

THE
CREDIT SYSTEM
IN
FRANCE, GREAT BRITAIN,
AND THE
UNITED STATES.

BY H. C. CAREY,
AUTHOR OF "PRINCIPLES OF POLITICAL ECONOMY," &c.

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“All discord harmony not understood.”—POPE.

“God hath made man upright, but they have sought out many inventions.”—
ECCLESIASTES.

ERRATA.

- Page 7, last line, *for* "checks" *read* "check."
19, line 19, *for* "it bears" *read* "they bear."
21, line 17, *for* "proposition" *read* "proportion."
34, Note—line 3, *for* "eight" *read* "eighty."
37, line 5, *for* "140" *read* "130."
60, line 4, *for* "were" *read* "was."
63, line 6, *for* "one-half" *read* "nearly one-half."
65, line 3, *for* "45" *read* "40."
75, line 5 from foot, *for* "landholder" *read* "labourer."
128, last line, *for* "of" *read* "for."

THE CREDIT SYSTEM.

CHAPTER I.

RISE AND PROGRESS OF CREDIT.

WHEN person and property are secure, the owners of capital are willing to apply it in various ways tending to aid the exertions of the labourer. One employs it in making rail roads or canals, secure of receiving toll for their use; another builds houses and barns; a third constructs machines by which the labour of the farmer, or that of the cotton or wollen manufacturer is rendered more productive; a fourth opens a shop at which the manufacturer and the ploughman may exchange their products; and a fifth builds wagons or ships for the transportation of such portions thereof as they may desire to exchange with persons at a distance. Unless they felt secure in so doing all would be disposed to retain their property in the most portable form, in order that it might most readily be concealed or carried off. Thus in India, exposed to plunder from the army of friend or of foe, the owner of capital would not be willing to build houses, nor would he open a shop, because he could have no security that the former would not be destroyed, or the latter plundered.

The owner of the rail road, or of the ship, or of the wagon, grants the use of his capital to the man who wishes his commodities transported to market, and the labour of the latter is thereby rendered more productive, or is improved in its *quality*. For the use of the capital so lent the former receives a portion of the commodities transported, or the value in money of that portion. The owner of a house lends it to another, and receives payment for its use, in the form of rent—as does the owner of a farm from a third who desires to cultivate it. The owner of woollen or cotton machinery lends it to the workman, who leaves in the hands of the proprietor a certain proportion of the product, as compensation

for its use; or the owner agrees to take the whole product and to pay the labourer for his share, in money, what are termed *wages*.

When the capitalist lends his capital freely credit is said to be high, and he is willing to take a small *proportion* of the product of labour for the loan of his machinery; when he does not lend it freely credit is said to be low, and he requires a large *proportion* of the product for its use. Where credit is high, labour and capital are productive, and *the small proportion* yields him a *large return*, as in the United States and England. Where credit is low, labour and capital are unproductive, and *the large proportion* of the capitalist gives him a *small return*, as in France and India.*

We have already shown† that in the infancy of society, *when cultivation is limited to the superior soils*, labour is unproductive, capital is scarce, and its owner takes a large *proportion*; but as population and capital increase, and cultivation is extended over the inferior soils, labour becomes productive, capital is accumulated with facility, and the owner takes a small *proportion*. In the first, credit is low, and the owner of capital is unwilling to lend it; whereas, in the last, credit is high, and the capitalist is not restrained by any of those doubts of the general security of property which exist in the former period. High credit is inconsistent with a scattered population, as witness Russia, Poland, and Spain, when compared with England, Scotland, and Holland. If we take the several States of the American Union, we shall find that credit is highest where population is most dense, and that the former diminishes as the latter becomes more scattered; and thus the owner of capital, in Massachusetts, prefers five per cent. at home, to the prospect of twelve per cent. in Arkansas, and with that five per cent. can obtain a larger amount of the conveniences and enjoyments of life in the former than with twelve in the latter.

* The owner of a loom in India takes more than half of the product, and lives in poverty and wretchedness. The owner of a few looms in Lyons takes one half of the product. The workman retains for his share only one half. Both are poor. The owner of looms in England and the United States takes one tenth, leaving nine tenths to the labourer. Both are enabled to live well, and constantly to improve their condition.

