colonies.

Massachusetts generally bore the brunt of these wars, and paid the bills. When they began, her population did not exceed 50,000 souls, and her resources were by no means equal to her spirit. In the very first year of the first war, (1690) she fitted out a fleet of eight vessels with an army of seven hundred men, which was placed under the command of Sir William Phipps, a Massachusetts man, from whom is lineally descended the English Earl of Mulgrave, at present Viceroy of Ireland, and known in the republic of letters, as a novelist. Phipps laid siege to Port Royal, (now Annapolis) the capital of Acadie; and that place having surrendered, he completed the conquest of the colony, and returned in triumph to Boston.

Encouraged by their success against Acadie, and in spite of the witches, who ahout this time were let loose upon the colony, and commenced their operations in Boston and Salem, the General Court of Massachusetts fitted out an armament of twelve hundred men, which sailed under the command of Phipps, to attack Quebec. But Phipps found the place much stronger than he had supposed; and he was obliged to return without effecting any thing. Success had been confidently expected; the immediate return of the troops was quite unlocked for, and no sufficient provision had been made for paying them. There was danger of a mutiny; and as it had no coin, the government issued *bills of credit* to the soldiers, which were to be received in payment of taxes, and which passing from hand to hand as money, betrayed to the eager eyes of the colonial legislators, a new secret in finance.

The emission of *bills of credit* was resorted to by almost all the colonies as a financial expedient; but they were also issued, upon certain principles of political economy, and for the accommodation of the influential leaders in the colonial legislatures.

The scarcity of capital was always a most grievous subject of complaint in all the colonies; and when Mr Law made public his celebrated scheme for increasing capital by means of banknotes, he found many eager and willing converts upon the western shore of the Atlantic.

The procedure which they proposed, and which was adopted in several of the colonies, was this. The government issued a certain amount of bills of credit. These bills were lent out to the principal persons in the colony, they giving mortgages upon their lands, or other security, lor the punctual repayment of the sums lent, in certain instalments; which sums so paid in, were to be expressly and solely devoted to the redemption and extinction of the bills. An annual interest was to be paid on these loans, which interest went into the public treasury, and was to relieve the people from taxes. By this bait the people were induced to favor the measure.

It was argued, as the redemption of those bills was absolutely secured, not only by the pledge of the government s credit to that effect, but by the provision of a fund devoted to that express purpose, the due application of which must extinguish them within a certain period, that their value was certain and absolute, and that it was impossible they should ever depreciate.

But as it was not easy to satisfy the demands of the borrowers, without issuing more notes than were sufficient to supply a circulating medium for the colonies, a depreciation did take place wherever these notes were issued.

In some of the colonies, as Pennsylvania, where the issues were tolerably moderate, the depreciation never became very great. In others, as South Carolina and the New England colonies, where these notes were profusely issued by the colonial governments, not only by way of loan, but as a means of paying their war expenses, the depreciation, at times, became excessive.

It showed itself, as a depreciation always does, by a rise in prices. This rise was explained by the friends of the paper currency, as being caused by the *scarcity of money;* and the remedy they were accustomed to recommend, consisted in a fresh emission of more paper.

At length, in 1720, a circular order was issued by the British ministry, to the colonial governors, forbidding them to consent to any emission of bills of credit except for necessary charges of government.

The immediate cause of this order is not a little remarkable, and is a most convincing proof, that our respected ancestors were not altogether that pure, honest, and simple-minded people we are taught to believe them. The legislature of New York, in imitation of the sister colonies, had seen fit to issue a large sum in bills of credit; but instead of applying them to the public service, or loaning them out for the benefit of the colony, they were divided among the governor, the council, and the members of the House; to the governor as a gratuity in addition to his salary; to the council, for pretended services rendered at the time of Leistler s rebellion, thirty years before; and to the members of the House, in consideration of their patriotism, honesty, and regard for the public good!

This restraint upon the power of the colonial governments to issue bills of credit, gave birth to several attempts to get up private banks on the principle of Mr Law; and as these attempts were partially successful, new issues of a depreciating paper continually took place.

A minute history of the paper emissions in the several English colonies, would fill a volume, and would present a picture of public and private fraud and profligacy, of wilful blindness, and a stubborn resistance to the clearest evidence, not very creditable to the virlue or to the discernment of our colonial ancestors.

The bills of credit, in spite of the mischief which they produced, for a long time sustained their popularity. For near a century, whenever there was any stagnation in trade, real or imaginary, the favorite remedy with the practical men of America, was a fresh emission of bills of credit; and as such an emission always gave a transient activity to business, the virtue of the bills was thought to be undeniable. None troubled themselves Avith an inquiry into their subsequent effects; and the commercial condition of the colonies, during this long period, may be well illustrated by that of a man, to whom the habitual use of intoxicating drinks, if it affords him an occasional stimulus, is still the steady and certain cause of weakness, disease, and misery.

But the experience of the revolutionary bills of credit opened the eyes of the people. They had become more, intelligent; the principles of political economy were beginning to be understood; the experiment was tried upon a grand scale, and its effects were obvious. It impov- erished honest and patriotic men; and transferred their wealth into the hands of rogues and tories. So well satisfied had the people at length become of the pernicious effects of such expedients, that it is expressly provided in the Constitution of the United States, that bills of credit shall never be issued; and that neither the general government nor the States shall ever make any thing but gold and silver, a legal tender for the payment of debts.

Chapter XII.
American Banks.

The first bank in the United States, upon the principle of the Bank of England, and the British private banks, was the *Bank of North America,* established at Philadelphia in 1781, and projected and managed by Robert Morris, at that time, Superintendent of Finance, an officer corresponding to the present Secretary of the Treasury.

The war of the revolution was still going on; but the paper money which Congress and the States had issued so profusely at its commencement, had depreciated to nothing, and dropped out of circulation. Coin was now the only currency; and Congress met with the greatest difficulty in finding pecuniary means to carry on the war.

The Superintendent of Finance represented to Congress, that a bank to issue notes, redeemable in specie on demand, like those which circulated in England, would greatly facilitate the operations of the treasury; and would enable him, on pressing emergencies, to anticipate the public income, by means of loans from the bank. Upon the strength of this representation, Congress granted a charter; took a part of the stock; and agreed to receive the notes of the bank in payment of all public dues. The remainder of the stock was taken up by individual subscribers. The capital at first, was $400,000, afterwards increased to two millions. In all essential points this bank was the model of the National Bank, afterwards established by the first Congress which met under the federal constitution.

The Bank of North America was conducted with prudence and success. It gained the public confidence; its notes acquired an extensive circulation; and it so recommended itself to the general favor as to obtain a supplemental charter from the State of Pennsylvania, which was the more necessary, inasmuch as the power of Congress to grant a charter was extremely doubtful. The services which it rendered to Congress were perspicuous and acknowledged; in this respect it fulfilled all that had been promised for it.

But after the war was finished, the success of this institution, its exclusive privileges, and the greatness of its dividends, raised up a party in Pennsylvania opposed to its continuance. It was denounced as dangerous and anti-republican, and became the subject of the sharpest party contests. Pennsylvania, then, as now, was divided into a bank party and an anti-bank party, and the struggle was severe. In 1785, the anti-bank party prevailed in the legislature, and the bank charter was repealed;

but the bank still went on with its business, upon the strength of its charter from Congress. The next year the bank party regained the ascendency; and the charter was renewed on the 17th of March, 1786, for a period of fourteen years.

I have not time nor space to enter into the merits of this controversy, and to examine the arguments by which the bank was sustained and opposed. Neither party understood the substantial merits of the question at issue, nor did either party care to understand them. It was in fact a mere personal squabble between the friends of Mr Morris, and his enemies and rivals. Popular prejudices were enlisted on both sides; it was the passions, not the reason of the people, that guided their opinions; a striking instance of what the history of Pennsylvania at this moment will serve to verify, that so long as bank charters are dependant upon legislative favor, so long they will be an everlasting bone of contention, and the fruitful source of the bitterest party hostilities.

The success of the Philadelphia Bank, soon induced the merchants in the other commercial cities of the country to seek from their respective states, the grant of similar charters. The *Massachusetts Bank*, with a capital of $1,600,000, was established at Boston, in 1784; and the same year, the *Bank of New York* commenced business in New York, with a capital of $950,000. These three banks were the only ones yet established, when the Federal Constitution went into operation.

Chapter XIII.
First Bank of the United States.

Alexander Hamilton, the first Secretary of the Treasury, was a great admirer of England, and all her institutions. He knew the close and intimate connection between the Bank of England and the British Treasury; and he was well acquainted with the important aid which his friend Morris had derived, while acting as Superintendent of Finance, from the Bank of North America.

Congress at its first session, under the federal constitution, was occupied with providing a public revenue, and funding the public debt. At the second session, Mr Hamilton brought forward his plan for a Bank of the United States.

It was proposed that the capital of this Bank should be ten millions of dollars, one fifth to be taken by the United States. The remainder was to be divided among individual subscribers, who were to be allowed to pay three fourths of their subscriptions, in certificates of the funded debt; the other fourth to be paid in specie. The notes of the Bank were to be received in payment of all public dues; it was to have the keeping of the public treasure; and Congress was to grant no other bank during its continuance.

The advantages to be derived from this Bank were as follows: *First,* the credit and value which it would impart to the government stocks by absorbing eight millions of that property. *Second,* the great convenience which such a bank would be to the treasury, in the collection and expenditure of the public revenue, and the management of the public debt. *Third,* the facilities and accommodation which it would furnish, in the way of loans, to merchants and others.

The proposed Bank was vehemently opposed on the following grounds. *First,* that banking institutions in general, and this Bank among the rest, were the artful contrivances of cunning men, to grow rich at the expense of the people. *Second,* that the Bank would tend to strengthen the executive branch of the government, already too strong, by allying with it the interest and influence of the monied men. *Third,* that such a charter was unconstitutional.

Touching these reasons, pro and con, it may be observed, that the first and second reasons in favor of the Bank, were substantial so far as they went, and were therefore entitled to a certain degree of weight.

The third reason for the Bank, and the first reason against it, involved a great question of political economy, not well understood by either party, and which will be fully discussed in the second part of this treatise. This question was doubtless much the most important and interest ing part of the whole controversy; but as if the members were conscious how little they understood it, it was far from being made the turning point. An assembly of lawyers rather chose to rest the decision upon legal quibbles and verbal subtilties, at which many of them were sufficiently adroit.

Accordingly, the discussion finally settled down upon the constitutional question, the third reason against the Bank. That question has nothing to do with the theory of banking. Let the lawyers and politicians settle it if they can, I will only observe that the letter of the constitution is on one side; while there is arrayed upon the other, the practice of all political parties, the acts of every administration, the doings of every Congress, the solemn decisions of the Supreme Court, and the opinions of every leading statesman, with the single exception of Mr Jefferson.

The question of granting a charter was decided by a very close vote.

The *First Bank of the United States* went into operation, and presently fulfilled many of the promises of its friends, and some of the predictions of its opponents. Government stocks soon rose to par; and the sales made in Europe furnished the country with a monied capital which was much needed. The facilities which the Bank afforded to the treasury department, were undeniable; but it was also observed that the stockholders in the Bank soon became the most firm and unflinching supporters of the executive, and of Mr Hamilton, by whose advice executive measures were principally guided.

It is highly unfortunate for the advocates of a strict monopoly, that the right of granting bank charters is claimed and exercised, not only by Congress, but by the state legislatures; and as the democratical spirit of equal rights has always been more lively in the state legislatures, than in Congress, no state bank has ever been able to obtain a grant of exclusive privileges analogous to those which have always been looked upon as the proudest feather in the cap of our National Banks.

The establishment and success of the First Bank of the United States gave a new impulse to the business of banking. That same year, the *Maryland Bank* went into operation at Baltimore, with a capital of $300,000; and the next year, *the Providence Sank* was chartered by Rhode Island, with a capital of $400,000. In 1792, *eight* new state banks were created; and by the year 1810, the number of banks in the United States amounted to upwards of *eighty*, with an aggregate capital of about *fifty millions* of dollars.

The First Bank of the United States, in its very origin, was a party institution. It had been sustained by the friends and followers of Hamilton; and as zealously opposed by the adherents of Jefferson. So long as the party of Hamilton remained in power, the concert between the bank and the government was perfect; but after the access of Jefferson to the office of President, the government entertained one set of political opinions, and the Bank Directors, another.

