

the influence of the great mass of bank debtors. Every dollar in specie drawn out of the banks, especially for exportation, induced the necessity of curtailments. To this portion of the community all other evils were light, when compared with the imperious demands of banks. Their exertions to prevent the drain of specie in the possessions of those who controlled their destiny, equalled the magnitude of the evils which were to be avoided. In most parts of the union this forced state of things is passing away. The convertibility of bank notes into specie is becoming real wherever it is ostensible. If public opinion does not correct the evil in those states where this convertibility is not even ostensible, it will be the imperative duty of those who are invested with the power of correction to apply the appropriate remedy.

As the currency is, at least in some parts of the union, depreciated, it must, in those parts, suffer a further reduction before it becomes sound. The nation must continue to suffer until this is effected. After the currency shall be reduced to the amount which, when the present quantity of the precious metals is distributed among the various nations of the world, in proportion to their respective exchangeable values, shall be assigned to the United States; when time shall have regulated the price of labor and of commodities, according to that amount; and when pre-existing engagements shall have been adjusted, the sufferings from a depreciated, decreasing, and deficient currency, will be terminated. Individual and public prosperity will gradually revive, and the productive energies of the nation resume their accustomed activity. But, new changes in the currency, and circumstances adverse to the perpetuity of the general prosperity, may reasonably be expected to occur. So far as the changes depend upon the currency, their recurrence, to an extent sufficient to disturb the prosperity of the nation, would be effectually prevented, if it could be rendered purely metallic. In that event, we should always retain that proportion of the precious metals which our exchangeable commodities bear to those of other nations. The currency would seldom be either redundant or deficient, to an extent that would seriously affect the interest of society. But when the currency is metallic, and paper convertible into specie, changes to such an extent it is believed, will frequently occur.

The establishment of banks which are restrained from issuing notes of small denominations, furnishes great facilities for the transmission of money, and increases the efficiency of the capital subject to their control, to the extent of the credit employed by them. The degree of facility afforded by them for the transportation or transmission of money, depends upon the extent of country within which their notes circulate, and preserve a value equivalent to specie. Ordinarily, this extent is determined by the interior trade of the country; they will circulate through the whole extent of country, the produce of which is carried for sale to the place of their establishment. If they are established only in the principal commercial city of the nation, their notes will circulate through the whole extent of its territory, and afford the greatest possible facility for the transmission of money. If they are established in several of the commercial cities, their circulation will be circumscribed by the sections of country, the inhabitants of which trade to those cities.—The facility for transmitting money will be diminished by their establishment. But if banks should be established in all the interior towns, this facility would be impaired to a still greater degree. In that event, their notes would circulate within very narrow limits; but, within those limits, the notes of the banks in the commercial cities would no longer form part of the circulation. Should they, by accident, be carried within it, the first individual having remittances to make, and into whose hands they might come, would use them for that purpose.

The degree of credit which a bank can employ, in proportion to its capital, depends upon a variety of circumstances. If the community reposes great confidence in the prudence and integrity of those who direct its concerns; if the capital employed is small in proportion to the demand for the transmission of money; if there is no other bank, whose local situation repels its circulation from those sections of country, the produce of which is ultimately carried to the place where it is established, the credit which it will be able to employ will be very great. Where all these facilities are wanting, the extent of the credit which it will employ will

be very inconsiderable. The additional efficiency which in the latter case, will be imparted to capital invested in banks, will it is believed, not countervail the evils which necessarily result from their establishment.

Among the advantages which have been supposed most strongly to recommend their establishment, especially in a community whose resources are rapidly expanding, their capacity suddenly to increase the currency to the utmost demand for it, has been considered the most important.

In a country where the currency is purely metallic, no considerable addition can be made to it, without giving, at the time of its acquisition, articles in exchange of equal value. No addition can be made to the currency without affecting, to the extent of such addition, the enjoyments of the community. The amount so added will, to the same extent, diminish the quantity of articles which would otherwise be imported into the country for domestic consumption, or for re-exportation.

