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Letter, &c.

On Banking



New-York, February 17, 1827.

DEAR SIR,

As you have done me the honour to solicit my opinion in reference to the true principles of Banking, of which you profess yourself comparatively ignorant, I return you the following Hints, which are at your service, and if they merit it, at that of the public.

I fully agree with you, that there is no subject which comes before our Legislature in which the people at large have so deep an interest. Other laws touch but a portion of society, and in general, that portion only which is interested in their enactment, and aware of their operation. Banking laws, on the contrary, operate upon all,—through the medium of the currency every man's interest is affected, and that in a manner so imperceptible, and yet so certain, that though he feel the evil he cannot foresee it; and even if he could foresee it he could not avoid it. The currency in short being, as it were, the life blood of society, which circulating through every limb and member, carries disease or soundness to its smallest and extremest parts.

And if in a question, which is a vital one in every country, any distinction could be drawn in reference to one, it might be said to be pre-eminently important in our own, where the enterprise of the people, the rapid extension of commerce, and the freedom of circulation, like the plethoric fulness of youth, render a sound and healthy currency the only condition of health, and make an unsound one to run, with proportionate rapidity, into excitement, debility, and disease. Hence it is that we observe in our country, the greater frequency of individual failures and of general commercial revolutions, than is exhibited in most of the older countries of Europe, where something like the slow pulse of age seems to render comparatively innoxious those seeds of disease, which in our own warmer temperament, run out into unsound and feverish speculation.

At any rate, whatever be the cause, such at least is the fact, and as the evil is greater with us, so should be our diligence in examining its causes, and our caution in adopting a remedy. Nor is the injury inflicted upon us by an unsound currency confined to loss of wealth; national reputation abroad is also at stake; and as our character is peculiarly a commercial one, it becomes us to guard it with the greater scrupulousness against the existence of those causes which invariably

lead to foreign embarrassments, to diminished Credit, and too often to a loss of commercial honour.

With these views, no legislator can come to the task of deciding on Banking privileges, but with a feeling of deep responsibility, and none should come to it but with a resolution of sacrificing to the public good all partial and local interests. This is the moral qualification, without which the legislator, as he is unworthy of the confidence reposed in him, so is he incapacitated from seeing the truth when brought before him. His intellectual qualifications are more easily attained, since the principles of Banking are much less mysterious in their nature than is generally supposed, and may be mastered with ease by any man of common understanding. Every thing depends on his looking at it in its original simplicity, since the mysteries of its operations are almost entirely the fruit of legislative interference, which in Credit, as perhaps in many other things, has obscured those natural processes which, like all the other movements of Nature, are clear, simple, and harmonious.

The first principle, therefore, upon which I would advise the legislator to make up his mind, is this: that all the evils of Banking, beyond those which exist in other modes of business, flow from needless or unwise regulation. This is

a fundamental position, and once fully received constitutes the end at which the legislator is to aim. Under this principle, therefore, he takes up the subject of Banking; not as some well meaning statesmen have done, in the light of a great but necessary evil, for which, in their wisdom, they are to find competent remedies, and chain down as it were, the monster of paper money, lest he ravage the face of society,—but he takes it up under the simpler form of Credit, as one of the natural and obvious provisions of trade; one of the simple, but beautiful contrivances, by which men united together in the bonds of mutual confidence, economize the precious metals and anticipate future funds by taking promises in lieu of immediate payment.

This is the essence of the whole matter, and encumber or obscure Banking as you will, with privileges or monopoly, it amounts in the end but to this,—the regulation of Credit. Now the question naturally arises—How does credit stand in need of all this regulation? How happens it to differ so far from every other business in which men engage, that while other trades flourish by liberty, and are led by the unerring instinct of self-interest into the wisest and safest course, that this alone should require to be directed and governed by the wisdom of others. The simple statement of this glaring inconsistency is almost

sufficient to disprove the principle; for experience will teach us that Nature is uniform, that instinct is always wise, and that self-interest left free to competition will reach the mark of public good, with a precision beyond all the wisdom of the wisest lawgivers. Let laws then but secure the integrity of contracts, and Credit you may rest assured will take care of itself.

To this conclusion, therefore, the candid inquirer will first arrive,—the business of Credit, like every other business for which there is a demand in society, has its natural limits, and left to itself will regulate itself,—will contract or expand with the varying demands of trade, and will be liable to no other fluctuations than those which arise out of trade itself.

It is a common error with men who look but upon the surface of things, to suppose that Banks are necessary for the support of credit, and the supply of a national currency; and unquestionably the appearance of things is much in favour of such an opinion,—the patronage which Banks evidently exercise among merchants,—the dependance of all borrowers upon them, and the universal diffusion of their notes throughout the community, gives to them the air of being the moving spring which keeps in motion the great monied machine of society. But a little research will dissipate this illusion, and exhibit them to us

rather as part of the load which the spring has to set and maintain in motion. It is Credit, in short, which supports the Banks, and not the Banks which support Credit; insomuch, that if we suppose the removal of every Bank from our country, and the withdrawal of every note from circulation, allowing time for the change, we should still find commercial credit unimpaired, and the channels of circulation still full: the only difference would be, that the currency would be one that could never be depreciated, and Credit established on such principles as would not often be shaken. It would be but giving to our merchants and our city somewhat of that permanency which so honourably distinguishes the cities of Holland, where wealth has grown up without Banks, merchants have managed their business without discounts, individuals made their purchases without Bank notes, and where Credit is so honourably maintained that bankruptcy is a disgrace comparatively unknown, and commercial reputation is a plant of centuries which flourishes from sire to son.