The natural consequences of this state of things were fully developed, when the time for the expiration of the charter began to approach. It is obvious, that if a National Bank is a good thing, the same Bank, unless its stockholders or their agents, have been convicted of some fraud or misbehavior, ought to be rechartered from time to time, and kept in constant operation. The winding up of one Bank, and the putting another at work, however agreeable and advantageous such an operation may be, to stockbrokers and stock-gamblers, is advantageous to them alone. To the public it is highly inconvenient. And this is a fresh proof of the disadvantage of having banking operations at all dependant upon legislative bodies, whose decisions are always more or less guided by a mere spirit of party.

The First Bank of the United States had proved, in practice, highly convenient to the treasury department; and Mr Gallatin, the Secretary of the Treasury, was favorable to its recharter upon that ground. A large proportion of the original opposers of the Bank, had ceased to feel that vehement dislike towards all banking institutions which they had evinced in 1790. Many of them had become officers or stockholders in the state banks; and others were in the habit of receiving business accommodations from the Bank of the United States which they were unwilling to lose. Hence there were found many unexpected advocates in favor of extending the charter. But then the Bank was in the hands of federalists, an argument against it, alike cogent with the most knowing and the most ignorant. It was this fact which prevented its re-charter, the bill being thrown out by a very close vote. The admirers and advocates of national banks, with the usual logic of practical men, have ascribed all the disturbances in the currency, which took place subsequently to the winding up of the First Bank of the United States, to the non-existence of a national bank. These things *followed* the winding up of the Bank, therefore they *were produced* by it. This is a remarkably easy and convenient method of proof; but it cannot be implicitly relied upon; since things are often connected in point *of time,* which have no connection whatever in point of *fact.* We shall presently see to what those disturbances in the currency were owing. In the mean time I will only remark, that it was fortunate for the honor of the First Bank of the United States, that, by ceasing to exist, it escaped being exposed to temptations, which were found too strong for the honesty of other institutions, equally respectable in point of character with the National Bank.

Chapter XIV.
State Banks. Stoppage of Specie Payments.

The deficiency in the amount of bank capital and bank accommodations, apprehended from the winding up of the National Bank was more than supplied by the new state banks which sprung up in consequence of its destruction. In the three years, 1810, 1811, 1812, *forty-one new* state banks were chartered, with an aggregate capital of some *thirty-six* millions; so that about the commencement of the war with Great Britain, the total number of banks in the United States was upwards of *one hundred and twenty,* and the aggregate bank capital, a part of which, however, was only nominal, about *seventy-six* millions.

The government, out of tenderness for the people, or a tender regard for their own popularity, perhaps a mixture of both, had resolved to carry on the war without the imposition of taxes. They relied upon loans. But the loan-market of Europe was shut against them; and at home, a large proportion of the monied men were opposed to the war, and not well inclined to furnish the means of carrying it on. The government were obliged to tempt borrowers by the offer of very advantageous terms; and as the war went on, and their necessities increased, the terms they offered became still more favorable. Even the most tempting offers proved no match for the political prejudices of Eastern capitalists, a most striking proof that avarice is a passion less strong than hate. But in the Middle and Southern states, where the war was popular, those who had money or could command it, were pushed by the double impulse of patriotism and interest, to subscribe to the government loans. In some cases, the banks themselves became the lenders; in most others, they lent to the individuals, who lent to the government. Things went on in this way till the middle of 1814. The government was then in the greatest distress for money, and more clamorous than ever, for loans. But the banks had already gone to the utmost limit of their means; their capitals were all invested; they had put more notes into circulation than they could keep there; and provided they continued to redeem those notes, that is, to pay their own debts, it would be impossible for them to lend the government any more money, or to enable individuals to lend it.

Examples of successful fraud seldom lack imitators. In this exigency, the bank directors bethought themselves of what the Bank of England had done and was still doing. They well knew how profitable a speculation it had proved to that Bank; it was suggested among them, and the resolution was presently adopted, *to suspend specie payments.*

To carry this scheme into successful operation, it was necessary first to secure the tacit approbation of the government; for if the government would consent to go on receiving their notes in payment of all public dues, it would give them a credit, which would sustain their circulation. The government were at the mercy of the banks. Overwhelmed with financial distresses brought upon them by their own neglect to provide sufficient pecuniary means for carrying on the war, they had no power to refuse; for if the banks did not supply them with money where were they to get it?

Accordingly the government gave a tacit consent; and by a compact among the bank directors, the suspension of specie payments took place simultaneously, or nearly so, throughout the middle, southern and western states.

This suspension of specie payments did not extend to New England. The bank directors there, did not choose to become parties to this scheme for enriching themselves, and assisting the government, at the expense of honesty and their creditors; nor would the people, a majority of whom were opposed to the war, ever have submitted to so outrageous an imposition. But south and west of New England, every bank in the country became a party to this fraud, with the sole exception of the *Bank of Nashville*, the sturdy honesty of whose directors, amid such general knavery, is not less praiseworthy than it is remarkable.

The suspension, it was said, was to continue only during the war. Peace came in five months; but the banks gave not the slightest indication of any desire to return to honest courses. The people, not well acquainted with the subject, purposely puzzled and misled by the specious arguments of the bank directors, and deceived by the apparent prosperity of business, under this new system of banking, did not move in the matter. As to the government, they Were still involved in the deepest financial embarrassment. The treasury overflowed with unconvertible bank paper; but they experienced the greatest difficulty in meeting the heavy demands which fell due in the eastern states, where nothing would be accepted in payment, except specie or notes equivalent to specie.

The banks therefore went on to suit themselves; and the years 1815, 1816, may be well marked in the calendar, as the jubilee of swindlers, and the Saturnalia of non-speciepaying banks. Throughout the whole country, New England excepted, it required no capital to set up a bank. All that was wanted was a charter; and influential politicians easily obtained charters from the blind party confidence, or interested votes of the state legislatures. A whole batch of these banks, was created in Kentucky by a single act; and other states did the same thing.

These banks, all through the country, immediately commenced lending their paper to all who could give any tolerable security. This over issue of notes, soon produced a depreciation. Depreciation produced a rise in prices; the apparent value of all kinds of property suddenly went up, and the people imagined they were never growing rich so fast. Business and all kinds of speculation were uncommonly brisk; the dividends made by the banks were enormous.

This description does not apply to New England. None of this artificial stimulus was felt there. In fact, that part of the country was subject to a particular depression. For the foreign trade left Boston and the other New England ports, where the duties were demanded in specie or notes equivalent to specie, and concentrated at Baltimore and other southern cities, where the currency in which duties were paid, had depreciated twenty-five per cent and upwards. Thus by one of the effects of this public fraud, the New Englanders were punished for being honest; and those places in which swindling was carried to the greatest extent, and the greatest depreciation in the currency produced, obtained as the reward of their villany, a monopoly of the foreign trade.

Chapter XV.
Second Bank of the United States. Resumption of Specie Payments.

It was during this state of things that the *Second Bank of the United States* came into existence. It is a remarkable proof, if proof were needed, of the inconsistency of politicians, that this bank was sustained and established by those very men, who five or six years before, had exerted every nerve to prevent the re-charter of the first National Bank. The capital of the new Bank was thirty-five millions, and its charter conformed in all important particulars, to that of its predecessor.

The reasons alleged for the establishment of this Bank were principally two. *First,* that experience had proved the necessity of such an institution for the convenient management of the public finances. *Second,* that a National Bank was a means, and the only means, of securing the restoration of specie payments.

Both these reasons were entirely destitute of foundation.

1. Experience had *not* proved the necessity of such an institution for the convenient management of the public finances. From the closing of the First Bank, to the year 1813, no difficulty was experienced in the management of the finances; and the difficulties afterwards encountered, grew out of the simple fact, that the government spent money a great deal faster than they could collect or borrow it, a pretty certain cause of embarrassment to all finances both public and private.

2. There was a sure and simple means of compelling the resumption of specie payments whenever Congress saw fit. It was only necessary to

pass a resolution that nothing should be received in payment of the public dues, but specie or the notes of specie-paying banks. Such a resolution was passed, to take effect a few days before the Bank commenced its regular operations; and it was that resolution, and that resolution alone, which compelled the resumption of specie payments.

Yet it cannot be denied that the government gained several considerable advantages from the establishment of the Bank.

First, there was the bonus, which at that moment was a very convenient aid to the treasury. Second, three fourths of the private subscriptions to the Bank were made in government stocks, and a demand was thus created which brought them up to par. This had not been the case before, since the commencement of the war. Thirdly, the Bank having thus become the proprietor of twenty-two millions of public stocks, the Directors consented to receive payment of thirteen millions of those stocks, in the notes of non-specie paying banks, a sort of money with which the treasury was flooded, but which the other holders of stocks would not consent to take. This was a great aid and relief to the finances.

Chapter XVI.
Panic of 1818–19.

The subscribers to the new National Bank, notwithstanding it was to be a specie-paying bank from the beginning, flattered themselves with the idle hope that the dividends would equal or surpass those lately made throughout the country, by non-specie paying banks. The public shared in this delusion, and the stock rose rapidly. The Directors had imported a large supply of specie, at a heavy expense. Confidently relying upon this treasure, and the favorable opinion of the public, they commenced business under apparently the most favorable auspices in the spring of 1817.

The determination of the government to receive nothing into the public treasury, but specie or the notes of specie-paying banks, reduced the non-specie-paying banks to this alternative, either to give up business, or to resume specie payments. The banks in the principal cities, which had a solid capital, sullenly prepared for a return to honesty, by refusing loans, and thus withdrawing their notes from circulation. The pressure which such a sudden reduction of bank accommodations would otherwise have caused, was in a great measure prevented for the moment, by the liberal facility with which the Bank of the United States granted loans to all who applied. Before the end of the year, the loans of the Bank, those to government included, amounted to upwards of sixty-three millions, and its circulation was about thirty millions. The stock rose to fifty per cent advance.

As to those banks which had no capital, including most of the western, and many of the southern banks, which had been instituted for the sole purpose of lending notes which were never to be paid, loath to relinquish the plunder they enjoyed, they attempted to go on as before. But the people, as soon as specie payments became the order of the day, were enabled to perceive and to understand, the gross fraud which had been practised upon them. They refused to receive the notes of the non-specie-paying banks; and as those banks had nothing else to lend, their business, their dividends, and their accommodations, came to a sudden stop.

The return from a currency depreciated, on the average, some twenty-five per cent, to a currency at par, soon produced its natural and necessary effect, in a sudden fall of prices. The eyes which had been blinded by the glitter of a delusive prosperity, were now opened to unwelcome realities. At the beginning of the year 1818, the whole country south and west of New England, *seemed* to be in the highest state of enterprising prosperity; before the end of that year, it presented a scene of general bankruptcy, terror, confusion and dismay.

Debts contracted in a depreciated currency remained at the same nominal amount, after the currency was restored to par; that is, they were relatively increased in the same proportion. But the property with which those debts were to be paid, and upon the strength of which they had been contracted, sunk some hundreds per cent in value. For the fall in prices produced by the appreciation of the currency, was aggravated ten fold, by the panic terror of the people; by the vast diminution in bank accommodations which the new system produced; and by the stop which was put in consequence, to all sorts of business and speculation.

This sudden cessation of business produced, as a necessary effect, a great diminution in the demand for a circulating medium. The banks, which had now resumed specie payments, found their notes flowing in, with a most distressing and inconvenient rapidity. Among the rest, the notes of the Bank of the United States began to come back faster than they had gone out. The Directors had instant recourse to the harsh measure universally and necessarily adopted by all banks, in the like case, to wit, a denial of all accommodations. In seven or eight months, the loans to individual borrowers, were reduced upwards of twelve millions, by which means that amount of notes were withdrawn from circulation. But the run still continued; the stock of specie was greatly reduced; and on the 19th of February, 1819, the Directors began to apprehend that the Bank might fail. However, by selling their government stocks in Europe, and importing specie at a great loss, they were enabled to weather the storm; and after the month of May, the Bank was considered out of danger.

But the Bank was saved, as always happens in such cases, by the ruin of individuals. The sudden contraction of its loans increased the general pressure and alarm; and the list of private failures was almost endless; traders, farmers, manufacturers, all were involved in one common ruin. Few instances are on record, says Mr Secretary Crawford, at the end of the year 1819, of sufferings so deep and so extensive, as those which have overspread the United States.

In the course of that year, all the western banks, and many in the southern and middle states, came to an end. The Bank of the United States has been accused of having broken those banks. The imputation is ridiculously false. What can be meant by breaking banks which were never known to fulfil one of their engagements, or to pay one of their debts? The managers of those banks were no better than swindlers. The banks never had any capital except the credulity of the public; and as soon as the resumption of specie payments enabled the public to perceive that their notes were good for nothing, they would pass no longer, and so the cheat ended.