† Principles of Political Economy, Part the First: Of the Laws of the Production and Distribution of Wealth.

The same state of things that is observed throughout the United States, would exist throughout the world, were it not for the existence of disturbing causes. Credit should be higher in France than in Scotland; in India than in France; and in all higher than in the United States; yet such is not the fact. The capitalists of the latter are more willing to apply their capital to facilitate the operations of the labourer by the construction of rail roads, canals, houses, ships, and machinery of every description, than are those of France, and the consequence is that the labour of the former is more productive.

There are other modes in which credit tends to render labour productive, and which we propose now to consider. In those to which we have referred, the capitalist retains his property in possession of himself or of his agents, but in those to which we now refer, he places it out of his possession, trusting to the honesty of those to whom he lends it, that it, or an equivalent value in other commodities, will be returned, with rent, or interest, for its use. Thus the shopkeeper parts with spades and axes, or provisions, or clothing, to those who have occasion for them, trusting that out of the proceeds of their labour they will repay him. He, in his turn, obtains from the maker of axes and spades, or the grower of wheat, or the manufacturer of clothing, a quantity of those commodities, upon his assurance that he will pay him their value at a given time, and the manufacturer obtains from a bank or banker the use of money to enable him to purchase machinery, or raw materials, and to pay wages, and is thus enabled to grant credit to the retailer.

In the infancy of society little credit of this kind is given, and never unless the capitalist expects to obtain a very large return. In the fur trade the trader grants to the Indian a few goods, but he expects to have in payment that which will yield him three, or four, or five hundred per cent. The trapper thus obtains but about one third, one fourth, or one fifth* of the value of the com-

* "Three marten skins are obtained for a coarse knife, the utmost value of which, including the expense of conveying it to those distant regions, cannot be estimated at more than 6*d.*; and three of the skins were sold, last January, in London, for five guineas. With the more expensive furs, such as the black fox, or the sea-otter, the profit is more than tripled; and but a few years ago, a single skin of the former species sold for fifty guineas, while the native obtained in exchange the value of 2*s.*"
—*King's Arctic Expedition.*

modities produced by his labour, while the trader obtains but small returns for the use of his capital, on account of the large proportion of it that he is obliged to retain concealed and unproductive.* The Indian and the trapper remain in a state of poverty, and the trader is but moderately compensated for his toils and his risks. He has a large *proportion*, but the whole product is trifling in amount. As population becomes more dense and security more complete, shops increase in number, and the owners are willing to grant credit to all whom they deem likely to pay them. Labour becomes further divided, and there are shops in which capital may be had in the form of provisions; others in which it is to be found in the form of coats, hats, and shoes; and others in which it is to be had in that of gold or silver.

With the further increase in the density of population, labour becomes still more productive, and new divisions take place. One man deals in flour only—buying and selling large quantities thereof; another deals in cotton; a third in wool, &c. Confidence is increased, and the purchaser of a commodity no longer finds it necessary to verify for himself the quality of that which he has purchased, the name of an individual upon the barrel of flour, or upon the bale of cotton or wool, being sufficient guarantee for it. He finds it inconvenient to take them into his possession, and is content to take an agreement for the delivery of the quantity purchased, and thus property changes owners ten, twenty, or thirty times, without having been removed. The saving of labour that is thus caused is a diminution of the cost of production, resulting from the confidence of man in his fellow man. If that confidence did not exist, a number of persons would be

* "Captain Bonneville now made his arrangements for the autumn and the winter. The nature of the country through which he was about to travel rendered it impossible for him to proceed with wagons. He had more goods and supplies, of various kinds, also, than were required for present purposes, or than could conveniently be transported on horseback; aided, therefore, by a few confidential men, he made *caches* , or secret pits, during the night, when all the rest of the camp were asleep, and in them deposited the superfluous effects, together with the wagons. All traces of the *caches* were then carefully obliterated. This is a common expedient with the traders and trappers of the mountains. Having no established posts and magazines, they make their *caches* , or deposits, at certain points, whither they repair occasionally for supplies. It is an expedient derived from the wandering tribes of Indians."—*Rocky Mountains*, Vol. I. p. 98.

employed in removing commodities from one place to another, instead of cultivating or manufacturing others for themselves. The greater the *quantity* of commodities produced, the larger is the *proportion* retained by the labourer; and it is therefore to him of the highest importance that every man should be productively employed. With the increase in the production of commodities the *proportion of the capitalist falls*; but he finds a *constant increase of quantity*, so that he also has every reason to desire that labour should be productively employed. Both, therefore, benefit by the increase of confidence.