It is not then legislation which regulates Credit, any more than it is the vane which directs the wind that blows it. Credit is, as it were, the patrimony of the commercial world; in its movements it is like the swell or reflux of the ocean, mighty and irresistible, and encircling the whole

globe with its influence, its fluctuations cannot therefore be confined to one city or nation, but embrace necessarily in one general sweep, the whole circle of trading nations, every part of which, experiences on such occasions, a corresponding change, in proportion to the closeness of its connexion with the place where the fluctuation originates. This sympathy of national credit, is indicated by the varying rate of foreign exchange, which constitutes as it were the barometer of commerce, determining the transfer of capital to such countries, and in such proportions as will soonest equalize these incidental but necessary irregularities.

It is as a part of this common system, as inlets from this ocean of commercial credit, (if I may so term it,) that the currency of an individual country is to be primarily considered; not as pools of stagnant water, pumped up to fulness by the ministry of Banks, but as channels filled freely from the current of commerce, and incapable therefore of being raised higher, or sunk lower than the general level of the whole. It is to this level that all local currencies, must in the end conform. Neither charters, nor monopolies, nor paper money can alter this fundamental law of nature, which is as fixed and unchangeable in its operation, as that which regulates the varying level of the ocean, to which I have ventured to compare it. Banks and

their privileges are as nothing to oppose its progress, they must yield to the current, or they would be swept away before its power. If they issue a paper exchangeable on demand, like a metallic currency, it accommodates itself freely to every fluctuation from without, and the Bank is governed imperatively in its issues, by the demand for specie that is immediately made upon it, whenever its paper is in excess.—Or should Banks or Legislatures think that the penalty of conforming to specie could be avoided by the use of a paper currency not redeemable, and consequently incapable of exportation, they would find precisely the same effect produced upon it by its depreciation in value, as was before attained by the diminution of its quantity; and notwithstanding all the issues of such paper that the Bank could pour forth, money would still be equally scarce in the country; it would fall in value in proportion as it increased in amount, and would never rise to be an equivalent with specie until diminished to that precise degree to which it would have been reduced had the paper been freely redeemable. This is one of the valuable lessons which we, as well as England, have learned from hard experience. During the last war, in the year 1814, and the two following years, we made trial, in most of our cities, of an irredeemable paper. Into the causes which justified its adoption I do not now enter. I am sa-

tified that it was a measure necessary for the safety of the Banks. I am not equally so that it was necessary for the support of commercial Credit. At any rate, it was the decision of men whose characters, in general, entitled them to all confidence, and to whose opinion of its necessity under the circumstances in which they were placed, I would freely yield any private opinion; but as to the result of the measure there can be no dispute; it led to a distinction between paper and gold, which otherwise could not have taken place. While the amount of paper in circulation went not beyond its true limits, no change ensued either in prices or in the course of exchange, but such conformity could not last; it was not, perhaps, in human nature to keep within bounds, which it was so tempting and at the same time apparently so safe to pass; the more wise and conscientious among our Bankers were overborne, at least in some instances, by the influence of numbers; and Bank issues were made with a freedom that soon carried their circulation beyond what may be termed its bullion limits. With these issues came hand in hand depreciation of the currency, marked by universal rise of prices; and unfavourable rates of exchange, marked by the rise of bills; until at length the notes of our own city Banks had fallen near 20 *per cent.*, and some of the southern ones double that amount below the value of specie. The

degree of depreciation being in every case indicated by a corresponding rise of exchange, against the state or city where it circulated, thus proving incontestably that a local currency, whatsoever it consist of, or howsoever hedged in by laws, or privilege, or breach of faith, can obey in a state united by commerce to the rest of the world, no other laws than those that are imposed by the demands of universal commerce. We may name the paper as we will, but it will be valued only in gold and silver, that universal medium of exchange, that common money of the commercial world.

In thus explaining the difference that existed during our suspension period between paper and specie, into a depreciation of paper, and not an appreciation of gold, I confess that I differ with great reluctance from one whom I have the honour to call a friend, and to whose wisdom and experience I would submit every thing but the demonstrable principles of the science, and of these this seems to me to be one, viz. that gold and silver, as being the universal medium of exchange among nations, must be regarded as the only standard of value, and therefore the only criterion by which we can measure the soundness or the depreciation of local currencies.