It is to be observed that New England, as it had taken no part in the dance, so it was not obliged to pay the fiddler. Business was depressed there, because the general peace had put an end to the carrying trade; because the manufacturers no longer enjoyed the monopoly, which the embargo, the non-intercourse, the war and the double duties had afforded them, and because they had lost the war custom of the general government; nor could the farmers any longer obtain the high prices, for which they had been principally indebted to the British blockade. Moreover the great pecuniary distresses, and business embarrassments which pervaded the other states, could not but be sympathetically felt in New England. For all these reasons business was depressed there; but nothing was experienced at all resembling that utter overturn of property, which took place throughout the sister states.

It was in the West, particularly in Kentucky, where the ignorance of the people on the subject of banking, had given full swing to the frauds of the banks, that this overturn and its effects were most conspicuous. A majority of the influential men and leading politicians found themselves bankrupts; and encouraged by their numbers and their influence, they resolved to avoid the payment of their debts, and still retain that property, which in law and justice belonged to their creditors. They prevailed upon the legislature to enact stop-laws, relief-laws, tender-laws; and when the Court of Appeals declared those laws to be unconstitutional, the bold bankrupts, by whom they had been enacted, resolved to overturn the Court, and to substitute a more pliant tribunal in its place. Accordingly, they passed an act ousting the old Court, and establishing a new Court of Appeals. But the old Court declared that act to be unconstitutional; two separate Courts of Appeals contended for the supreme jurisdiction of the state; and the whole community was divided into two fierce and bitter parties, who seemed, for some time, upon the very brink of a civil war. The story of this controversy ought to be written at length; it would furnish one of the most entertaining, and certainly one of the most instructive portions of our history. Suffice it to say, that the party which contended for the faithful performance of contracts, finally prevailed, a glorious result, highly honorable to the state, and most consoling to the friends of popular institutions: The crash of 1818 19, was not wholly produced by the return from a depreciated currency, to a currency at par. The European war, from 1793, to 1815, had kept open a constant and profitable market for the agricultural products of the Middle and Southern states, particularly bread stuffs and provisions, in which the wealth of the country principally consisted. The general peace closed that market. Each European nation raised its own provisions and prohibited ours. The demand of our own government, produced by the war with Great Britain, ceased with the disbanding of the army in 1817; and the influx of foreign goods, which the distresses of the English manufacturers, obliged them to sell at any price they could get, was ruinous to domestic manufactures. The loss of the carrying trade has been already mentioned.

These causes, independent of any derangement in the currency, would have produced a great fall in prices, an embarrassment to business and numerous failures. By the year 1821, the currency was restored to a sound condition, and the effect of the change was over. But the causes of depression above enumerated, still continued to operate; and as they were of a nature to produce their full effect only by degrees, they continued for some time to produce a constant fall in prices.

This was an operation of which the practical men of that day, had had no experience. They had always been used to high prices; and thence they concluded that high prices were *natural,* and that the fall now experienced was *unnatural,* produced by accidental and temporary causes; and that it would presently give place to what they considered the natural state of things. They went on doing business under that idea; but as prices continued to fall, they did a losing business; and sooner or later exhausted their capitals. From time to time, numerous failures took place in all our large commercial towns. This was particularly the case in 1825, when the effects of English speculation, and the crash which took place in England, extended to this country, and involved a very large number of the houses engaged in foreign trade.

Meanwhile the protective tariff was enacted, principally through the efforts and influence of a theorist from Kentucky. The practical men of New England had opposed that measure, while in progress, by every means in their power; and Boston sent her ablest man to Congress, on purpose to resist its enactment. But it had no sooner passed into a law, and convinced the practical men by its operation, that it opened new channels to industry, and would furnish profitable investments for capital, than they were most suddenly and astonishingly converted. From the bitterest enemies of the tariff, they came at once to be its ultra-eulogists and admirers; and the same able man who could not prevent its enactment, was set to work to strengthen and extend it.

There sprung up in New England, a perfect mania for factories; and all who could scrape together a few hundred dollars hastened to invest them in factory stock. The kinds of goods which these factories produced were not very various; the business was new; the market was limited. The rage for manufacturing soon caused a glut in the market. Prices fell; factory stock went down; and the manufacturers failed in great numbers; particularly those whose capital was small and who could not withstand the slightest interruption to their business. Almost every body was connected in some way, with the manufacturers; and almost every body felt the effects of the shock. The alarm, distress, and pecuniary embarrassment were greater throughout New England than at any time since the panic of 1818 19; and perhaps greater than then. But this pressure was local; confined in a great measure to New England; it was also accidental and temporary; for as soon as the glut of domestic goods was over, prices revived; factory property recovered its value; and every thing went on more prosperously than before.

Chapter XVII.
Continuation of the History of American Banks.

The stock of the United States Bank fell as rapidly as it had risen, and presently sunk far below par. The Bank had experienced some very heavy losses; its business was greatly reduced; and its circulation so much contracted, that at the beginning of 1823, it did not much exceed four millions and a half.

This did by no means satisfy the desires, or answer the expectations of the stockholders and Directors. It was deemed expedient to devise some method of increasing the circulation; and the Directors applied to Congress for a modification of the charter, by which the Bank might be excused from redeeming its notes except at Philadelphia. If this application had been granted, it would doubtless have had the desired effect. Notes disbursed in distant parts of the country would have returned to the Mother Bank but slowly; the dispensation with the necessity of keeping specie at the branches would have given it a decided advantage over the local banks, whose notes it would have been constantly returning in order to make room for its own. At a distance from Philadelphia, and in the state of trade at that time, these notes would have fallen to a discount, equal to the expense of bringing specie from Philadelphia; a circumstance which would have enabled them to drive the local notes out of circulation, but which would have had no great tendency to produce that *uniform* currency, one of the principal objects, as we are lately told, for which the Bank was established. But Congress refused its consent, and this project was defeated.

The increase of the domestic trade, which, notwithstanding the commercial embarrassments of the country, regularly increased with the increase of population, was fast giving rise to a new and important branch of business, hitherto of little comparative consequence. This was the business of Domestic Exchanges.

The necessity of sustaining its branches, and of meeting the drafts of the government **at** different points of the country, first led the Bank into this business; and as its facilities for transacting it were great, so, for a long time, it enjoyed a complete monopoly of it. The Bank effected these exchanges at very reasonable rates, and divers practical men have since supposed, that because the Bank had a monopoly of the business, and the rates were moderate, therefore the monopoly was the cause of the moderation. Not at all. At first, this business of exchanges was quite limited; the Bank was very desirous of extending its business; it found the business of exchanges both convenient and profitable; and to keep other people out of it, and to engross the whole, it charged very moderate rates. It so happened, that just as this business increased, the active capital of the Bank increased also; for the public stocks held by the Bank, were paid up from time to time, and it was the most advantageous way of employing this new capital, to invest it in the increasing business of exchange. But this process came to an end in 1832, by which time the public stocks were all paid off, the capital of the Bank had become wholly active, and its business had been extended to the farthest limit. Still the business of domestic exchanges has gone on increasing. Within the last two or three years, this increase has been really astonishing; and although several banks and private firms have since gone into the business, the increase of capital employed in it, has by no means kept pace with its own extension. Hence the great rise in the prices of exchange. But this matter will be more fully explained in a subsequent chapter.

It was fortunate for the Bank of the United States, that the disastrous experience of the western people in the business of banking, induced them steadily to refuse the grant of charters for local banks. In consequence, the Bank of the United States obtained almost a monopoly of the circulation in those states; a circulation which increased rapidly with the increase of population and business. The same horror of banks prevailed for some time, in the Middle and Southern states; but it was gradually overcome; and influential political men presently began to procure the grant of charters.

This is the era of the New York *Safely Fund system,* which, as it has been much talked about, it may be well to explain. To guard the people in some degree, against the effects of bank failures, all the banks chartered by New York, or whose charters are renewed, are obliged to submit themselves to certain regulations; and among other things, to contribute towards a *safety fund,* out of which, should any of these banks fail, their notes arc to be redeemed.

This scheme may serve to please and quiet the people, but it does not touch the root of the evil; and it has the obvious defect of taxing the honest for the sins of the fraudulent.

In New England, where the monopoly of banking privileges has always been least complete, and where the banks have always been best managed, they went on, steadily increasing as they always have done since their first introduction; and that too in spite of the most strenuous and bitter opposition on the part of all existing banks.

At the beginning of 1830, the number of banks in the, United States, exceeded *two hundred and thirty,* and the banking capital amount- ed to *one hundred and twenty-five* millions. Of these banks, *one hundred and seventy,* with a capital of *thirty-six* millions were found in New England alone.

We have now reached a new era in the commercial history of the United States. Beginning with the year 1831, and in six years from then till now, the foreign trade of the United States has doubled; the domestic trade has more than doubled; the banking capital, and the business of banking and of domestic exchanges has more than doubled; prices have doubled in many instances, and have greatly risen in all; and the interest of money has risen with prices, till it exceeds any thing known in the United States, since that period of commercial prosperity, which preceded the embargo of 1807.

The great pressure in the money market, produced by the high value of money, has been mistaken by many practical men, whose experience does not extend beyond the panic of 1818 19, if so far, for a sign of commercial distress; and they have been sighing over the ruin of the country, at the very moment of its highest prosperity. They have always been accustomed to low prices; they look upon low prices as *natural*; the present rise is certainly *unnat- ural;* it must be produced by speculation, over issue of bank-notes, overtrading, or some other of those verbal reasons by which practical men account for things they do not understand. But what is most perplexing to these reasoners, is the strange and unaccountable fact, that although money is so hard, prices still keep up, and go on rising. This is contrary to all their experience; and they wait with fear and trembling for the final developement of this wonderful phenomenon.

To calm their apprehensions, let me be permitted to observe, that pressures in the money market, that is a difficulty of borrowing money and the necessity of paying a high price for it, are produced by two causes perfectly distinct, and almost diametrically opposite.

One of these causes is, commercial distrust, growing out of a course of unprofitable business. Such a business cannot long go on, without exhausting the capitals of those engaged in it. At length, failures begin. Every body knows that every body has been losing money; and of course, every body is afraid of every body, unwilling to trust, and unwilling to lend. This state of things puts a stop to business and knocks down prices; the real interest of money is in fact lower than ever, but those who wish to borrow have to pay a very heavy premium of insurance against the risk of their own insolvency. It is not easy to find a lender, and it is necessary to tempt him with the offer of a high price. A pressure of this sort pervaded the United States in 1818 19; a similar pressure was experienced in all the commercial cities, in 1825; and another yet took place throughout New England in 1828 29. This is the only sort of pressure, with which most of our present practical men have till lately had any acquaintance; and of course, their experience being the limit of their knowledge, they imagine that it is the only kind of pressure.

However there is another, and a very different, kind. It is produced by scarcity of capital, and the consequent necessity of paying a high price for it; and as the prosperity of business creates a demand for capital, and of course, makes its scarce, it is produced by the prosperity of business; and for that reason it is always and necessarily attended by high and rising prices and by that criterion may always be distinguished. Such a pressure in the money market, existed throughout the entire United States, during the whole period from 1793 to 1808. Another such pressure has been gradually coming on for the last five years; and is felt at this moment, throughout the country.

Chapter XVIII. The controversy touching the re-charter of the Second Bank of the United States. Panic of 1833–34.

But in the rapid career of prosperity which the country has been running for the last six years, there was a sudden stop, and something like a move backwards during the close of 1833 and the beginning of 1834. This event is commonly known as the Panic of 1833 34.

The history of this panic which is at once curious, instructive and entertaining, has hitherto been treated only by hot political partisans, writing for political effect, and utterly regardless of science or of truth. But it is time that common honesty and common sense should be permitted to speak a word upon the subject.

The successors of that political party by which the Second Bank of the United States had been chartered, at least those who claimed to be the successors, for there had been divers schisms in the political church, remained in power till 1829; and during all that period there was the most perfect harmony and good understanding between the government and the Bank.

But now happened an event, the same which had happened in case of the first Bank; and the same which is liable and almost certain to happen in case of every bank which is regarded as a national or public institution, or which is or can be, connected in any way, with party politics. A change took place in the national administration which did not extend to the Bank; the government were of one party in politics, and those who controled the Bank, of another.