Ordinarily, the currency of one country will not be exported to another, because its value in every country is nearly the same. It will not, therefore like other commodities, command a commercial profit upon exportation. It will be taken from one country to another, only when the price of commodities in the former is so high as to produce a loss in the latter, equal to the expense of transporting specie. It is in this condition, annexed to every acquisition to the currency of a state, when it is purely metallic, of diminishing, to the same extent, the enjoyments of the community, which affords the most efficient protection against its becoming redundant. It is equally efficient in guarding against a deficiency, to an extent that can seriously affect the interest of the community. But this condition is not annexed to the increase of the currency, by the issue of bank notes, even when convertible into specie. The notes, by which the currency is suddenly augmented, do not, in any degree, diminish the enjoyments of the community. No equivalent is, by such issue, transferred to another country, as is invariably done when an acquisition is made to a metallic currency. Whenever the currency can be augmented, exempt from such transfer, it must be subject to some degree of fluctuation in quantity. Every addition made to the currency by the issue of bank notes, changes the relation which previously existed between the amount of the currency, and the amount of the commodities which are to be exchanged through its agency.—Their issue depends not upon receiving, in exchange, articles of equal value; but, upon a pledge of the credit of one or more individuals, to the amount of such issue. No evil can result to the community from the advance of the capital of a bank in exchange for the credit of individuals. In that case, no addition is made to the amount of the currency previously in circulation. It is perfectly immaterial to society, whether this capital be lent by individuals or by corporations. The relation between the currency and the exchangeable commodities of the state is not disturbed. But, when their credit is greatly extended, the currency is expanded, and that relation is deranged. An expansion of the currency, through the agency of banks, will generally occur only in periods of prosperity. During such periods, enterprise will be fostered, industry stimulated, and the comfort and happiness of the people advanced without the fictitious aid of an expansive currency. But there can be no doubt that a sudden increase of the currency during periods of prosperity, through the agency of bank issues, gives additional force and activity to the national enterprise. Such an increase will be followed by a general rise in the value of all articles, especially of those which cannot be exported.—The price of lands, houses, and public stock will be augmented, in a greater degree, than if no such increase had taken place.

If these prices could be maintained; if they could even be protected against sudden reduction, they would be a source of gratulation rather than of complaint. But the expansion of the currency by the issue of paper, in a period of prosperity, will inevitably be succeeded by its contraction in periods of adversity. The extent to which the currency may be contracted, through the agency of banks, depends upon the use which they may have made of their credit. The excess of their discounts beyond their capital actually paid, determines the amount of the credit which they have employed. Thus, in 1813, the capital of the banks in the United States has been estimated at \$65 millions

and their discounts at \$117 millions. The extent to which their credit was then employed was \$52 millions. Their circulation, at the same period, has been estimated at \$62 millions. In this estimate no allowance was made for notes stated to be in circulation, but which were probably in the possession of other banks. A reasonable deduction being made on that account it is probable that the paper circulation did not much exceed \$52 millions. But the liability of the banks for specie, was equal to the whole amount of notes represented to be in circulation besides the individual deposits. To meet an immediate demand, they are estimated to have had \$28 millions in specie. If the deposits of individuals should be estimated at \$18 millions, their ultimate means of meeting the demand of \$62 millions, without sacrificing their capital, would consist of \$10 millions, in specie, and \$52 millions secured by the notes of individuals; this sum being the excess of their discounts over their capital. Under ordinary circumstances, the basis upon which the credit of this circulation rested, might be considered sufficient to sustain it. A debt of \$117 millions, could not under the most adverse circumstances, be considered inadequate to meet one of \$52 millions. But in the case of currency, the capacity of ultimate redemption is not sufficient. The capacity to redeem it as it is presented is indispensable. Whenever the public confidence, in this capacity, is impaired, an immediate demand for specie will be created; and, if it is not promptly met, depreciation will ensue. But, even in circumstances in some degree adverse to the operation of banks, if their discounts consisted principally of notes founded upon real transactions, in which the idea of renewal was excluded; and if specie formed a considerable proportion of the circulation, the capacity of the banks to meet the demands upon them for specie, might have been sufficient to sustain the credit of the currency. If, on the other hand, the debts due to the banks consisted chiefly of fixed or permanent loans, generally denominated accommodation paper, if specie had been banished from circulation, by the issue of dollar notes, the suspension of payment by the banks could not fail to be the result of any considerable pressure upon them for specie. In the former case, as their notes should be withdrawn from circulation, they would gradually be reduced to the demand for them for the transmission of money. If the effort to withdraw them should be continued beyond that point, specie, would be paid into the banks by their debtors, in preference to bank notes; and the just proportion between the paper circulation, and the specie in their vaults, would be promptly restored. In the latter case, as the debts due to the banks would not, according to the understanding of the parties, become due at short intervals, the only mode of meeting the increasing demands upon them for specie would be to require of the whole mass of debtors the payment of a fixed proportion of the sums due by them. As the circumstances which would require this measure, on the part of the banks, would generally affect the community in the same degree; the capacity of their debtors to meet this demand would generally be found to be in an inverse ratio to the demand. The demand itself being inconsistent with the impression under which the debt was contracted, would be resisted in every case, where the interest of the debtor would be subserved by delay. As specie formed but an inconsiderable part of the currency, the reduction of the paper circulation would have to be carried to a greater extent than in the former case. A just proportion between the paper circulation and the specie necessary to support it, could be obtained only by the positive reduction of the former, as it would be impracticable to increase the latter, while the demand continued. Under such circumstances, the suspension of payment would be the probable result.