This then appears to me the fundamental error upon which our Legislatures have run in this mat-

ter; they have imagined that they were regulating the Credit and currency of the country, when in truth they were only granting monopolies to individuals, and putting into the hands of incorporations privileges that belonged to the community. To regulate Credit, lies beyond their power, all that they can do is to shackle it by restrictions, to accumulate it in fewer hands by monopolies, and so to multiply and increase its temporary fluctuations as to turn merchants into speculators, and commerce into a mere game of chance. This they can do, and this they have done, but in this lies the amount of their power. Let them then at last learn wisdom by experience, and give up the regulation of Credit into the hands of those whom alone it concerns, and who certainly will take sufficient care of their own interests.

The prejudice against this proposed freedom is one destined soon to be worn away, and I would that we had the credit of removing it. It is one, and almost the last of a long list of Legislative powers, which one by one have been dropped into the lap of society, that real nursing mother of the rights of man, and there entrusted to the self interest of individuals. Time was when Legislatures have thought it necessary, for the public good, to regulate prices, to limit wages, to determine apprenticeships, to prohibit the exportation of gold and silver, and in some countries, to pass sump-

tuary laws lest society should ruin itself by extravagance. This was the infancy of economical science, but it was a long and a feeble one. With its growth, however, came wisdom; Legislators then began to find that society was governed by other laws than those contained in the statute book, and one after another these objects of Legislation, once esteemed all-important, have been dropped voluntarily from the conviction that they are matters which regulate themselves, and that legislation on such subjects only tends to disturb the wise and harmonious economy of Nature.

But we, permit me to say, have not yet reached the full liberty of manhood. It is true we can now regulate our dress and our contracts as we will, enter into business without an apprenticeship, and ship specie without the dread of seizure; and we can smile too at the narrow and blind policy of our fathers who interdicted it; but we are not aware, that we are still tied by some of the leading-strings of our infancy, and that we are destined in our turn to afford a moral lesson to our wiser children, who will smile at the simplicity that could imagine that the value of money could be regulated by law, or that Banking Incorporations were necessary for the support of Credit. It may be, however, that our eyes may yet be opened in time to claim this praise for our own generation, and to venture on

those improvements which the next generation will unquestionably and boldly demand.

To contribute my mite towards this good work, I will go on to trouble you with a more detailed view, both of the evils to be corrected and the remedy, in my opinion, to be applied to them.

To maintain that freedom in Banking will remove from it all error and all abuse, were a Utopian Theory; it were to expect men to be what Nature has not made them. Where there is ignorance there will be error, and where there is depravity there will be fraud; but it may be confidently asserted it will be limiting error and fraud in Banking within their narrowest possible bounds, by putting them under the sharp-sighted control of self-interest, and giving to them no possibility of obtaining power but through the voluntary confidence of society,—a confidence that would rarely be bestowed except upon integrity and wealth. A power thus diffused throughout the community, in the very nature of things, could never be grossly abused, since it would be identified, as it is found to be in all free trades, with the interest of the whole; the result of which would be that the commodity required, whether it were Credit or goods, would be furnished to society at the cheapest rate, and in precisely that quantity which society demands; de-

mand would always bring supply, and supply be limited by demand. Credit under such circumstances, like a fertilizing stream, no longer dammed up by the hands of art, would be found to flow through its natural channels free and unimpeded, neither starving nor deluging the lands through which it passed at the will of some needy miller, who opens or shuts the floodgates of circulation to suit, not the needs of the country below, but his own convenience and profit.

To you, Sir, I need not dwell long upon the actual defects of our present system of Banking Incorporations. It is, in too many of its features, a dark and disgraceful picture. For what else can we say of all those gross instances of fraud and imposture to which it has given rise? All those combinations of unprincipled and designing men, who have been enabled to prey upon society solely through the influence which has been given to them by the act of the Legislature; which appears, in such cases, more like the betrayer than the guardian of the poor and the ignorant, who naturally look up to them for guidance, and ought not to be called to look beyond their sanction. What shall we say too, of a system that confounds in the eyes of the community, the fraudulent and the bankrupt with men of integrity and wealth? Which gives to them funds without capital, Credit without responsibility, and an un-

limited power of purchasing without the means of enforcing payment,—the show of wealth without the substance; the means of swindling the honest trader, the laborious mechanic, the poor labourer, the fatherless and the widow, and in short, all but the cautious and the intelligent, without limit, without redress, and, unless the system is altered, without end. This, Sir, is no fanciful or even high-drawn picture; we all have seen, and too many have painfully felt its truth. I would only beg you to consider, whether it is a necessary state of things. I would ask any intelligent man, whether it is a state of things that could possibly have happened but through the sanction of a legislative charter; whether men without character, without talents, and without wealth could, in any other way, ever have wielded one-hundredth part of the monied influence we have seen them do, but through the false credit of a baseless incorporation.