In the infancy of society, the owner of sheep barter for oxen, and the owner of wheat exchanges it for labour. With the increased density of population this is found inconvenient, and a medium of exchange is adopted, as wheat, tobacco, cowrie shells, gold, or silver. As civilization increases we find the precious metals exclusively used for this purpose. The transport even of these from one country to another, is found inconvenient, and the gradual increase of confidence permits the substitution of bills of exchange, by which A., residing in Venice, and having gold in Paris, transfers the same to B., who has gold in Venice, and desires to transfer it to Paris. This species of transaction exists, however, among the mercantile class only, and a much higher degree of confidence is necessary before the labouring classes can dispense with the use of coin. By degrees the inconvenience of using the precious metals at home leads to the adoption of a similar system in smaller transactions, and A., in the Strand, having gold in Fleet street, transfers to B. the right of receiving the same, which B., in like manner, transfers to C., D., E., and F. Here the saving of labour is very considerable, as twenty payments may be made in less time than a single one could be were it necessary to count down the amount in either gold or silver. In this case there still remain two inconveniences, both of which tend to cause loss of time, and to render labour less productive than it would otherwise be. The first is that the order drawn by A. in favour of B., would not be for the sum that B. might wish to pay to C., or C. to D., and it might therefore become necessary to convert it into gold, before it could perform a second operation. The second is, that A., not being personally known to B., C., or D., might find it difficult to use his checks

without delay in sending to the place in which his gold was deposited, to ascertain that it was good. Both of these difficulties would be removed, if he were to place the gold with some person generally known, who would give him agreements to pay out the same whenever demanded—such agreements to be in certain sums—say 10, 20, 50, or 100 dollars, or pounds. Here would be a vast saving of labour, tending to render that of the community more productive, and to increase the reward of both capitalist and labourer. It would, however, be only by degrees that the labouring classes would acquire sufficient confidence in those agreements to accept them in lieu of the gold or silver which they might be entitled to receive as wages. In the commencement of such a system there would be few notes used except of the larger denominations,* such as would pass among merchants or traders on an extensive scale; but as the small shopkeeper and the labourer became accustomed to them, notes of 5, 10, 15, and 20 dollars, and perhaps even of smaller denominations, would be brought into use, and with every increase of confidence there would be found an increase in the productiveness of labour.

Increase of confidence would be manifested by the adoption of all those modes of operation by which transfers are facilitated, and the productiveness of labour augmented. The *number*† of

* The Bank of Bengal issues notes which vary in amount from 10 to 20,000 rupees, there being no limitation. *The largest portion is in notes of 100 rupees and upwards.* The average amount in circulation is £ 800,000.

† The Bank of France issues no notes of less than 500 francs. In both countries the confidence in paper is small. With the improvement in the quality of labour, small notes will take the place of the precious metals.

† With the increase in the facilities of exchange, there is a diminution in the *proportion* which the traders, or persons employed in the performance of exchanges, bear to the community. In the infancy of society, the trader collects his own merchandise, accompanies it to the great market, where he exchanges it for what he requires, and returns to attend personally to the exchange of the latter directly with the consumer. Such we see now to be the case in the east, where thousands of merchants are constantly on the road, with small quantities of merchandise. By degrees several traders unite to place their property in the hands of a third person, and a considerable portion of the property in a caravan, or in a ship, will be under the charge of persons who are not owners thereof. A further step in the progress of confidence, places the whole cargo under the care of a single individual, as is now done in the case of voyages to China, the Sandwich Islands, &c. Another and the last step is, where the trader in one city, reposing entire confidence in a

shops at which provisions, or clothing, or money could be purchased, would be increased. The facility of obtaining upon credit the use of the commodities or machinery required by the labourer would be increased, attended with a constant *diminution* in the proportion charged by the owner for the risk of payment, and a constant increase in the confidence reposed in the agreement of the seller to deliver the quantity and quality of commodities contracted for, whether wheat, cloth, wine, gold, or silver.