Unluckily for the Bank, its charter was about to expire. The possession of the charter was in fact a *privilege*, and was so regarded on all hands. Now he must be little versed in the history of politics, who does not know, that a prevailing political party looks upon all privileges, in the power of the government to grant, as a part of the lawful spoils of political victory, in fact, as their sole property. Without attempting to pry into cabinet and party secrets, not yet developed, I shall be bold to affirm, that the President s messages, and other public documents, contain evidence sufficient to satisfy any candid man, that the leaders of the prevailing party early resolved to refuse a new charter to the old Bank, not because they were abstractly opposed to a National Bank, but for the purpose of creating a new Bank, the stock of which might be shared among their friends and partisans.

In such a project I discover nothing criminal. It is most amply justified by the practice of all our legislative bodies without exception, who have ever been in the constant habit of confining the grant of bank charters to influential persons of the prevailing political party; and it was more or less openly encouraged, by numerous capitalists in all our cities, who had no stock in the old Bank, but who hoped to be allowed some in the new one; though many of these same persons, when they found it impossible to get a new Bank, saw fit to come out as the most firm and vehement advocates of the very institution they had plotted to destroy.

The First Bank of the United States had long foreseen the destiny that awaited it. It made hardly a serious effort to procure a recharter; and submitted to its fate with the apathy of despair. Not so, the Second Bank. Confident in its wealth, its influence, its popularity, and the weight of talent engaged upon its side, it defied its enemies, and took the field against them.

There were many reasons why the Bank might hope for success. Of late years, it had been conducted with distinguished ability, and its credit had become well established throughout the whole mercantile world. It had furnished the western country with a sound and stable currency, and had recommended itself to the good graces of many people most hostile to banks in general. Its business was so extensive, that vast numbers of persons who depended upon it for loans, were led to sustain it, as much by interest as affection; and the Bank took great credit to itself for the regulation of the currency, and the economy and success with which It had conducted the business of domestic exchanges. In fact, it had purchased golden opinions from all kinds of people; and it was argued with irresistible force, that if a National Bank were necessary, which at that time seemed to be admitted on all hands, it was much better to continue the old one, which had been tried and proved, than to create a new one, merely for the sake of a new distribution of stock.

Upon the strength of these and other reasons, and by the aid of its Congressional friends and adherents, not to say its paid advocates the Bank succeeded in obtaining the passage of an act through both Houses, for extending its charter, upon very favorable terms. But that act was defeated by the presidential veto. As the opponents of the recharter were still determined to have a bank of their own, that veto was founded on the plea, that as the bank charter had yet four years to run, it was too early to decide the question of extending it.

It was now perfectly evident, that the Bank must put down the administration, or the administration would put down the Bank. The elections were presently coming on, and both parties appealed to the people.

The Bank having fairly entered the political arena, resolved to leave no means of victory untried. The services and good will of the leading editors in the country, were secured by loans upon favorable terms, or doceurs under the shape of payments for printing. The North American Review was taken into pay; and the American Quarterly was either enlisted, or else entered as a volunteer. The principal counsel of the Bank made speeches and held political meetings all over the country; and the Bank printed and distributed a vast number of pamphlets in its own defence, and attacking the administration.

The other party were not behind-hand. The leaders saw how difficult it would be to satisfy the people, that if a bank was to be, the old Bank was not altogether as good as a new one. With heavy hearts, they relinquished the idea of getting a Bank for themselves. But though obliged to give up all hope of the spoils of victory, they still fought not the less ardently, for existence and revenge. They fell back, and entrenched themselves behind the old constitutional argument, which had been made the main objection to the first National Bank. Some of them began to denounce all banks, as no better than notorious frauds, and to come out as the enthusiastic champions of a *gold currency;* while others confined their objurgations principally to the National Bank, which they declared to be a mammoth and a monster, ready to swallow up the substance of the people, and to devour their liberties. Not content with these general accusations, which it must be confessed were more noisy than substantial, a malignant disposition was evinced to ruin the credit of the Bank. Its solvency was declared to be doubtful; the most calumnious reports were spread abroad touching that matter; and some foolish attempts were made to interrupt the operations of the distant branches.

The battle was fought out on both sides, with equal courage, and with equal contempt for the ordinary rules of vulgar morality. But the victory, or apparent victory, remained with the administration. In fact, both parties were defeated. While struggling together for the exclusive privileges of a Bank, those exclusive privileges were abolished; a space is opened for free competition, and the Country is the gainer.

In the course of this political squabble, the passions of both parties had been highly irritated; and the leaders of the prevailing party swore in their wrath, that during the remainder of its existence, the Bank should enjoy no privilege and make no profit, of which they had the power to deprive it. Hence the *Removal of the Public Deposits,* in the summer of 1833.

Notwithstanding all that has been said to the contrary, that act of the President s was clearly legal; and if we recollect that the charter of the Bank was to expire in less than three years, and that it was necessary seasonably to arrange some other system for the keeping and disbursment of the public moneys, we shall be inclined to pronounce that celebrated removal, not only an act of punishment, but an act of prudence.

It seems, however, not to have been anticipated at the Bank; and it produced no little alarm there. Nor was that alarm unreasonable. Within the last three years, the business of the Bank had been greatly extended, and its circulation and loans had very much increased. It was afterwards charged upon the Bank that it had extended its loans solely for political effect, and to buy up friends. It is perhaps natural for politicians to account for every thing by political reasons; but it is not the less true that the united efforts of all the politicians in the universe, cannot keep a single bank-note in circulation, which is not demanded by the business wants of the community. He who considers the great increase of business, during the period in question, will perceive the true reason why the Bank had extended its loans. The increased demand in the country for a circulating medium, had enabled it to keep more notes in circulation.

The unexpected crippling of its means which the removal of the deposits would produce, and the known and bitter hostility of the government, made the Bank apprehensive of a run, and fearful of its consequences. To be prepared for the worst, it had immediate recourse to that usual but always cruel expedient, an immediate curtailment of loans. The progress of business had created a brisk demand for capital; money was already beginning to be tight, when the sudden withdrawal of accommodations on the part of the Bank, produced a sudden pressure. That pressure produced a degree of alarm; for all the pressures of which the present generation of merchants had had any experience, were of that kind which were caused by, and which indicated, an unsound condition of business.

The curtailment of the National Bank, was followed by a curtailment on the part of the local banks, necessary in some parts of the country where the banks, in the enjoyment of a local monopoly, had a very extensive circulation; very necessary on the part of some of those banks, which had reason to dread the hostility of the National Bank; but caused in some parts of the country, particularly in New England, or at least aggravated, not so much out of any actual necessity, and as from that spirit of servile and submissive obedience with which the local banks had long been drilled and taught to follow the motions and be governed by the signals of the lord high admiral of the fleet.

The pressure increased. The Bank declared that it had been wholly caused by the removal of the deposits; and that measure became the subject of energetic remonstrance on the part of the merchants. The opposition to the administration took fresh courage; the leaders held council, and it was resolved to avail themselves of the present excited state of the public mind, to make a desperate attack upon their enemies.

Once more the standard of the Bank, floated high in air, and a gallant band mustering from far and near, shouted for the rescue. To work up the courage and the enthusiasm of this forlorn hope to the pitch of desperation, it was judged necessary to aggravate the panic and distress by every possible means. Public meetings were collected, speeches were made, resolutions were passed, the newspapers teemed with the most exciting and inflammatory appeals; Sundays and working days, it was all one. Long lists of failures were ostentatiously paraded; the most terrible stories were told about the rate of interest; even the boldest were more or less alarmed. This alarm produced its natural effect; prices fell, and business came to a stand. So matters remained as long as Congress continued in session. But the firmness or obstinacy of the President, and the steadiness of his political supporters, proved more than a match for the fierce onslaught of the assailants; and notwithstanding the desertion of several officers high in command, and of divers squads of the rank and file, the President achieved a victory, not less signal so far as courage and generalship were concerned, than that victory at New Orleans, for which he was indebted to his subsequent elevation.

Congress adjourned without granting any of that relief, which some of the newspapers had advised the people to enforce, at the point of the bayonet! From the moment of the adjournment the panic was at an end, and business rapidly regained its former vivacity. It is true that strenuous efforts were made to keep up the alarm till after the fall elections; but the signal defeat experienced on that occasion, completed the overthrow and dispersion of the party of the Bank.

But in the mean time an unexpected political revolution had taken place in Pennsylvania; and the Bank humbled by its defeats, was content to resign the arrogation of exclusive privileges, and was desirous to prolong its existence as a State Institution. It purchased a charter from the Pennsylvania legislature at a very heavy price, amounting in the whole to nearly six millions of dollars.

As a state bank, it possesses none of those exclusive privileges which made its existence as u national bank, so highly objectionable. The industry of the country is in great need of the accommodations which it has the power to grant. It stands exactly upon the ground of any other state bank; and those whose judgment is swayed by knowledge and by reason, will wish it a safe deliverance from the ferocious attacks of its enemies, both those who are influenced by the rabid malice of political hatred, those who hope to ride into office and honors by the help of a panic and crusade against it; and those, by far the greater number, who are misguided because they are misinformed, and whose ignorance and prejudices are made the stalking horses of other men s passions and interests. Him whom we hated as a *king,* as a *private citizen,* we ought to welcome and protect.

Chapter XIX.
Present State of American Industry and Trade.

The panic of 1833 34, was merely an accidental and temporary interruption, produced not by the course of trade, but by the course of politics, and business presently resumed its vigorous and onward progress. Its expansion within the last two years, has been astonishing. With the exception of some parts of the Southern States, a new spirit of enterprise and industry seems to have pervaded every corner of the Union. It has been felt in every village; and some considerable cities have been almost wholly built up within that period. New canals, railroads, and other similar enterprises, have been every where undertaken. The government have sold more public lands within these two years, than in the whole period beside, since the adoption of the Constitution; and large tracts of these lands, are being rapidly brought into cultivation. Some wild and visionary speculations have no doubt entrapped the ignorant and unwary; but a large proportion of the new undertakings, seem to be of a solid and substantial nature, and certain to prove profitable in the end, if not to the projectors, at least to those who will come into their places.

To understand the cause and origin of this state of things, it is necessary to look backwards.

The commercial history of the United States, since the adoption of the federal constitution, may be divided into four periods. From 1792 to 1808, the commerce and agriculture of the country, enjoyed the artificial stimulus of an European war, and the profits both of merchants and farmers, were very great. From 1808 to 1818, the foreign trade was greatly obstructed and reduced; but this was in a considerable measure made up for, by the artificial stimulus given to domestic manufactures by the embargo, the non-intercourse, the war, and the double duties, and by the home market for agricultural produce thus created; to which should be added the expenditure by the government of upwards of one hundred millions in the prosecution of the war, and the delusive excitement and apparent prosperity produced towards the end of this period by a depreciating currency. From 1819 to 1831 was a period of comparative lethargy, during which the United States and the trading world in general, were gradually adapting themselves, not without some occasional spasms, produced by the struggling impatience of the merchants, to the vast changes caused by an universal peace. But all this time, population had been gradually increasing both in Europe and America; and along with population, consumption and demand. The effects of this increase began clearly to show themselves both here and abroad, in the course of 1831; since which time we may reckon a new era in the commercial history of America.

It is not to be supposed that business will continue to go on with the same rapid progression for which the last six years have been distinguished. Within that period, large sums of foreign capital have flowed in upon us. From a comparison of the exports and imports, this accession of capital from abroad may be roughly estimated at upwards of an hundred millions of dollars. Such a steady drain, together with the improvement in business throughout Europe, has raised the rate of interest there; and this rise will cause to cease that fertilizing tide, which otherwise the Bank of England would try in vain to stop.

But though its progress will not be so rapid, still business will go on; and unless war returns again to curse the earth and barbarize its inhabitants, the science and industry of the present age will accumulate stores of wealth, and means of comfort and pleasure, hitherto unknown.

Chapter XX.
Banks on the Continent of Europe.

Subsequent to the explosion of Mr Law s Royal Bank, the idea of a national institution for banking, found no favor in France, so long as the ancient regime continued in existence. The people had no confidence in the government; nor would they have had any confidence in an institution in which the government was a partner.

But several private banking companies were established at Paris, which issued bank-notes, in imitation of the private banks in Great Britain.

The three principal institutions of this kind were the *Caisse d Escompte*, the *Comptoir,* and the *Factorerie.* There were several less considerable establishments, on the same principle.

The larger banks were actuated by the same jealousy of the smaller ones, and by the same desire to secure a monopoly for themselves, so obvious in the history of banks, both in England and America. It was principally to this feeling that the BANK OF FRANCE owed its existence. By a law of the 24th Germinal, year xii., (1804) the three private banks above mentioned, were consolidated into the Bank of France, upon which was conferred the exclusive privilege of issuing notes to circulate as money. But this exclusive privilege was only purchased by yielding to the government a very large share in the management of the Bank.