Nor is this the only though it is the grossest abuse to which Banking Incorporations have given rise. Even honesty in the Directors is not a sufficient guarantee to the public; and that for this plain reason, that their interest as a Banking Incorporation does not always coincide with that of the public. And as their own interest is, and must be, the only criterion by which they can be guided; the public interests will sometimes,

necessarily suffer, and the profits of the community be sacrificed to those of the stockholders. This may be exemplified by a very ordinary case; suppose, as has more than once taken place, one of the Banks in our city suddenly curtails its discount, say \$50,000, from caprice, or groundless apprehension, or any other cause not founded on the state of trade, every other Bank must draw in proportionably, under the penalty of becoming a debtor Bank, and thereby losing a portion of the specie out of its vaults; and, I say, no Director or officer of such Bank but would be culpable in not doing so, since the safety of the Bank depends upon it. Nor would such diminution of discounts probably be confined to the same proportion; it would go further, from the caution of Directors; and each successive Bank adding to the alarm, caution would be turned into fear, and fear into panic,—and groundless apprehension be thus made the cause of extended ruin to the community. This indeed may be sound policy for the Banks, but what is it for society. The ordinary aids of business are withheld, enterprises are checked in their commencement, commercial operations embarrassed in their progress, capital suddenly withdrawn from productive hands, from the manufacturer, the farmer, the artisan, and the trader, and Credit curtailed through all its endless ramifications. The chain tightened at one

end presses equally on every succeeding link ; the Bank presses the merchant, the merchant the trader, the trader his customers ; so that the act of the Bank operates like an electric shock, producing, at one and the same moment, a pressure for money through all the ranks of the community. Hence must result a train of commercial embarrassments as painful as they are unnecessary ; money must be raised and sacrifices must be made, workmen must be dismissed and business curtailed, and if the pressure be continued long enough, failure and ruin must ensue ; upon those first who have gone furthest upon Credit, and through them upon even the prudent and the cautious.

The Banks now continue from necessity what they began from choice ; and congratulate themselves upon their wisdom in escaping a storm of their own raising. But while Directors thus sit in safety, their narrowed discounts are working distress, and suffering, and ruin among thousands ; and must continue so to do until the panic is past,—until confidence is slowly restored, and the channels of circulation again filled by increasing discounts ; and thus passes the storm. But, to the reflecting mind, all things cannot be brought back to their former state. The community has lost much which can never be replaced ; the sum of human happiness has been diminished,

the amount of human griefs increased; for both of which, Banking Incorporations must stand debtor to the Genius of Humanity. The tide of commerce may again flow up to its accustomed limits, but where are the proud galleys that once navigated it? Is it nothing that the liberal and noble merchant has fallen untimely? Is it nothing in the account, the anxieties and fears, the broken fortunes and the broken hearts of men; and is it nothing, in fine, that to Banking monopolies we owe, in a great measure, those tremendous convulsions of the commercial world which desolate society as with a scourge, and almost render commerce itself hateful to the contemplative and philanthropic mind.

But let us not confound things that are essentially distinct; these are evils that are imputable neither to Banking nor to Bankers, but solely to Banks; they grow out, not of the business nor yet of the spirit with which it is carried on, but simply out of the form which legislatures have seen fit to impose upon it. These evils, for your clearer view of them, may be reduced to the following heads:—

- I. The evils which attend obtaining Bank Charters.
- II. The tax they levy upon the community.
- III. The sudden fluctuations they cause in the money market by their varying discounts.

IV. The derangement they cause in productive industry, by the uncertainty of their loans, and,

Lastly, The evils of false Credit, by which the community is defrauded.

That all these evils have accompanied the establishment of Banks, is unquestionable. It is my purpose to show that they are all extraneous to the real business of Banking, which involves no such consequences; but that they grow out of Banking carried on by monopoly and incorporation.

1. *The evils which attend obtaining a Charter.*

As these are rather political, than economical, I would pass them over in silence, but that they so evidently strike at the root of all that is free or good among us. If corruption once creep in among our legislators, the very citadel of our freedom, and morality is sapped. If lawgivers may be purchased, laws will be bought; if laws may be bought, money and bad men will be our rulers; and a tyranny gradually come over us, so much the more intolerable as it will be in the hands of the many and the vicious; and will work unseen in the dark recesses of corruption. I do not say that Bank charters are so obtained, but I say it is hardly possible but what they should be so obtained, from the very nature of the privilege which they grant, for where there is so much wealth created, (as it is supposed,) it would be

strange indeed if nothing remained as an equivalent to those who created it. But be these evils what they may, it is evident that they are due solely to the necessity of an act of incorporation, and that if Banking were altogether free, or rather as I intend to propose—freely regulated under a general statute, these evils could not exist. As there would be no privilege, there could be no purchase, and our Legislature would be saved from what I believe to be the last and greatest peril that awaits our republican institutions; I mean the stain, or the suspicion of the stain of bribery and corruption.

2. *The tax it levies upon the Community.*

That all monopoly enhances price, is one of the clearest positions of economical science. That corporations carry on business at greater expenses than those who manage their own concerns, is also matter of familiar observation; and from both these positions it follows, that Banks being both monopolies and incorporations, must furnish to society the commodity in which they deal, that is Credit, upon higher terms than free competition would give. But on this point we are not left to abstract speculation.