The increase in the facilities of intercourse and exchange that would result from an increase of the number of shops and factories, and the improvement of roads, would be attended by a diminution in the quantity of capital required to be invested in any particular commodity. The man who could draw his supplies daily from the manufacturer of cotton-cloth, would not keep on hand more than a week's supply, whereas, another, who was distant five hundred miles, would be compelled to keep sufficient for one, or two, or three months. The former could trade upon \$ 1000 to an extent as great as the latter could do with \$ 5000; and he on his part could do as much as could be done by another, distant one thousand miles, with an investment of \$ 10,000 in the same species of commodity. If the three traders possessed each a capital of \$ 10,000, the first could appropriate \$ 9000 to the purchase of other commodities—of a house in which to transact his business—or of machinery; the second would have \$ 5000; and the third would have nothing, his whole capital being employed in keeping a supply of one description of commodities sufficient to meet the *current* demand—to furnish the *currency of cotton-cloth*.

In like manner a man who lived near a shop at which money was bought and sold—or a bank—and who felt entire confidence that he could draw from it a daily supply, would not keep on

trader of another city, places his property in his hands for sale, with orders to purchase in return such commodities as are required. Such is now the case between the different parts of the United States, and between the United States and England. *With each of these changes there is a diminished proportion of the labour of a community required for the performance of exchanges*, leaving a larger proportion to be directly engaged in the cultivation or manufacture of commodities, the consequence of which is that labour becomes more productive, to the great advantage of both labourer and capitalist.

hand more than sufficient for his daily demands; whereas, others, living at a distance of five hundred or one thousand miles, would be compelled to keep on hand as much as would meet the demands for weeks, or perhaps months. A single hundred dollars might be sufficient for the first, whereas the last might find it necessary to keep \$1000 or \$5000 employed in furnishing the *currency of money*, whether of paper or of gold and silver.

Money is used for facilitating exchanges. So are wagons. When the facilities of intercourse are small, a large quantity of money is required for performing a small amount of exchanges. When the roads are bad many wagons are required for transporting a small quantity of commodities. As the facilities of intercourse are increased—as shops for dealing in money increase in number—there is a constant decrease in the quantity of money required, attended with a constant increase in the quantity of exchanges to be performed; and as turnpikes and rail roads appear there is a constant decrease in the quantity of wagons employed in transportation, and an equally constant increase in the quantity of merchandise transported. A single guinea in London will perform as many exchanges as would be performed by ten in most of the villages of England—by twenty in the counties of Cumberland or Westmoreland—by one hundred in the Highlands—or by one thousand in the Orkneys. A single car on a rail road transports as much as would be transported by a dozen wagons on the best turnpike—or by five hundred in the neighbourhood of the Rocky Mountains.

Every increase in the facilities of intercourse, resulting from the increase of population and of capital, would thus be attended with a diminution in the quantity of currency required for the performance of any given number of exchanges. Every increase of confidence in bank notes would tend to diminish the *proportion* of the currency required to be in gold or silver. Further increase of confidence would be attended with the substitution of individual checks, drafts, &c., for bank notes, gold, or silver. Here would be a further decrease in the quantity of *currency* required, and in the quantity of *capital* required for its support, attended with a further increase in the quantity that might be applied to production, and in the quantity of commodities to be exchanged. Millions of exchanges are performed in London, daily, without the necessity for using as much currency, in the form of gold,

silver, or bank notes, as are required for the purchase of a few thousand horse hides at Buenos Ayres.

The smaller the quantity of capital required to be kept in the form of money for the purpose of facilitating *exchanges*, the larger will be the quantity that may be applied to the construction of machinery for aiding *production*. And thus with the increase of population and of capital, and of confidence, *there is a constant increase in the quantity of production without a corresponding increase in the quantity of currency. There is, therefore, a constant decrease in the proportion of currency to production.*

Credit cannot exist without confidence in the security of property* and in the disposition of the purchaser of a commodity to pay for it at the time appointed. No man parts with his property except when he believes that an equivalent will be returned. No man accepts a note, check, or draft in return for his commodities except when he believes that it will be duly paid. In accepting it he gives evidence that he believes the party purchasing means to pay him, and will have the ability so to do. *The existence of a system of general credit is evidence that the people composing the community in which it exists believe that their neighbours are honest and will pay the debts they may contract.* Referring to the history of England and of France, we see that a few centuries since credit had no existence, but that as population became more dense, it arose, and that it has steadily increased with the growth of population and increased security of property.