The original capital of this Bank, *was forty-five millions* of franks, or above *nine millions* of dollars; but in 1807, the capital was doubled. Soon after, it acquired the privilege of establishing provincial branches.

This Bank is employed by the French government in the collection of the public revenue, and the management of the public debt. It is modeled after the Bank of England, but differs from it in being much less an independent institution. The English government may be said in a certain sense, to be under the control of the Bank of England; whereas the Bank of France is completely under the control of the French government. Its charter expires in 1844.

Banks much upon the same principle, have been established at Vienna and St. Petersburg.

It is only since the peace of 1815, that commerce and productive industry in general, have began to be properly appreciated on the continent of Europe. The French Revolution of 1830, however it may be underrated by the more zealous advocates of popular rights, was certainly a great step in the progress from feudal prejudices and ignorance, towards the ideas of modern times. Since that event, commercial and manufacturing industry have been raised in France to the level of liberal arts, and it is among men engaged in those employments, that her rulers and legislators are sought and found.

The great advantages which may be derived from banks, and the facilities to business, which they may be made to afford, have been already imperfectly developed by the experience of Great Britain and America. They will be theoretically explained in the following part of this treatise; in which it will be made to appear, that the evils which have arisen from banks, have grown out of a false theory of banking; and that the same false theory which has produced those evils, has operated at the same time, greatly to diminish the advantages, which a circulation of bank-notes might be made to confer.

The French people at the present time, are employing all their sagacity upon questions of political economy. Not content with making trade a liberal art, they seek to elevate it to the dignity and the certainty of science. I will venture to predict that the advantages to be derived from a bank-note circulation, founded upon a free competition in the business of banking, will not long escape them.

Part Second.
A Demonstration of the Advantages and Necessity of Free Competition, in the Business of Banking.

Introduction.

With respect to the business of banking there are two inquiries of principal interest and importance.

First, What system of banking is most advantageous to the public?

Second, How can banks be rendered most profitable to the stockholders?

The second of these questions has been thoroughly studied, and is perfectly well understood by the greater part of bank directors. The prevailing theory of banking has respect to this question alone. That theory is founded upon the experience and practice of the Bank of England, and is the sole guide of banking operations throughout the United States.

The first question, certainly the more important of the two, has hitherto been hardly deemed worthy of notice. Bank directors have been satisfied with taking care of themselves. The public interest has been little thought of.

I shall first present a sketch of the Received Theory of banking, together with the principal objections to which it is liable. I shall then proceed to state a New Theory, in which the public advantage is the object principally kept in view. I shall conclude with some observations upon a National Bank.

Chapter I.
The Received Theory of Banking.

The first thing is, to get a charter. One from the General Government, with exclusive privileges, and a clause prohibiting the grant of any other bank, is esteemed best of all. But such a charter is a non-such not easy to be got.

Next best is a State Bank, in which the state government takes a portion of the stock, with a clause, if possible, prohibiting the grant of any other bank within the state. But if such a bank is not to be had, a bare charter, without any exclusive privileges, should be thankfully accepted.

It is very desirable however, that no other bank should be permitted in the county, city, town or village, in which the new bank is established; and all existing banks, are to join together upon all occasions, in a solemn protest against the creation of any new banks, declaring with one voice, that the multiplication of small banks, which by way of emphasis, may be denounced, as little peddling shaving shops, is ruinous to the currency, causes fluctuations in trade, produces a scarcity of money, &c. &c. &c.

In order to obtain a charter, it is necessary to be on good terms with the legislature applied to. Obstinate opposers may be silenced by the promise of a certain number of shares in the stock, which shares, if very obstinate, they must be allowed to keep without paying for.

Things being properly prepared, a petition is to be presented to the legislature, representing that in the town of , the *public good* requires the establishment of a bank; and to prove it, there should be annexed to the petition, as long a list as possible, of the shops, manufactories, shipping, &,c., and the petition may wind up with a grand flourish about the growing business and importance of the place. The bank is to be asked for, solely on public grounds; not a whisper about the profits the petitioners expect to make by it.

If the petition is cooly received, it may be well to revise the private list of stock-holders, and to add the names of several of the legislators.

If the bank still rubs, it is a good plan to form a combination with the friends and advocates of some other proposed banks, and to push the whole through in succession, by that ingenious contrivance commonly known by the name of *log-rolling.*

If nothing better can be done, employ some influential politician to procure a charter for you, and buy him out at a premium.

Let us now suppose that a charter is obtained; and the capital fairly paid in specie, or the bills of specie-paying banks. That capital, say, is one million of dollars.

Problem. Having a capital of one million, how shall the bank be able to lend two millions and upwards, so as to make dividends of twelve or fifteen per cent?

Solution. Get a million of notes or upwards, into circulation. The bank can then lend one million in coin or the notes of other banks, and one million or upwards, in its own notes. To redeem those notes when presented, it is necessary to keep on hand a certain amount of specie;

but as the interest on this specie is a dead loss to the bank, the smaller the sum kept, the better.

Now it is obvious that the fewer banks there are in existence, the greater amount of notes, each existing bank will be able to circulate. For as I have explained in the first part of this treatise, the total circulation of all the banks, is limited by the amount of circulating medium which the country requires. Suppose the total circulation of the United States to amount to two hundred millions, suppose a Na- tional Bank with a capital of ten millions, and no other banks allowed in the country. This one bank could lend and circulate, two hundred millions of notes; and suppose it to keep on hand even so much as fifty millions of specie, still it could make dividends of one hundred per cent. What a charming business! If another bank were chartered, it would probably divide the circulation about equally, and diminish the profits of the first bank nearly one half. A third bank would diminish the profits of the other two; so of a fourth, a fifth, &c. This statement makes it very clear, according to the principles of the theory I am now explaining, how sacred a duty it is on the part of all existing banks, to oppose by all ways and means whatever, the creation of any new banks, which in fact, are only rivals, eager to share, and certain to diminish, the profits of banking.

We now suppose our bank, in the the full tide of successful experiment. Loans, two millions; circulation, one million; deposits, two hundred thousand; specie, one hundred thousand; dividend, ten per cent; stock, fifty per cent above par.

In this state of things, money begins to grow tight. Business perhaps has been unprofitable and confidence is shaken; the harvest has failed, or some particular branch of manufacture has been unsuccessful; a war or an embargo threatens to interrupt business, and impede commercial intercourse; perhaps some bank or some political party have found it expedient, for purposes of their own, to get up a panic; or there merely arises an accidental and transient demand for specie, for exportation; for some cause or other, and such causes are constantly occurring, our notes come in, the specie is demanded, and something like a run begins, or threatens to begin. Directors meet in great alarm. What is to be done? The case is clear. All discounts must be steadily refused; such of our own notes as are paid into the bank. must not be re-issued; the notes of other banks must be sent off as fast as received and the specie demanded, that we may have the wherewithal to replenish our empty vaults. Our circulation must be diminished one tenth, one quarter, one third, one half, according to circumstances; and this can only be accomplished by still refusing all discounts. If the run continues, we must keep on refusing discounts till our circulation is reduced almost to nothing. That point attained, and the bank is out of danger.

Let us now look to the effects of this operation, upon the customers of the bank. A, B, C, D, and others, had obtained accommodations, upon the strength of which they bought goods, set up factories, built ships, and entered into divers speculations. These accommodations were renewed from time to time, as a matter of course; and the borrowers went on, as they imagined, doing well and making money. But the sudden and unexpected stoppage of their dis~ counts, involves them in the greatest embarrassments. They find it impossible to meet their engagements. They fail. Their failure causes other failures; these failures give a shock to public confidence; business is interrupted; prices fall; property is sacrificed; bankrupts are multiplied. But no matter. We have saved the bank; and we, the directors, though we have refused every body else, have been induced, now and then, to discount notes for each other. With the money thus obtained, we have bought up property at the low prices; and as business revives, our pockets begin to grow heavy.

And before long, business does revive. The failing being over, confidence is presently restored. The low prices are a temptation to purchase. Capital is needed for these and other purposes, and fresh applications are made for discounts. Discounts are granted; our circulation, loans, dividends, and the premium on our stock, return to the old limit, or perhaps go beyond it. But sooner or later, a demand for specie, or an apprehended demand for it, returns to vex us. The same system of contractions is resorted to; and the same ruin to individuals attends it. But the bank is saved as before.

Should it happen, however that we have a board of directors, especially greedy of gain, or especially confident in their own good fortune, especially in need of discounts themselves, or especial tender-hearted towards the customers of the bank; or who, for any other reason, neglect an immediate resort, in cases of danger, to the orthodox remedy of sudden curtailment, the fate of the bank is certain. A *run* is one of those galloping disorders, which require the application of an instant remedy. The delay of a single week, or a single day, may be fatal. The specie is exhausted; the bank stops payment.

Upon the final settlement of its affairs, it may turn out to be perfectly solvent; but many of those who depended upon it for loans, are ruined by its stoppage; and the holders of the notes, unable or too impatient to wait, are generally obliged, or induced, to dispose of them at a great discount. Perhaps they are bought up by the very agents of the bank.

Such, in general terms, with the exception of the failure which does not often take place, is the history of every bank in the United States; but more especially of those banks which are esteemed the most prosperous, and whose stock is highest above par.

Thus far, we have confined ourselves to what may be called the secret learning of bank directors. But the public is to be quieted and satisfied; and the public is apt to demand, with some little eagerness, out of whose pockets come these great dividends? Why should a few favored individuals be permitted to grow rich by the privilege of lending the same money twice over, once in the shape of coin, and again in the shape of notes?

The bank directors, being thus put to the question, proceed to state the following apology and defence.

It is most true, they say, that we make money by the bank; more money than we could make by any other investment of the same capital. But the advantage is not confined to us. It extends to the borrowers as well as to the lenders. By the contrivance of bank-notes, we are enabled to lend twice as much money as we otherwise could. It is the same to the country as an actual creation of capital; it is in fact, calling into activity a capital hitherto dormant. Where the circulation consists solely in banknotes, there is a net addition to the capital of the country, nearly or quite equal to the entire amount of those notes. Suppose the bank-note circulation of the United States to amount to two hundred millions. Then the banking system makes a net addition to the active capital of the country, equal to two hundred millions, deducting only the amount of specie kept on hand by the banks. For the gold and silver otherwise necessary to serve as coin, so soon as its place is supplied by notes, becomes an article of merchandise, and may be exported like an equivalent value in wheat or tobacco. This is the advantage which the public derives from banks.

It will be observed that this statement is far from being a full answer to the two questions above proposed; but so far as it goes, it is not only specious, it is satisfactory and solid. It is in fact, that same argument in favor of banknotes, so clearly explained, and so fully illustrated in the Wealth of Nations. It cannot be refuted; and notwithstanding all the frauds of which banks have been the fruitful occasion; notwithstanding the abusive purposes to which they have sometimes been prostituted; notwithstanding the serious calamities they have often inflicted; notwithstanding their confessedly delicate and necessarily dangerous nature, delicate and dangerous I mean according to the theory of banking now under consideration, it is the experimental perception of this fact, on the part of the community, which has enabled the banks to bear up against all the real and all the fanciful objections which have been urged against them; and to go on increasing and multiplying, though in addition to all their other enemies, they have had to encounter the rabid and desperate fury with which all old banks have ever opposed and calumniated all new ones.

A, B, C, and D, enterprising people, but without capital, have always been ready and eager to borrow. They are willing to pay for the use of capital, and provided they can have it, they care not whence it comes, or who receives the interest. It is also for the public advantage, that A, B, C, and D should be able to borrow; and if they can get the money at home, instead of going abroad for it, the country is not only a gainer by their share of the profits made from its use, but it also retains that share which would otherwise go abroad in payment of interest. And perhaps these people, being persons of little property, would not have been able to borrow abroad; and for want of the means of working, would have been condemned to a state of idleness, irksome to themselves, and dangerous to the community.

Now if this process for the creation and loaning of capital went on as securely for the borrowers, as it does profitably for the lenders, there would seem to be no very reasonable objections to it; for however a spirit of vulgar envy might declaim against the excessive gains of the banks, it might be answered, that the honest gains of individuals are gains to tiie community; and if only *some* are the gainers, that is better than to have no gain at all.

But it is obvious, that according to the theory of banking, at present under consideration, the borrowers are placed in a very awkward predicament. The gains of the bank are tolerably certain; but the customers, a far more numerous body, and one in w.hose welfare, the public have a much deeper stake, they are kept in a constant state of the most harrassing and servile dependence. The bank may be obliged suddenly to contract its discounts, at any moment. The day and the hour no man knoweth; and business done upon the strength of loans so uncertain, is a mere gambling business, the success of which depends entirely upon the fact, whether or not the bank will continue its accommodations, till the business reaches a conclusion; a contingency as to which it is impossible to form even the shadow of a tolerable guess.