Whence I would ask, do the Banks derive the power of paying a bonus to the State, or gratuities to individuals, or even the more justifiable expenses attending a Charter, and yet still retain such

attractions to the first subscribers for stock? Whence but from surplus profits on their capital, above its other investments; and if such surplus profits do exist, are they not the proceeds of a tax levied on the community, paid by the borrowers at large, to be repaid into the pockets of those specially interested. Without Banking privileges, no such tax could be levied, competition would bring down the profits of Banking Capital to the average rate of all other profits, so that not only would society be saved this needless expenditure, but it would be freed also from the temptation which such surplus profits always create to the needy and unprincipled, a temptation so great as sometimes (we have reason to believe,) to turn the filling up of the stock of anew Bank into a scene of iniquity and fraud, and to bring down men of high standing to a level with gamblers and swindlers.

Let us not then count as nothing the saving that would accrue to society in this particular; the monied tax may not be a very heavy one, but the moral tax is a dead weight upon our prosperity—a few hundred thousands drawn from the labours of the many, to go into the pockets of the rich, may not perhaps ruin our country, but we may, and we must be ruined, if our Legislatures will continue to set traps for feeble honesty, and to turn an honourable business, into a gambling speculation.

3. *The evil of sudden fluctuations in the money market.*

It were both idle and false to charge upon Banks the existence of all such fluctuations ;—the amount of the charge is this, that through the means of their variable discounts, these fluctuations sometimes are created, and generally rendered more sudden and capricious in their movements, than they would be if Credit were freely regulated. This charge if true is a heavy one, and would make the question go hard with Bank charters, in the mind of every commercial man ; for there is not a merchant, but feels that these fluctuations are the very bane of commercial safety, that neither wisdom, nor prudence can stand against them, that they defeat the best laid plans, and ruin the most prosperous enterprizes, that they pull down the weak, and stagger the strong. Such indeed is their estimate of these dangers, that I know many merchants who have unwillingly turned their sons from their own pursuits, or kept them back for years, from engaging in business, from the conviction of the almost inevitable ruin which hangs momentarily over the head of the merchant, however successful he may be for a time ; and which even in the midst of his prosperity, like the suspended sword of the tyrant takes away all taste of the feast.

The question then is, are these monied fluctuations increased in number or degree, or suddenness, through the control which Banks possess

over the currency of the country. That they are so, would seem to be the answer derived both from fact and reasoning. For the fact is, these fluctuations are greater, more frequent and sudden, in all places where Banks of discount rule the circulation, as in London, for instance, and the cities of our own country: they are less so, again, in such places as having a metallic currency, are in some measure beyond their operation, as in the cities of Amsterdam, Hamburgh, and Paris. Again, the fact is, they are greater and more frequent in this country and in England since the great prevalence of Banks, than they were before, from all which would arise at least a suspicion against them; and perhaps this suspicion will be turned into conviction, if we examine the matter a little more narrowly. That the Banks are able to control the money market, at least temporarily, there is no question; they can make a scarcity of money one day, and they can make an abundance of it the next; they feel that they have the power and they acknowledge their use of it, but then they maintain that they use it with wisdom and discretion, in such a manner as to be best for the public. But is there no danger that they may mistake the real interests of the public, or that they may have private interests of their own which may be imperative upon them? And who are they to whose wisdom and discretion

the fate and fortunes of commercial men are thus entrusted? And where is the necessity that they should be entrusted to any but themselves? Among the Banks some undoubtedly are wise and discreet, but if there be one that is otherwise, that one, as we have already seen, has the control in its hands, and may by a sudden curtailment of its discounts force the decision of the wise and prudent majority. But even admitting, for argument sake, what certainly is never true in point of fact, that all our Banks are wisely and soundly governed, even then the regulation of their issues would be but an approximation to what society demands in the way of Credit, and what society would certainly receive if it were its own banker. There still will be a suddenness of decision and a rapidity of change, in a currency under the control of Banks, greater than would exist in its natural state. All the changes which nature governs, are, as we may observe, gradual and progressive; they never go *per saltum*, to use the language of mathematicians, but by connected and insensible degrees; and so is it with the fluctuations of Credit,—diffused through the community, its movements cannot but be gradual, since they would depend upon the varied temperament of innumerable minds,—but once accumulated in corporations, Credit is no longer capable of the same

insensible movement; like artificial mechanism, it goes as it were by leaps, and that necessarily, because the decision of a thousand minds is now vested in the discretion of one, and all the consequences concentrated in one single act; and when to this necessary cause of irregularity is added the possibility, that such discretion is neither wisely nor soundly exercised, you will perceive good reason to admit, that the interests of the community are not so well guarded in this particular as they might be, and to believe with me, that these ruinous fluctuations sometimes originate, and are often increased, through the control which Banking Incorporations must ever possess over the money market.

4. *The derangement of productive industry by the uncertainty of Bank loans.*

That this is an evil is unquestionable,—that it exists under the present operation of Banking is equally undeniable; but that it arises from Bank Incorporations is not at first sight so evident. The greatness of the evil and the obscurity of its cause, must be my apology for entering into some detail upon the subject.