We shall now proceed to inquire into its actual state in France, England, and the United States, and afterwards endeavour to ascertain the causes of the differences that are observed.

* In India credit has scarcely any existence, except among the merchants and traders of the principal cities. The owner of seed lends it to the agriculturist, on condition of receiving one hundred per cent. for its use until the time of harvest. † Three, four, and five per cent. per month, ‡ are the ordinary charges for the use of capital, but the great majority of the people of that country cannot obtain it on any terms whatever.

At the Bank of Bengal, government bills are discounted at 4 per cent., government paper 5 per cent., private bills 7 per cent. The difference marks the extent of risk, which is obviously very great, and accordingly we are informed that the Bank 'has lost considerably by bad debts and forgeries.'—See *Martin's Colonial Library. East Indies. Vol. II. p. 136.*

† Colebrooke, *Husbandry of Bengal*, p. 101. ‡ Rickard's *India*, Vol. II. p. 196.

CHAPTER II.

OF CREDIT IN FRANCE.

IN FRANCE, the owner of a commodity has little disposition to part with it unless he can have payment therefor on delivery, and little business is therefore done upon credit. The owner of capital is not disposed to lend it, and a necessary consequence is that large quantities thereof lie idle. The amount of the precious metals in that country is estimated at six hundred millions of dollars,* being three times the quantity supposed to exist in Great Britain and Ireland, and exceeding by 60 per cent. the whole *circulation of gold, silver, and paper*. The amount of production of France does not exceed two thirds of that of the United Kingdom; and as the number of exchanges must, in consequence of the inferiority in the quality of labour, bear a still smaller proportion,† it follows that the amount of circulation required for their performance is proportionably small, and does not exceed 150 or 200 millions of dollars, or 750 to 1000 millions of francs. At least two thirds of the precious metals of France, admitting the amount to be 3000 millions, must now lie unproductive, in consequence of the want of confidence that forbids the owners to part with them.‡

* "The quantity of gold and silver that has been struck in France, of the new coinage, amounted, in 1836, to a little more than 4,000,000,000, of which nearly three fourths were of silver, and one fourth of gold. It is not probable that more than 1,000,000,000 have been exported or melted, so that there remain 3,000,000,000, (\$ 600,000,000.) A part of this immense capital is out of circulation, and rests buried in the coffers of individuals, or hoarded by the poor, unwilling to confide to any one their little savings."—Chevalier, *Lettres sur l'Amerique du Nord*, t. I. p. 403.

† When labour is of very inferior quality, as is the case in France, the chief part of the product thereof consists of articles of the first necessity, a large proportion of which is consumed by the producer, and does not become the subject of exchange. With every improvement in the quality of labour there is an increase in the *quantity* of production, and in the *proportion* of the products that are exchanged.

‡ The deposits in the Bank of France, in 1835, were only 75 millions of francs, (\$ 15,000,000); and in 1836, 48,800,000, (\$ 9,800,000.)

To this want of confidence is due the fact, that throughout France there has been, until recently, but one of those labour-saving machines termed banks, at which money is bought and sold. About twenty years since, that one made an attempt to establish branches at Lyons, Rouen, and Lille, but without success. Where commodities are not parted with except for prompt payment, there can be little inducement to establish banks, whose chief business ought to be the discount of bills given for merchandise. How little this is the case, may be judged from the fact that, in 1836, the Bank of France made a new attempt to establish branches, placing one at Rheims,* and another at St. Etienne,† and the discounts at each have been but about 200,000 francs, (\$ 40,000,) per week.