Trade is uncertain enough at the best; but trade resting upon banking accommodations, granted in accordance with the prevailing system of banking, ceases to be an art. Shrewdness, calculation, knowledge, prudence, good sense, become of little or no avail, for the wisest plans, and the most judicious arrangements, may be defeated by an unexpected contraction of bank loans, which no one could foresee, and against which it is impossible to guard. These respectable qualities lose the estimation to which they are entitled. Trade comes to be looked upon as a lottery; the merchants are infected with a mere spirit of gambling; and it is not industry, it is not sagacity, it is not economy, which ensure commercial success; it is chance, it is good luck.

It is obvious, that according to the theory under consideration, the more prosperous a bank is, the more delicate and dangerous a machine it becomes. There is required in its management, a constant watchfulness and care, to guard not only against a run, but against the probabilities of a run. In times when confidence is shaken, and the customers of a bank look to it as a friend who will support and back them up, just in proportion to the prosperity of the bank it becomes their most dangerous enemy; for just in proportion to its prosperity, the necessity of contracting its loans becomes the more imperious. The safety of the bank requires it sternly to close its ears against the distress and piteous lamentations of its customers. It *must* refuse accommodations, and just in proportion to its prosperity, must be the extent of its refusals. However harsh the remedy, it is absolutely necessary; and if through an ill-judged pity or a false confidence in its own good fortune, this remedy is omitted, and accommodations are continued, the relief is only momentary; for the bank, if it continues to discount, must presently stop payment; and that stoppage not only puts a sudden period to its accommodations, but it involves the holders of its notes in the common misfortune.

It is to be recollected also, that this harsh remedy is applied not only to cases of real, but to those of merely suspected danger. Not only the actual fluctuations of trade, but a false alarm, a rumor, a panic, got up for stock-jobbing or political effect; the humor, fancy, or caprice of a board of directors; the low spirits or imaginary terrors of an influential member; the most trifling causes, acting upon machines so delicate, may produce the most serious consequences to individual borrowers.

Thus far, it has been all along supposed, that the getters-up and managers of the bank, were men of honesty and honor; and that its capital was actually paid, before commencing operations, in specie or its equivalent. But suppose, what sad experience teaches to be but too likely to happen, suppose that the getters-up of the bank are not honest. Suppose that the nominal capital instead of being actually paid in, is made up of the promissory notes of the stockholders; so that the bank commences operations with little or no solid capital. Laws have been enacted in several States, to prevent such proceedings; but wherever it is an object to evade them, the dishonest easily find the means of doing so. In the case now supposed, the loans of the bank are founded solely upon its circulation; and any thing which drives its notes home, puts a total stop to its business. But with such banks the stock-holders are always the principal customers. The harsh remedy of contraction might save the bank, but it would ruin *them.* Of course it is generally judged more expedient for the bank to fail; and though the notes should ultimately be paid in full, the stock-holders are enabled in the mean time, to levy upon the public *a Jorced loan without interest,* for their own private benefit.

These very serious objections to the theory of bayking commonly received, lead to the important and interesting inquiry, whether taking for our sole guide the *advantage of the public,* which in this case, may be considered as nearly coincident with the interest of the borrowers, it is not possible to propose a theory of banking, and a practice founded upon that theory, to which these objections shall not apply.

Chapter II.
New Theory of Banking,

The reasons which have caused the precious metals to be so generally adopted as money, that is, 1st, as a *measure of value,* 2nd, as a *medium of exchange,* are mentioned in every treatise upon political economy. It is to be observed, that notwithstanding these two offices are jumbled together under the single name of *money,* they are perfectly distinct in their nature, and as will presently appear, in some respects, incompatible.

The reason why the precious metals have been adopted as a *measure of value,* may be thus explained. Value, that is price, for in matters of trade, these two words are synonimous, depends 1st, upon supply, 2nd, upon demand. While supply remains perfectly steady, it has a tendency to keep the demand steady also; and though the independent fluctuations of demand produce considerable effects upon price, yet, in general, the price or value of things, is not affected by those fluctuations at all to the same degree, as by fluctuations of supply; for experience shows that the supply of most things is much more liable to vary than the demand for them. Now the supply of the precious metals seems much less liable to sudden fluctuations, than that of any other thing which is an article of trade. This steadiness of supply, is principally owing to the durability of the precious metals; for it must be recollected that we understand by supply, the whole quantity of the article in question, in existence and circulation, at any given point of time. The supply of the precious metals being thus comparatively steady, it produces a comparative steadiness or uniformity of value; and this steadiness or uniformity of value, adapts them to be a *measure of value*; for it is obvious, that the less liable the measure is to vary, the more correct will be the measurements. Though a very incorrect measure, when the values to be measured are separated by a great distance of time, and in some cases, even by great distance of space, still it answers sufficiently well for the temporary transactions of ordinary trade; and as a *measure of value* adapted to that purpose, no substitute has ever been proposed, which is worthy of a second thought.

The other service performed by the precious metals, in their character of money, is to answer as a *medium of exchange*,. For this purpose they are adapted by their capability of being subdivided to almost any degree, without loss; by their small comparative bulk, which enables a large comparative value to be easily carried about and transported from place to place; and by their capability of receiving a permament imprint, expressive of their weight and fineness. Still, their employment for this purpose is subject to some very serious difficulties.

1. Notwithstanding the small ratio which the bulk of the precious metals bears to their value, yet where sales and purchases are large, the bulk of metallic money, the trouble of counting it, and the expense of transporting it from place to place, become a great inconvenience. We now use copper only for the smallest coins, and the most trifling exchanges. It once formed the entire circulating medium of whole nations; but the increase of trade and the increasing amount and value of sales and purchases, made its bulkiness intolerable, and silver, as comprising a much greater value in a smaller bulk, was substituted in its place, as

the principal medium of exchange. But trade and wealth continued to increase; and the bulkiness of silver coin began to be complained of. Gold offered a new medium; and by its greater value in a smaller bulk, consoled the toiling brains and cracking sinews of the merchants and money dealers.

But gold was only a paliation of the difficulty. A Venetian merchant wished to purchase wool in England to the value of 10,000 sterling, The transportation of such a bulk in coin, for such a distance, was attended with great expense, anxiety and danger; and mercantile sagacity soon hit upon a much more convenient medium, for exchanges of that nature.

One Venetian merchant wished to transport coin into England to buy wool; another Venetian merchant had lately sold broadcloaths in England, and wished to transport his coin to Venice. In this state of things, it occurred to these two merchants that it would be possible to get along without any transportation at all. Give me an order on your English agent for your coin there, and you shall have my coin here. Such was the origin of *Foreign Bills of Exchange*, the convenience of which soon appeared so palpably, as to lead to their general use; and they presently became, and still are, almost the sole medium for the great transactions of international trade. An American who goes to England to purchase goods, instead of incumbering himself with several bags and boxes of coin, takes bills of exchange on London in his pocket-book; or more likely, a simple authority to draw; and with this medium, he effects his purchases exactly as well as if he had the coin.

A bill of exchange may be described, as a title deed to a certain amount of coin, at a certain place, and in the hands of a certain banker or merchant, or to be there at a certain time mentioned in the bill. For example, a bill on London for an hundred pounds, is a title deed to one hundred sovereigns, at London, in the hands of a certain person on whom the bill is drawn and who is mentioned and described in it, or to be there, at the time the bill becomes due. As the bill passes from hand to hand, the title and property in the coin which it describes, passes with it. It is a rnaxim of the common law, that delivery is essential to a sale; but as it is not easy to take up a ship, a warehouse, or a farm, and deliver it over bodily to the purchaser, especially if said ship, farm or warehouse is some thousand miles distant from the place of sale, it has therefore been held that the delivery of the title deeds or bill of sale in the name of the article sold, satisfies the law, and conveys the property. Precisely so, a bill of exchange, which is exactly a title deed or bill of sale of a certain amount of coin in a certain place, being endorsed and delivered, transfers as it passes from hand to hand, the property and title in the coin which it describes.

London being the centre of modern commerce, a place where goods are purchased and sold to be sent to all parts of the world, there is always a vast amount of money wanted at London to effect these purchases. On that account, bills on London are always in demand, and often at a premium. They form a universal currency in all those parts of the world to which commerce penetrates; and a man who has bills on London in his pocket, or authority to draw bills on good houses there, wherever he may be, whether on the frozen shore of Kamtchatka, in the heart of the African desert, or among the distant islands of the ocean, will find no difficulty in purchasing with those bills, whatever products the country affords.

2. It is further to be observed, that this international medium of bills of exchange, has a great advantage over coin, not only in convenience, but in economy. Gold is an expensive medium. If it perishes by the way, it is a dead loss, both to the individual and to the world; whereas, in most cases, the shipwreck of a bill of exchange is no loss to any body. Nothing is lost to the world, but a small piece of paper; and as to the individual owner, though the first of a set perish, the second may come safe to hand and fulfil its office.

Besides, though the transportation of gold were subject to no danger, still, during the time of transportation, the gold remains idle. The value of its use, or what is the same thing, the interest upon it, is lost to the owner and to the world. By the employment of bills of exchange, this loss is avoided. The gold mentioned in the bill, is all the time performing its office and producing an interest, while the bill is on its travels, or lying idle in the pocket of its holder.

But it is not only the interest which is saved. Gold perishes by use; a certain imperceptible part is taken away, every time it is touched. Hence it gradually decays by exposure to the weather, and by repeated handlings and recountings at every transhipment. By the aid of bills of exchange all these causes of waste are avoided; and though the amount thus saved at any individual time, can hardly be appreciated without the help of the infinitesimal calculus, yet the sum of all these atoms makes up at last, the total substance of the thing.

3. I have shown in the preceding part of this treatise, that metallic

currencies are liable to a certain degree of depreciation, by reason of the very waste just now spoken of; to which, fraudulent abstractions in the way of clipping, are to be added. Bills of exchange are totally free from this source of depreciation. The coins therein mentioned, are supposed to be perfect coins, fresh from the mint, of standard weight and fineness. No door is left open to the petty trickeries and little frauds, the misunderstandings and disputes, of which a depreciated currency is so fruitful an occasion.

4. It is also easy to show, that the use of bills of exchange as an international medium of trade, *decidedly improves the quality of the precious metals, as a measure of value;* and thus gives additional steadiness and certainty to the transactions of commerce. Supply remaining the same, value depends upon demand. Now it is a well known fact that the extent of trade, particularly of international trade, is subject to constant fluctuation. It depends upon the crops; upon the success of the different branches of manufacture; upon peace and war; upon the political condition of nations, upon many other circumstances all of a very variable character. As the amount of trade varies, there varies with it the demand for a medium with which to carry it on. Trade, this year, is in a certain condition; and if we suppose no other medium of exchange hut coin, coin assumes a certain relative value exactly proportioned to the demand for it. Next year, trade falls off one half, but the quantity of coin remains about the same; therefore its relative value must fall. Coin being worth relatively less, prices rise; a good thing while it lasts; but this very rise in prices, gives a new stimulus to trade, and the following year, it returns to its old amount. Trade increasing, the demand for a circulating medium increases with it; but the supply of that medium, which we suppose all this time to be only coin, remaining about the same, of course it becomes relatively more valuable; and prices fall. This fall proves a source of loss to the merchants, an embarrassment to business, and a public calamity.

All this difficulty is avoided by the use of bills of exchange for an international medium. Their quantity increases, or diminishes exactly with the wants of trade; and that increase or diminution produces little or no effect upon prices,

Not only are universal fluctuations in the relative value of the precious metals, prevented to a good degree, by the use of bills of exchange; but they are the means of avoiding local fluctuations of a no less serious character. Suppose no other medium but coin, and suppose twenty millions in coin, suddenly taken out of the United States to pay for foreign goods. But the demand for a circulating medium remains the same as before. The supply being diminished, the relative value rises, and all prices must fall. A similar influx of gold would produce a corresponding fall in its local value, and a corresponding rise in prices. By means of bills of exchange all these local fluctuations are avoided; and it never becomes necessary to take coin out of a country or to bring it in, except for the purpose of settling the inconsiderable balance between the total value of its sales and its purchases, whereby the local value of the precious metals preserves a certain degree of steadiness and uniformity.