Such, in fact, were the circumstances under which the suspension in 1814 occurred.

The injudicious multiplication of banks, where capital in that form to some extent, might have been useful; the establishment of them where they only could be injurious, the permission to issue dollar notes, by which specie was banished from circulation; and the demand for specie for exportation which existed during the years 1813 and 1814, imposed upon the banks in the middle, southern and western states, the necessity of suspending payment. A longer effort to discharge their notes in specie would not only have been ineffectual, but would certainly have postponed, to a more

remote period, the resumption of specie payments. The evils which have resulted to the community from that suspension have certainly been great; but, it may well be doubted, whether others of equal magnitude would not have been suffered, if that event had not occurred. The extent to which the currency must have been reduced, in order to have avoided the suspension, could not have failed, at any period, to produce great embarrassments and distress to the community. But, in a time of war, when the country was invaded; when the public safety required that the energies of the nation should be fully developed, a sudden and extensive reduction of the currency by any cause whatever, would have been fatal. Under such circumstances, the demand for currency would have been too imperious to be resisted. It would, from necessity, have been supplied by the issue of treasury notes.

The fact, that, in a small portion of the union, specie payments were continued, cannot be admitted as evidence, that it was practicable throughout the nation. In that part of the country, the extensive bank issues, consequent upon loans to the government in the middle states, had not occurred. Foreign trade, which, in other parts of the union, was nearly annihilated, still preserved there a languid existence, through the permission or connivance of the enemy.—These circumstances could not fail to enable the banks, in the eastern states, to continue specie payments longer than those of the middle, southern and western states. In an effort to preserve their credit, they would, inevitably, be the last that would fall. In such a struggle, however, they must have failed, had not the circulation of the paper of their weaker neighbors and the issues of treasury notes come to their aid. But for this adventitious assistance, wholly unconnected with the wisdom and foresight of their directors, specie payments must have been suspended there, or the best interests of the community have been sacrificed. From that period, until the resumption of specie payments in the early part of 1817, treasury notes, and the notes of the banks which had suspended payment, formed the great mass of circulation in the eastern part of the union.—Specie, or the notes of banks which continued to pay specie, formed no part of the receipts of the government in Boston and the districts east of that town, until about the close of the year 1816.

In all great exigencies, which in the course of human events, may be expected to arise in every nation the suspension of payment by banks, where the circulation consists principally of bank notes, is one of the evils which ought to be considered as the inevitable consequence of their establishment. Even in countries where paper does not form the principal part of the circulation, such an event will sometimes happen. In the year 1797, when the restriction was imposed upon the bank of England, the average of its circulation, for several successive years, was about 10,000,000 sterling, whilst the metallic currency was estimated at 30,000,000. Yet in that country, whose trade in the time of war, through the protection of its fleets, was rather expanded than contracted, it was found necessary to authorize the bank to suspend payment, which suspension, after a lapse of twenty-three years, still continues. When the existence of banks depends upon the authority that regulates the currency, it may be practicable to impose salutary checks against excessive issues of paper during suspension, and in some degree to guard against an excessive issue of the currency. But, where these institutions are created by an authority having no power to regulate the currency, and, especially, where they are created by a great variety of authorities independent of each other, & practically incapable of acting in such concert, it is manifest that no checks or restraints can be imposed. It is impossible to imagine a currency more vicious than that which depends upon the will of nearly four hundred banks, entirely independent of each other, when released from all restraint against excessive issues. By the term currency the issue of paper by government, as a financial resource, is excluded. Even such an issue, in a state where the reign of law is firmly established, and public opinion controls the public councils, would be preferable to a currency similar to that which existed in some parts of the United States, during the general suspension, and which now exists in some of the states. This truth has been practically demonstrated, by the redemption of the whole of the treasury notes, issued during the war within the short space of about two years after the peace; whilst a large