The nature of the evil is easily understood. A Bank loans out its surplus capital to various borrowers in society,—to the manufacturer, the merchant, the trader, and the mechanic,—these men want permanent loans, because the money is in

tended for permanent investment in their business; the Bank however will only loan it during pleasure; this is the evil—there is no security for the interests either of the borrower or of society, for society is equally interested, that the loan should remain until it has effected the objects for which it is made. But this is not the character of Bank loans; the moment a pressure comes on, the Bank wants its money—and at the very moment that it is most difficult for the borrower to pay, payment must be made, and the whole, or a part of the loan must be paid in at whatever sacrifice attained. Now this is that uncertainty which has added a new risk to all business carried on through the aid of Banks, a risk so great in the opinion of observant men, as to constitute one of the greatest causes of the frequent failures that take place, even among prudent men, and even in a safe and good business.

To understand this matter more clearly, it is proper to distinguish between two operations altogether distinct in their nature, but confounded in the ordinary management of Banks.—And that is, the loaning of Credit, and the loaning of Capital; the former of these is the rightful business of a Bank, the latter is an irregular operation, the business of a money lender; and on the part of the banker, is injurious alike to the real interest, both of the Bank and of the community.

Thus when a Bank enables a man to anticipate his funds, it loans him Credit, when it creates him funds, it loans him Capital: in the first case, the Bank has only lent him the Credit of their name, in the second, they have transferred to him the funds, either of their stockholders or their depositors.—In the former they have merely exchanged with him promissory notes, and their profit lies in making him pay an interest for this use of their name, for this fictitious capital, which their Credit creates. In the latter case, they have exchanged with him capital for paper, and draw an interest only on a real advance.

Of the nature of the former, is all *business* paper as it is termed, that is, notes created by the real exchanges of society. Of the latter, are all loans made by the Bank, and what is known by the name of *accommodation* paper.

The former of these, is as I have said, the only true business of the banker; the latter is not only foreign to it, but injurious, and results solely from banking being carried on by incorporations.

Let us first attend to the different results of these two operations.—Confined to loaning credit, without any control over capital, Banks may be said to be powerless for the injury of society, since their own ruin would be the first result. They could not take a step beyond the real needs of commerce, but they would be checked in their

progress; every dollar of over issue that rested upon Credit only, would return immediately upon them, and abstract from those funds which their circulation had created. Under such a principle Banks are safe, and the currency secure. The interest of the banker and that of the public, is one and the same; and discounts will rise or fall, precisely with the pulse of trade, the demand for Credit being the very basis upon which the banker is enabled to give it. But it is otherwise with loans of capital; here, as already stated, the Bank and the borrower have different interests; and the demand, and the power of supply no longer coincide. Thus the Bank throws out its loans of Capital, not because society demands it, but because the Bank has a surplus; and again it recalls it from the community, not because the community want to pay it in, but solely because the Bank can put it at that moment to a more profitable use. By the former of these operations tempting men through the facility of obtaining money, to new and enlarged enterprises; and by the latter, ruining those very enterprises, and perhaps the men themselves, by hastily withdrawing the aid it had so lately courted them to take.

The truth is, a banker has no need of capital, except to support his Credit, and that end would be best attained by his capital being vested, and from under his control. He wants no funds when

once in operation, beyond those which his very business creates. It is a wheel of circulation, which he keeps in motion, a certain round of Credit, which performs its revolutions in sixty days, and which, when properly governed, balances itself; the notes paid in on the one side liquidating those that pass out on the other, and requiring no other capital to sustain its movements, than that moderate supply of specie which is necessary to meet current demands; and which would soon be supplied by voluntary deposits in a Bank thus wisely regulated.

Here then lies the secret root of the evil:—the control which Banks possess over the distribution of so large a portion of the capital of society. Sometimes it is vested in temporary loans, and sometimes it is thrown into circulation; in both productive of injury, since it renders loans uncertain, and circulation irregular. A loan of capital to be advantageous to society, should be permanent until it has accomplished the objects for which it was obtained; and circulation to be regular, should not be liable to those fluctuations which are necessarily produced by the addition or subtraction of capital, at the will of the banker. But we have yet to inquire how banking, freely carried on would remedy this evil. The explanation is obvious; the correction would arise necessarily from no surplus capital being employed

in the business. For who would voluntarily take more capital into any business, than what was necessary to carry it on; surely not the banker any more than the merchant or the manufacturer.

The amount of Banking capital would therefore be limited by the actual business of the country; and would be no greater than was found necessary to support the credit of the circulating paper. How great that amount would be can be matter only of conjecture; but it may safely be asserted, that it would be much less than what is now nominally engaged in it, of which, perhaps, not one-fourth lies at the basis of the circulation, while the remaining three-fourths forms a species of floating capital, ready at all times to derange the natural flow of Credit by its hasty and impetuous fluctuations. Under the proposed system all this would be avoided. Loans would then emanate from their natural source, the real owners of capital; while the duration of them would be regulated solely by the objects for which they were made. The Banker too, would then be limited to his legitimate business,—the loaning of Credit; and that by a law which he never would violate, since every dollar that he abstracted from his capital to put out on loan, would probably withdraw at least three from his circulation, and would thus cripple him in his business as sensibly as a similar operation would