Let it be recollected however, that bills of exchange are enabled to perform the office of money only by virtue of the express reference which they constantly carry on their face, to a certain sum of coin, at a certain place described in the bill, to the possesssion of which coin, the holder of the bill is entitled. In itself a bill of exchange is nothing but a piece of paper; it owes all its value to the coin to the possession of which it conveys a title; and if there is any reasonable doubt whether the bill will command the possession of that coin, its value is at once destroyed.

It is obvious therefore, that if bills of exchange have several other advantages over a metallic medium, in point of security they fall below it. With the gold in *my* hand, I am absolutely certain that I have got a positive value for my goods; but when I take a bill of exchange in payment, I remain exposed to a degree of uncertainty, for perhaps the bill will never be paid.

But experience has proved that this objection to an international currency of bills of exchange, is of very trifling consequence, compared with the reasons in its favor. These bills have been established by the common consent of merchants, for the last five centuries, as the chief medium of foreign traffic; and they have even been introduced, with equal advantage, into the commercial intercourse between the different trading towns of the same country.

Now a currency of bank-notes, redeemable in specie, on demand, is nothing but an application to the domestic, local, and retail trade, and to the money transactions of the whole community, of an idea and practice, which the use of bills of exchange long ago made familiar to all engaged in wholesale mercantile transactions.

A bank-note, is a bill of exchange, payable to the bearer at sight. It is a title deed to a certain amount of coin, at a certain place mentioned and described in the note, the possession of which coin may be had, whenever it is demanded. But instead of demanding the coin, and carrying it about in a bag, I find it more expedient to carry the note in my pocket. In Boston, a Boston bank- note, passes in all commercial transactions the same as coin; because every body knows, that should the holder of the note happen to want the coin, he has only to step into State Street, present his note at the bank, and carry the coin off at his leisure. But a Philadelphia bank-note does not pass in Boston, in the same way. Few people in Boston, want coin in Philadelphia; and nobody wants the trouble of going to Philadelphia to get the coin described in the note, and the additional trouble of bringing it to Boston. But if a Boston man happens to have money to pay in Philadelphia, or wishes to purchase goods there, he will not only cheerfully receive the Philadelphia note, but if he cannot otherwise get it, he will pay a premium for it; for a note is much more convenient to send or carry, than coin to the same value.

1. Though the contrast is not so striking as in the case of foreign bills of exchange, the convenience of bank-notes over coin is not less real. A decisive proof of the fact may be drawn from the universal currency they have always obtained wherever they have been introduced. For the same reason that silver is preferred to copper, and gold to silver, bank-notes are preferred to gold. They always have been; they always will be.

2. The same advantage over coin, in point of economy, which bills of exchange possess, is enjoyed by bank-notes; and for precisely the same reasons. I have explained in the preceding chapter, how a circulation of bank-notes makes a net addition to the active capital of the country in which they circulate, nearly equivalent to the total value of the gold and silver which they displace. When to this saving of interest, is added the saving in wear and tear, and the freedom from all those consumptive causes which are ever acting upon a metallic currency, it is evident that the annual gain to the community from a circulation of bank-notes, will exceed rather than fall short of, the annual interest upon the whole amount of the circulating medium.

3. Bank-notes, like bills of exchange, are free from that depreciation which arises from the wear and clipping of the current coin. The coins described in a bank-note, are understood to be perfect coins, of full weight; and were it otherwise, so long as the coin of a country is kept quietly in banks, and its place supplied, and more than supplied, by bank-notes, the exposure to wear and tear, and to fraudulent diminu-

tion, is greatly reduced.

4. It is equally plain that bank-notes, like bills of exchange, *greatly improve the quality of the precious metals as a measure of value;* a circumstance in their favor, which appears to have been quite overlooked, but which is of the greatest importance. Every body knows the fluctuations to which trade is necessarily liable; and every body knows that these fluctuations must be constantly increasing with the increase of trade. As the supply of all articles of trade is naturally uncertain, so the extent of the exchanges of those articles must be equally uncertain; and equally uncertain must be the demand for a medium whereby to make those exchanges; and if the supply of that medium remains the same, which to a great extent it must do, so long as it consists only of coin, then the relative value of that medium must be constantly fluctuating; and this fluctuation will produce a constant fluctuation in prices, quite independent of that natural fluctuation, growing out of supply and demand, on which alone prices should depend. The more commercial a nation grows, the greater this evil becomes; and the attempt to make the precious metals the sole medium of exchange, for which purpose a superior substitute has already been invented, is highly injurious to their quality for performing that other office of a *measure of value,* for which it is impossible to offer any tolerable substitute. Bank-notes, on the other hand, increase, or diminish, just as they are needed, without any effect upon prices; or so they would do, if they were left to regulate themselves.

But while bank-notes possess, as a local currency, all the advantages which recommend bills of exchange for a medium of international trade, they are also subject to the same disadvantage. In point of security, bank-notes are not equal to coin. With the dollars in my pocket, my wealth is unquestionable; but if I have only bank-notes, the bank may fail, and the notes become worthless. But here, as in the case of bills of exchange, the risk is so small, that it is not possible to calculate it; and therefore it does not produce any effect that can be appreciated, upon the value of bank-notes as a circulating medium.

Thus far we observe a perfect correspondency in character and effects, between the international currency of bills of exchange, and a local currency of bank-notes. Let us now turn our attention to a point wherein we shall observe a most singular and remarkable difference.

Banks and bank-notes are an everlasting subject of political controversy and dispute. They are also a constant subject of murmurs and complaints on the part of the public and the merchants. Now, the issues are said to be unreasonable; now the contractions are complained of. I have fully explained, in the preceding chapter, the great distresses among mercantile men, which banks, according to the prevailing system of management, are constantly liable to produce. It has been seriously doubted, and well it may be doubted, whether these ill effects, are not, on the whole, more than an overbalance for all the advantages to be derived from a circulation of bank-notes.

With respect to bills of exchange, we never hear any such complaints. They are not charged, nor are they chargeable, with producing any such bad effects. Their use is a pure good; without any mixture of those very serious evils, which attend the use of bank-notes.

How explain this remarkable difference?

The effects of a thing depend upon two circumstances; first, the inherent nature of the thing; second, the mode of its operation.

Now I have already proved that the inherent nature of bills of exchange and of bank-notes, is precisely identical; therefore we must look to some difference in the mode of their operation for this difference in their effects.

Turning our attention that way, we discover at once, a most striking difference in their respective methods of operation.

The issue of bills of exchange is left perfectly open to the free competition of all the world. Any capitalist of any country, is any where at perfect liberty to enter into it. The consequence is, that the amount of accommodation in the way of exchange, furnished by any one house, is always limited, and the mischief which is or can be caused by a refusal to sell bills or a neglect to pay them, on the part of any single dealer, is so very trifling as to be quite imperceptible.

But suppose that a single institution in any country, for instance a state or national bank, or some great incorporated company, representing that the greater part of merchants are men of small capital and less knowledge, wholly incompetent to have any thing to do with so grave a matter as furnishing an international currency, and that it would be far better to entrust this important affair to the sole management and control of an institution, whose amount of capital, great credit, respectability of character and extent of information give it every advantage; suppose, that upon the strength of these reasons, or any others, the sole business of drawing and accepting foreign bills of exchange, should be entrusted to such an institution. What would be likely to be the result? Would it add any new advantages or any new security, to the use of bills of exchange? Would it give any new stability to prices? Would it benefit the foreign trade?

But this course of proceeding, which as it respects the international currency of bills of exchange, all would acknowledge to be absurd and fatal, is the very method of operation, it has been thought proper to adopt, for the domestic currency of bank-notes.

According to the received theory of banking, the perfection of the banking system is, to have only one single institution to which the whole business shall be entrusted. Every additional bank, if we believe this doctrine, tends to destroy the perfection of the system; and the high priests of our banking hierarchy solemnly assure us, that all the evils of the present system of banking, against which complaints are so grievous, are solely produced by the multiplication of banks.

But I have demonstrated, in the preceding chapter, that the whole evils of the present banking system grow out of the single fact, that the banks lend a great deal more money than they have got. They lend money that does not belong to them; they are the greatest debtors among us; of course, they are the first to feel a pressure in the money market, and they must save themselves let who will suffer.

How does it happen that the banks get so much into debt? Plainly, because they possess the exclusive privilege of circulating their own notes as money. How shall we limit the indebtedness of the banks? Not by prohibitory statutes, which are always evaded when it is an object to evade them, but by opening the business of issuing bank-notes, to a free competition.

What would be the effects of such a competition? As every new bank conies in for a share of the circulation, it necessarily diminishes the circulation of all the previously existing banks; and just as their circulation is diminished, in the same proportion is diminished the possible fluctuation of their loans.

Suppose the circulation of Massachusetts to amount to ten millions, and suppose this circulation wholly supplied by a single bank with a capital of ten millions. This bank could ordinarily lend about twenty millions; but a sudden run or panic might compel it to reduce its circulation, say one half; and this whole unexpected, unforeseen curtailment of five millions falling, in the first instance, upon a limited number of individuals, the customers of the bank, would greatly distress them, and cause several of them to fail.

Suppose now that in place of this one bank, we have one thousand little piddling banks, with a capital of one hundred thousand dollars each. If the business were equally divided, and to that point it would constantly tend, each bank might ordinarily lend one hundred and ten thousand dollars; and a pressure corresponding to that above supposed, would require a reduction of loans at each bank of only five thousand dollars; nor could it be possible for any one of them to be obliged to curtail more than ten thousand dollars; and the whole curtailment of five millions instead of tumbling in a mass upon the few customers of one bank, would be divided in the very first instance, into fragments, and being distributed among the numerous customers of one thousand banks, would hardly be felt by any body.

By continuing to multiply the number of banks, the circulation of each individual bank, would presently be reduced to such a trifle, that such a thing as a *run* and a consequent reduction of loans, would be almost unknown. If specie were needed for exportation, it would necessarily be collected in small sums from many contributors; and the amount demanded from any single bank would be too trifling to produce any serious alarm. In fact, an exportation of specie, instead of being such a bugbear to the banks as it now is, would be a positive advantage to them. No doubt the larger part of the sum exported would be drawn from the bank vaults; but a certain portion would also be abstracted from the circulating currency; and to supply the gap thus created, the banks would be enabled to extend their circulation, so that prices would be kept steady, and things would go on as before. Whereas under the present system, so far from filling this gap in the circulation, the banks, having constantly the terror of a run before their eyes, are obliged to enlarge it. By the diminution of its total amount, the value of the parts of which the currency is composed, is increased; of course, prices fall; this produces alarm; business is interrupted, and the whole community is thrown into confusion.

It is very true, that according to the system which I propose, bank dividends could never much exceed the ordinary profits upon capital; and bank stock would be seldom above par. But though the gain made by a currency of banknotes would not be so obvious, still it would not be the less real. Instead of being engrossed by a few favored individuals, it would be spread abroad among the community; and though not so evidently seen, it would be more generally felt.

Moreover, it would become almost impossible for a bank to fail, however great the fraud or folly of its managers; and so far as the public is concerned, it would be of comparatively trifling consequence whether it failed or not. The amount of notes which any one bank could get into circulation, would be too small to make its failure any object to the stock-holders. The *forced loan* they would thus be able to levy on the public, would be a mere trifle; and almost the whole loss and trouble which the failure of the bank would occasion, would fall where it properly belongs, namely, upon the stock-holders.

It is evident then that a free competition in the business of banking, would be attended with the two following effects.

First; *It would entirely prevent that frequent, sudden and extensive fluctuation in the amount of the loans of individual banks, which is the great misery of the present system of banking.*

Second; *It would be an additional security to the bank-note circulation;* since every new bank is equivalent to a new endorsement upon the mass of the circulating currency.

Let us appeal to Facts.

On the 1st of January, 1830, there were in Virginia, *four* banks, with an aggregate capital of $5,571,100; loans $7,698,900; circulation $3,857,900. Suppose such a run as to oblige them to withdraw half their notes from circulation; they must have diminished their loans upwards of *one-quarter.* On the same day, there were in Massachusetts, *sixty-six* banks, with an aggregate capital of $20,420,000; loans $28,590,000; circulation $4,747,000. A similar run in Massachusetts would have obliged the banks there, to have diminished their loans, *onetwelfth,* which makes a vast difference for the customers, especially when we consider that the whole contraction, instead of falling in the first instance upon the few customers of four banks, would be divided from the very first, among the many customers of sixty-six banks. But in Rhode Island, the smallest State in the Union, and inferior in extent and population to some single counties of Massachusetts, there were, on the same day, *forty-seven* banks, with an aggregate capital of $6,118,900; loans $6,909,000; circulation $673,000. The same run in Rhode Island would have compelled the banks there, to diminish their accommodations only *one-twentieth;* and the interruption to business would have been hardly perceptible.