The *maximum* of the discounts of the Bank of France, in 1836, was 151,000,000, (\$ 30,000,000,) and the minimum 77,000,000, (\$ 15,000,000,) the average being about 22,000,000, or less than two thirds of the *capital* of the Bank of the United States. The *total amount* of discounts in the year was 760,000,000.‡ The number of notes discounted in the year was 406,187, giving an average of about 1870 francs = \$ 380, or about £ 80 sterling, and the average time cannot have exceeded 50 days.§ Small as is this amount, and short as is the time, the bank requires *three endorsers, or two endorsers and a deposit of property equal in value to the loan that is to be made*, showing how very small is the confidence reposed in the engagements of individuals.|| Under

* Population 100,000.

† Population 25,000.

‡ The fluctuations in the business of this institution have been exceedingly great. In 1826, the total amount of bills discounted was 689 millions. In 1831, it fell to 223 millions. In 1832, to 151 millions, or only 30 millions of dollars, being an average of 2½ millions of dollars per month, instead of above 11 millions in 1826. This course tended greatly to increase the distress then so universal in France.

§ The very small amounts for which notes are given, is shown by the statement of the president of the bank, that "of 406,187 notes discounted in 1836, five eighths were for sums less than 1000 francs, = \$ 186 67;" and that "many thousands for sums under 100 francs, (= \$ 18 67,) figured on the books."

|| The following account of the Bank of France, by L. Goldsmith, (*Statistics of France*,) we find in the London Times, January 31, 1838.

"The operations of the Bank consist: First, In discounting bills of exchange not exceeding three months date, and bearing *three separate endorsements* of respectable persons not connected with each other. Nevertheless, the bank discounts bills which have *two respectable endorsements only, provided a deposit be made in property of equal value*.

such circumstances it would be extraordinary if the losses of the institution were not small.*

The same want of confidence which prevents individuals from parting with merchandise on credit, prevents others from applying their capital to the formation of banks, to which those who were desirous of increasing their machinery of production, might apply for aid.† Savings' banks are not popular,‡ and large sums are hoarded which under other circumstances would be most usefully applied.

*Second.—It makes advances of money on government securities.

†Third.—It makes advances on deposits of bullion, or foreign coin, diamonds, shares in public companies, &c., at the rate of one per cent. per annum. Not less than the value of 10,000 francs is received as a deposit, and discount for 45 days is deducted from the amount of the sum advanced; nor if the deposit be redeemed the next day, is any part of the discount refunded. There are very few bank notes in circulation in the departments, and those that are, if at any distance from Paris, pass at a discount of 1½ per cent., as they are not received in payment of taxes or custom house duties in sea-ports, so that *remittances must be made in hard cash, for which a premium of five per cent. is paid at the post office.*”

* The president stated that of the discounts of 1836 only a single note of 200 francs remained as a suspended debt. From other remarks it may be inferred that there is a considerable amount remaining from previous years.

† The local banks of France are six in number, with a capital of 14 millions of francs, or less than 3 millions of dollars.—*Chevalier, t. I. p. 388.*

‡ Bowring's Second Report, p. 36.

The Savings' Bank of Paris was founded in 1818, and in 1830 its deposits amounted to - - - - - 43,559,117§

This amount shows that the system was understood, and that credit had increased *in the capital*, but when we look to the provinces we find a very different state of things.

				Francs.
Brest, founded 1821, total amount of deposits to 1829,	-	-	-	82,000
Troyes, “ “ “ “ “ “ “ “	-	-	-	214,000
Rouen, “ 1820, received in 1829,	-	-	-	142,426
Nantes, “ 1821, “ “ “ “ “ “	-	-	-	176,932
Havre, “ 1822, “ “ “ “ “ “	-	-	-	284,864
Lyons, “ 1822, “ “ “ “ “ “	-	-	-	258,998
Rheims, “ 1823, “ “ “ “ “ “	-	-	-	16,000
Marseilles, “ 1828, “ “ “ “ “ “	-	-	-	407,516

Villeneuve, Economie Politique Chretienne, t. III. p. 96.

The amount deposited in Rouen, a city containing above 100,000 inhabitants, is 142,426 francs, or about 28,000 dollars, being little more than 500 dollars per week.