do the manufacturer or the trader. The Banker too would then be free, which now he is not, to consult his own Banking interest in his operations; his would then be no elective office dependent upon favour or caprice, and binding him to consult the inclinations and wants of those who placed him there, by the strong motive of official duty, and the still stronger one of selfish calculation; but free and unshackled, he would pursue, as all free traders do, without fear or favour, the steady course of solid profit, granting neither loans nor accommodations, but confining his capital to the operations of his Credit. Nor is this mere conjecture. Already we have some private Bankers among us, and some sound Banks that are controlled by individual capitalists. Of the former it may be fearlessly asserted that they make no loans, they grant no permanent accommodations,—they use their capital solely as the basis of their Credit; and among the latter, I know more than one that already regulates or begins to regulate itself by these sound and salutary principles; principles that never could have been overlooked, had not the business of Banking been forcibly severed from the sharp-sighted control of individual interest.

Lastly, The evil of false credits, by which the community is defrauded.

That in society some men will be rogues and many will be fools, is an evil that probably lies beyond any legislative remedy; but legislatures ought certainly to consider themselves responsible for a portion of that fraud and folly which exists in the community, when their laws tend directly to blind the eyes of the multitude, and to add a premium to roguery, by making it a safe, if not an honourable business. Yet this has been, and must continue to be, the practical result of Bank monopolies; since the abuses they admit are so numerous, and yet so secret, that no legal provisions can guard against them: the conditions of the charter, where private integrity does not enforce them, are laughed to scorn; and penal statutes can never keep pace with the contrivances of monied fraud.

The first of these, however, that deserves to be mentioned, is a legislative one. It arises from the members of such incorporations being freed from all responsibility beyond the amount of their stock; they may contract debts to any amount, while they are bound to pay only to a specific amount; their charters thus vitiating the fundamental principle of all business, and the essence of all confidence, viz: the integrity of contracts. This surely may be termed a premium on great villany. If men will be timid rogues

and play but on the surface of these troubled waters, they lose character and get nothing in exchange; but if they will plunge deep, the law assures them that they may lay hold on pearls of price, and only lose what perhaps they never had.

It has been proposed I see, by a recent bill, to make the Directors responsible; I am well pleased however, that such bill did not pass, since it would unquestionably have increased the evil it was intended to remedy; it would have driven men of real wealth from the station of Directors, and supplied their place with those whose want of means would have rendered their responsibility a dead letter.

A second source of fraud upon the public, grows out of the loose manner in which the original capital of Banks is subscribed and paid for. The intention of the law, requires that the capital be actually paid in; the security of the public goes a step farther, and requires that it never should be paid out, except in permanent and solid investment, since it is obvious that its payment is altogether nugatory, if it be the next day exchanged for the note or personal responsibility of him who paid it. But under the feeble provisions of law, even the ceremony of these forms is often dispensed with, and many a Bank has gone into operation in our State, without a dollar of real capital, beyond its daily supply of specie for the re-

demption of its notes; and thus, upon the sole security of some few worthless notes of worthless men, which would be thrown out from any respectable Bank, are issued upon society, through the medium of the Directors and their friends, hundreds of thousands of dollars. It is a common observation, that what men get easily, they spend freely, and it holds true in all such instances. These men, borne on high by this new flood of wealth, are found invariably to become speculators and liberal purchasers; they outbid, and outbuy the wealthy and the prudent, since they are not scrupulous about terms, when they are exchanging a worthless money for real values. It is in this manner, that their paper acquires circulation, and the community is deluged with a baseless currency, upon which rogues and bankrupts fatten, and honest men grow poor; for when the bubble bursts, it is the holders of the paper, and not the makers of it that become the sacrifice.

A third source of fraud, (for what other name shall we give to the practice,) arises from the principle established through the influence of the Banks, that they are to be regarded as the first creditor in all cases of failure, and that all accommodations are to be made good before other claims are admitted. Can we help saying, that by such management the honest creditor is defrauded of his just and legal rights? Let us but look at such

a case ; the Bank for instance by its loans enables a trader to enter into business,—he makes with it a show of wealth, upon which he receives in his purchases a proportionate credit, and he goes on accumulating engagements under the implied understanding, that his ostensible means are his own and not another's, and constitute a pledge for the performance of his contracts. But when through the changes of commercial fortune, such an one has become bankrupt, the pledge is secretly withdrawn, the Bank through his endorser, swallows up his effects, leaving in general to his unfortunately *honest* creditors, no other consolation than that he has fully paid his *honourable* debts. For the removal of this abuse, laws are nugatory ; so long as merchants are dependant for accommodation loans on the favour of Banks, so long will they make provision for their security, in preference to their other creditors, and this in defiance of all penal statutes. The only corrective must be drawn from the stores of self-interest. Break the monopoly, and the charm will be dissolved. Capital will return to the hands of its owners, and influence will be diffused, together with the sources of Credit, throughout the ranks of the monied community.

But it is time that I draw my long letter to a close, by laying before you the remedy I would venture to propose for this formidable list of evils.