amount of bank notes issued during the suspension are yet unredeemed and greatly depreciated.

There can be no doubt, that a metallic currency; connected with a paper circulation, convertible into specie, and not exceeding the demand for the facile transmission of money, is the most convenient that can be devised. When the paper circulation exceeds that demand, the metallic currency to the amount of the excess will be exported, and a liability to sudden fluctuations to the same extent will be produced.

If banks were established only in the principal commercial cities of each state; if they were restrained from the issue of notes of small denominations; if they should retain an absolute control over one half of their capital, and the whole of the credit which they employ, by discounting to that amount nothing but transaction paper payable at short dates; the credit and stability of the banks would, at least, be unquestionable. Their notes could always be redeemed in specie on demand. The remaining part of their capital might be advanced upon long credits to manufacturers, and even to agriculturalists, without the danger of being under the necessity of calling upon such debtors to contribute to their relief, if emergencies should occur. Such debtors are, in fact, unable to meet sudden exigencies, and ought never to accept of advances from banks, but upon long credits, for which timely provision may be made. The latter class, of all others, is the least qualified to meet the sudden demands which a pressure upon banks compels them to make upon their debtors.—The returns of capital invested in agriculture are two slow and distant to justify engagements with banks, except upon long credits. If the payment of the principal should be demanded at other periods than those at which the husbandman receives the annual reward of his toil, the distress which would result from the exaction would greatly outweigh any benefit which was anticipated from the loan.

That the establishment of banks, in agricultural districts, has greatly improved the general appearance of the country, is not denied. Comfortable mansions, and spacious barns, have been erected; lands have been cleared and reduced to cultivation; farms have been stocked and rendered more productive, by the aid of bank credits. But these improvements will eventually be found, in most cases, to effect the ruin of the proprietor. The farm, with its improvements, will frequently prove unequal to the discharge of the debts incurred in its embellishment. Such, in fact, is the actual or apprehended state of things wherever banks have been established in small inland towns and villages.—Poverty and distress are impending over the heads of most of those who have attempted to improve their farms by the aid of bank credits. So general is this distress, that the principal attention of the state legislatures, where the evil exists, is, at this moment, directed to the adoption of measures calculated to rescue their fellow citizens from the inevitable effects of their own indiscretion. If, in affording a shield to the debtor, against the legal demand of his creditor, the axe shall be applied to the root of the evil, by the annihilation of banks where they ought never to have existed, the interference, however doubtful in point of policy or principle, may, eventually, be productive of more good than evil.

The general system of credit, which has been introduced through the agency of banks, brought home to every man's door, has produced a fictitious state of things, extremely adverse to the sober, frugal, and industrious habits, which ought to be cherished in a republic. In the place of these virtues, extravagance, idleness, and the spirit of gambling adventure have been engendered and fostered by our institutions. So far as these evils have been produced by the establishment of banks, where they are not required, by the omission to impose upon them wholesome restraints; and by the ignorance or misconduct of those who have been entrusted with their direction, they are believed to be beyond the control of the federal government. Since the resumption of specie payments, measures have been adopted in some of the states to enforce their continuance; in others, the evil has been left to the correction of public opinion. There is, however, some reason to apprehend, that the authority of law may be interposed in support of the circulation of notes, not convertible into specie.

But the federal government has, by its measures, in some degree, contributed to the spirit of speculation, and of adventurous enterprise, which, at this moment so strongly characterise the citizens of this republic, the system of credit, which, in the infancy of