It is to be observed that in all three of these cases, the specie on hand, was not half equal to the amount of deposits, for which the banks were as liable to be called upon as for their own notes.

Now as to the security of these several currencies. In Virginia, for a circulation of $3,857,900, there was the responsibility of four banks, and a pledge of capital to the amount of $5,571,100. In Massachusetts for a circulation of $4,447,000, there was the responsibility of sixty-six banks, and a pledge of capital to the amount of $20,420,000. In Rhode Island, for a circulation of $673,000, there was the responsibility of forty-seven banks, and a pledge of capital to the amount of $6,148,000. Which of these currencies was the most secure?

It is precisely in Massachusetts and Rhode Island, the best peopled, and for extent, the wealthiest, the best cultivated, the most manufacturing, the most commercial, the most intelligent, industrious and enterprising of all the States, that the monopoly of bank charters has been most broken in upon; and that too in spite of the most pertinacious, fierce and ferocious opposition on the part of all old banks towards all new ones. These institutions seem to have realised the fable of Saturn, and to have been actuated by a rabid passion for devouring their own offspring. That father of gods, was perhaps desirous to secure a monopoly of worship; the banks have aimed at a monopoly of profits. But the end of the fable will be as applicable to them as its beginning. Saturn saw himself outshone and almost forgotten, amid the splendor of his descendants, and the same thing will happen to the existing banks.

But the good work is not yet completed. The monopoly of bank charters must be abolished altogether; and not in one or two States only, but in all; otherwise the best-conditioned of the States will be constantly liable to suffer sympathetically, from the numerous disorders of their ricketty sisters. Capitalists must be left as much at liberty to invest their money in a bank as in a cotton mill.

This work is going on, by the almost daily creation of new banks; and notwithstanding the croakings of those who repeat parrot-like, the one lesson their teachers have taught them; notwithstanding the angry arguments of those who will not see because they think it their interest to remain blindfold; notwithstanding the doubts and apprehensions of a public not well- informed, and purposely misled; yet is it clear as the noon-day sun, that every new bank, every step towards the destruction of the monopoly of bank charters, is a gain to the community.

A bank whether great or small, naturally and necessarily falls under the influence and control of a few individuals. If there is but one great bank, bank accommodations will be limited, for the most part, to the friends, favorites, proteges and toad-eaters of the few great capitalists who will usurp its management; and the monopoly of banking, will tend necessarily to produce a monopoly of business, for those possess a monopoly of business, who enjoy a monopoly of the means necessary to carry it on.

But let a bank be planted in every village, and let those who are dissatisfied with the conduct of existing banks, be at liberty to establish new ones, and the convenience and aid of these institutions will be generally dispensed, like the refreshing dew, to every nook and corner of the country.

It is objected that new banks cannot be of any great use, for they do not create or bring into activity, any new capital. It is true they do not; but they greatly economise and facilitate the use of existing capital. In all sorts of business, especially trade, there is required, first, a certain fixed and constant capital always invested, second, a certain floating capital sometimes employed and sometimes idle. Now if a number of business men can club together their floating capitals and invest them in a bank, they find it, in many respects, exceedingly convenient and advantageous. That convenience and advantage consist in this. When they need, in the course of their business, the use of the floating capital which they have invested in the bank, they can borrow of the bank to the amount of their stock, and perhaps more. When they have no call for this money it can be lent to others of the stock-holders who need it; or if none need it, it is lent to any body who wishes to borrow.

It is quite clear that when a number of business men can combine their floating capitals in this way, the same amount of capital may be made to go much further than when each operates by himself, and upon his individual means. When money is in great demand, and each wants all he can get, each stock-holder receives his just share of accommodation. But it will generally happen, that while some are pressed for money, others will have little occasion for it; and the funds of the bank can be appropriated in turn, to the relief and aid of all. In the mean time all these floating capitals are securely invested, paying a moderate interest, and capable of being brought into action at a moment s warning.

Many of the Massachusetts and Rhode Island banks, are constituted and managed much upon this principle. The stock is chiefly held by business men, who hold it, not for the sake of the dividends, which in these States are always moderate, but on account of the business facilities they derive from their concern in the bank. This system of banking is a decided improvement upon the system of *cash accounts* which has given such just celebrity to the Scotch banks. By the system of cash accounts, the customers are allowed an interest upon their deposits; but by the system I am now explaining, they are allowed to participate in all the profits of the bank. *It is precisely the principle of the savings-banks carried into the operations of business.*

This matter is not theoretically understood by our business men; but they have a confused perception of the fact; and hence those annual and urgent applications for the grant of bank charters, which upon the principles of free competition, ought to be as freely granted, as so many applications for the charter of manufacturing companies.

Some cautious persons are terribly alarmed at the idea of this illimitable creation of banks; and at the liberty thus given to any body and every body, to run in debt to the public. If these good people could be induced to reflect for two seconds, it would be easy to show them how groundless are their fears. Every new bank with a capital of $100,000, chartered this winter, (1827) by the Massachusetts Legislature, will be able to circulate from ten to twenty thousand dollars of its notes, and this is the utmost sum, in which it can become indebted to the community, except under very peculiar circumstances. Every manufacturing company which shall be chartered with the same capital, has a freedom to contract debts without any definite limit; and if it does any thing of a business, will probably owe, at any given time, from fifty to two hundred thousand dollars, a considerable proportion of which shall be due to girls, boys, laboring men, dependant on their weekly wages for their bread, the very people who are to be robbed and ruined, as we are told, by irresponsible banks. No man of common sense will undertake to deny this statement; yet shall it happen, that our respectable legislators will make a most alarming fuss about every bank that is chartered, while manufacturing companies shall pass muster by the dozen, without a single question being asked or answered. Those who strain at a gnat, are marvellously adroit at swallowing a camel.

Every branch of trade was once a monopoly. The progress of knowledge has banished that wretched system from every sort of business except the business of banking. Before long it will be obliged to surrender this, its last strong hold.

When the doctrine of free competition comes to be generally understood and generally admitted, and that time is not far distant, our legislators instead of spending their time, and abusing the public patience, in stupid and unintelligible debates about the state of the currency, in useless and frivolous disputes whether a bank be needed in this place or that, will have time to turn aside from the contemptible, mean and hypocritical shufflings of personal interests, and to bestow some attention upon necessary amendments of the laws. Trade will no longer lie at the mercy of ignorant and reckless politicians, or at the mercy, no less to be deprecated, of a few purse-proud, domineering, dictatorial bank directors, who care not what mischief they do if they can but perpetuate their own exclusive privileges. The sound condition of the currency, the prudent management of the banks, will not depend upon the discretion or honesty of any individual or body of individuals. Instead of being subjected to artificial regulations, the currency will be controlled and guided, by its own necessary laws, the Laws of Trade, laws which do not act by jerks and starts like the awkward and clumsy substitutes which have been foisted into their place, but by a constant, steady, gentle, yet inevitable pressure, which does better than set things to right, which prevents them from ever getting wrong.

Chapter III.
Of a National Bank.

It will be obvious, that according to the principles maintained in the preceding chapter, a National Bank, by which I understand a bank resembling, in its essential features, the Bank of England, or the late Bank of the United States, is neither necessary nor useful.

Such a bank has exclusive privileges, entirely inconsistent with freedom of competition. It always forms the strong hold, the impregnable fortress, the pride and reliance of the monopolists. It is worthy of careful attention, what rapid strides the English joint-stock banks have made since the Bank of England has been shorn of a part of its exclusive privileges. In like manner, the local banks of the United States have doubled in number and capital, since Jackson s veto upon the re- charter of the United States Bank; and that too notwithstanding the gold currency party have acted in the mean time, in strict alliance with the monopolists of bank charters; and have most strenuously joined in the opposition to the creation of any new banks. These gold currency people bear a most desperate hatred to all monopolies, and so far they are right. But they have suffered the common fate of fanatics; they have allowed themselves to be spell-bound bywords; and to be made instruments in the hands of the men they hate most, for promoting that very end to which they are most heartily opposed.

It is said that a National Bank is necessary,

First, To regulate the local banks and keep them in order.

Second, To facilitate domestic exchanges.

Third, To furnish an uniform currency.

1. The first of these reasons, has been already disposed of in the preceding chapter. A free competition in banking will accomplish the end proposed, with much less trouble, and much greater certainty.

You set up a National Bank to watch the other banks; but who is to watch the watcher? Where there is but one watchman in a city, albeit the same be a most grave and ancient watchman, yet does it generally happen, that he betaketh himself soon after twilight to the watch-house, and there most quietly and securely sleepeth out his watch, till his coat be stolen, or the city is set on fire with the candle from his own lanthorn. When it is well burning, and the engines are already at work, he opens his eyes at last, and bawls fire ! as lustily as though he had been the first to make the discovery.

Is it not far better to dismiss your watchman, and so to arrange things that it shall be for the interest of the rogues to watch and betray each other s roguery?

2. The business of domestic exchanges can be as well conducted by one bank as another. Free competition is as necessary here as elsewhere, and will soon reduce profits to their just level.

A great hue and cry has lately been raised about the derangement of the domestic exchanges. Before the removal of the deposits, it is said, exchanges were at such and such low rates; since then, they have doubled, tripled, quadrupled; and this we are told is owing to the destruction of the United States Bank.

Those who reason in this way, do not seem to recollect that all the time that exchanges have been rising so, the United States Bank has been going on, in full blast. To be sure, it has changed its character in the mean time, from a national to a state bank; but that cannot have interfered to any great degree, with its exchange business. Ithas the same capital, the same officers, the same credit, the same means; it is true that the diminution of its circulation, has probably diminished the total amount of its loans; but the close of its branches has cut down its loans upon personal security, and tended to throw its whole capital into the business of domestic exchanges; and if it has lost the public deposits, it still holds some eight millions of money belonging to the United States.

In a previous chapter, I have given the history of the business of domestic exchanges. To that history I refer the reader. By the aid of the facts there stated, it is easy to explain the great rise of late, in the rates of exchange. The causes of that rise are two. All prices have risen; and among the rest, the rate of interest, and the rate of exchange. But while the rise in the rate of interest is obliged to be concealed and disguised for fear of the usury laws, so far at least, as the banks are concerned, the rise in the rate of exchange, in which interest forms the principal item, is a public affair, and the rates of it are as well known as the price of any other article. I am not sure but this reason covers the whole question; for how or when has it been shown, that the rates of domestic exchange are out of proportion to the real rates of interest?

If they are, it must be because the business of domestic exchanges has increased faster than the capital employed to carry it on. A vast deal of capital has gone into it within two years past; still it is quite likely that the business which has increased enormously, has over-run the means for its transaction. If so, free competition will soon set things right. But the business of exchanges is so intimately connected with that of banking, that it will not be easy to open one to free competition, without opening the other also. A National Bank would do no more good than any other bank with an equal amount of capital. It is not the bank I object to, but the exclusive privileges with which it is desired to clothe it.

Third. There is a means of producing a uniform currency throughout the United States, and thereby greatly facilitating the commercial intercourse of the country, perfectly consistent with free competition in banking, and infinitely preferable to the resort to a National Bank.

That means, not less efficacious, than it is ingenious, was invented by some Boston banker. I cannot give his name, for the most useful inventions are not always the most celebrated. But whoever he was, he richly deserves a statue; and the people of New England might well afford to erect it.

Throughout New England, though banks are much more numerous than in any other parts of the country, the currency is perfectly uniform; which is not, and never was the case in any other part of the United States.

This desirable end is thus produced. Certain of the Boston banks, by mutual agreement, receive the notes of all the New England banks at par; and these banks, to prevent their notes from coming home, and the specie being demanded at their own counters, find it more for their interest and convenience to provide funds in Boston for the redemption of their notes; and the whole business of balancing the accounts between the Boston and the country banks, is intrusted to one bank, which receives from the others, a reasonable compensation for its trouble.

The result of this simple and excellent arrangement is, that the note of any New England bank, is at par, any where in New England. It amounts to the same thing, as if all the banks redeemed each other s notes, The currency is thus rendered perfectly uniform; each bank is constantly acting as a check upon all the others; and each is assured of its just share in the circulation; so that this system is as advantageous to the banks as it is to the public.

Now to produce a uniform currency throughout the United States, it is only necessary to extend this New England system to the whole country. Let the New York banks agree to receive at par the notes of the banks in all the chief commercial cities of the United States, and compel those banks, according to the Boston process, to provide funds in New York for the redemption of their notes. This done, and the end would be obtained. When such a system is adopted, and thoroughly carried out, we shall have a uniform currency; and never, till then.