Were the abuses of banking confined to what may be termed its commercial evils, and its paper never passed out of the circulation of commerce, the remedy would be as simple as it would be efficacious, viz. ; to cast off all restrictions, and to leave the business of banking to be regulated by the necessary laws of Credit.

But the money of Banks is not confined to the transactions of merchants, it is issued of such denominations that it passes into the ordinary exchanges of society, into the hands of those who take it not as a promissory note, but as an equivalent of value. It becomes in short, the substitute for the coin of the country, which it drives out by its superior cheapness, and in this point of view is liable to a new train of evils.

It is in this point of view alone, that it requires the interference of the Legislature, who, as the guardians of the coin of the country, acquire the right to regulate its substitutes. It becomes them therefore, to guard the interests of the many and the ignorant, by thus far limiting the natural freedom of banking, as to prevent the currency being displaced by a worthless paper. For this end let the following provisions be adopted.

I. Banking to be a free trade, in so far as that it may be freely entered into by individuals or associations, under the provisions of a general statute.

II. The amount of the Banking Capital of such individual or association to be freely fixed, but to be invested one-tenth at the discretion of the Bank, the remaining nine-tenths in government stock, whereof the Bank is to receive the dividends, but the principal to remain in pledge for the redemption of its promissory notes, under such securities as to place the safety of the public beyond doubt or risk. The stock being made untransferable, except by the order of such court as shall be made cognizant of these subjects, with a view to wind up the affairs of the Bank.

III. The promissory notes of such individual or association to bear upon their face the nature and amount of stock thus pledged, together with the usual signatures; and in their amount never to exceed the amount of their pledged stock, under the penalty of the individual or firm being declared bankrupt, and their affairs being wound up under a commission, appointed by such court as shall have cognizance thereof; the refusal to redeem their notes being made in itself an act of bankruptcy, and followed by the same results.

IV. No notes of a denomination under five dollars to be issued by such Bank, under the penalty of tenfold damages.

V. The deposit of stock thus placed in pledge by such individual or association, to be capable of indefinite increase at the will of the Banker,—

but not of diminution,—in order that the security and confidence of the public may never be shaken; though the whole may at any time be withdrawn by an application to the court for the winding up of the affairs of the Bank.

That these provisions would free Banking from all abuses, it would be arrogance to assert; but that they would remedy many and great ones that now exist, seems to be unquestionable. Nor would their adoption be attended with the dangers which generally await untried novelties. They are already established by the experience of other trades. Besides, they would operate no change upon our sound Banking Institutions,—which already rest, not upon their charters, but upon the confidence of the public; the only alteration they would probably effect in them would be, the reduction of their capital to the real amount required for their business, and thus relieving them from that part of their operations which is the most perplexing to them, and the least beneficial to the community. The unsound Banks, if any such there are, of course would shrink before the test to their natural dimensions, and either be renewed upon sounder principles, or leave their places to be supplied by real capitalists. But this would be the very recommendation of the law, since it would not only strip the

mask from such unworthy institutions as have deceived both the legislature and the community, but what is better, would render all such disguise for the future impossible. In short, under this system Banking would lose all its attractions, except to the honest, the economical, and the persevering; it would have no surplus profits to tempt the needy and the speculating, nor any cover for bankruptcy to allure the unprincipled. But we should have for our Bankers men of wealth, integrity, and skill,—at the head either of private Banks or voluntary associations,—and drawing from society, not the gains of monopoly, but the equal profits of free trade, the fair reward of integrity and economy in unfettered and open competition. Under such a system of Banking, merchants would be more independent and the public more secure, fluctuations less frequent, speculation less wild, commercial prosperity less transient, and to crown all with a recommendation that I am sure will enlist you, Sir, among its advocates, our legislature would be less beset by hungry and pertinacious adventurers.

With the hope that these hasty Hints may serve to throw some light on the subject of your inquiries,—I have the honour to be

Respectfully Yours, &c.

P. S.—On looking over my letter I find, that on the disputed question of the depreciation of our Bank paper during the last war, my language is perhaps unguarded and liable to misconstruction. I would not wish to be considered as denying the possibility of an appreciation of gold, and still less as charging upon our Banks any wilful abuse of their power. The precious metals may, unquestionably, like any other commodity, rise in price by an increase of demand for them; which demand did certainly exist at the period there alluded to, through the great increase of metallic currency required for the support of armies in countries that were the seat of war, and which made use of no other money; and hence, unquestionably, our coin did receive an increase of value. But then, with higher value came greater powers, so that a smaller quantity was capable of supporting the same amount of exchanges. All that I would maintain is, that to this higher value of coin, from whatever cause arising, its paper substitute must conform by a corresponding diminution of quantity, under the penalty of irremediable depreciation. But still, as paper may become excessive by the simple rise of coin, depreciation may then have taken place without any

increase of issues ; and although to the country the result was the same, whether the change took place in the paper or the coin, yet the latter supposition relieves our Banks from the heaviest charge that would otherwise rest upon them.

Col. Coll. Feb. 20. 4

THE END.