§ In 1836, the amount, according to M. Chevalier, (*tom. II. p. 500.*) was 45,633,182 francs, *having increased little more than two millions in six years.* The Savings' Fund of the departments amounted to 37,965,445 francs. Total, 83,598,627, or 16 millions of dollars.

The consequence is, that those who have occasion to borrow, are obliged to pay high interest, while large sums remain uninvested. Money can rarely be borrowed on a *first mortgage* at less than 6 per cent., and the small proprietors and manufacturers pay 8, 9, 12, and 15 per cent.* As we descend in the social scale, the rate of interest rises. *The workman of the towns, in his purchases, pays fifty per cent., and even one hundred per cent. per annum. For the peasant, in his dealings with the blacksmith, the tavern-keeper, and the village shopkeeper, it is sometimes one hundred per cent. per quarter. The mean rate of interest throughout France, in transactions of all descriptions, is at least 15 to 20, or perhaps 25 per cent.†* Here we have abundant evidence that where insecurity exists, the owner of capital obtains but a small return, while the workman is obliged to allow a large *proportion* for the use of it. While the government can borrow at 4 per cent. per annum, and while the *bons du tresor*, or treasury notes, bear an interest of two per cent. only, the owner of land pays 6 per cent. in addition to the heavy charges of the government, which add 1½ or 2 per cent.‡ to the cost; and the farmer pays to the dealer with whom he performs his exchanges one hundred per cent., because of that insecurity which prevents the application of capital to the increase of the number of shops, roads, canals, and all other machines that tend to facilitate his approach to market, or to give him *advantages of situation*. Under these circumstances, it is not extraordinary that capital should accumulate slowly, that production should continue to be small, and that the labourer of France should find it difficult to improve his condition.

If the owner of commodities of any description is thus unwilling to part with them, except on receiving prompt payment therefor, not less unwilling is the individual who has entitled himself to receive commodities in return for his services, *or wages*, to permit them to remain out of his possession, receiving the promise of bankers or banking companies to produce them. The labourer of France must have gold or silver, which are with him the object of regard to a degree that “is incomprehensible to an

* “The rate of interest on mortgages varies from 5 to 12, and even 15 per cent. The mean rate appears to be not less than 8 per cent.”—*Chevalier, t. II. p. 489.*

† *Chevalier, t. II. p. 256.*

‡ *Villeneuve, t. III. p. 315.*

American or an Englishman.”* The consequence of this is to be found in the vast amount of those commodities required for the exchange of the products of France, compared with the small quantity required for the purpose in Great Britain or the United States.

The same want of confidence that is thus shown by the labourer, is exhibited in trade. A single ship has sometimes several super-cargoes. Merchandise is not received on the faith of the sellers, nor is it extraordinary that such should be the case, when the foreign trade of France has been in a great measure destroyed by frauds in the preparation of commodities for exportation.† In the dealings of the smaller traders with their own countrymen,‡ as well as those of the manufacturer§ and his workmen,|| we find

* Chevalier, t. II. p. 247.

† Chevalier, t. II. p. 207. See also extract from the *Voyage of the Favourite*, given by M. Chevalier, t. II. p. 468.

‡ A recent American traveller says :

“The people of Paris have no mutual confidence in their dealings, or in any of their external relations. They watch each other when they negotiate, buy or sell, with a closeness that implies universal distrust; to American or British strangers, the circumspection and precaution which they finally learn to be requisite, are not a little painful. Any pledges of good faith may be asked—any will be tendered. In my purchases, I have felt ashamed of the stipulations which tradesmen and shop-keepers have volunteered. Any price is asked—any reduction may be deemed practicable. You can get less for much money, or more for little money, than any where else in the world. You are liable to be cheated in whatever you seek; you may be better or worse served than any where else. Your domestics will rarely steal from you directly, but all will collude with butcher, grocer, baker with every one who has to furnish you, if they can go between. No fidelity to your interests is to be expected from them, when those of their compatriots are in the way.”

§ “In the relations of master and workman, there exist at Paris, and generally in our large manufacturing towns, the most disgraceful practices. A large number of masters, to obtain those profits of which they are likely to be deprived by the competition of other manufacturers, are reduced to the employment, in relation to their workmen, of the most miserable artifices, as, for instance, advancing the clock in the morning, and putting it back in the evening. The workmen make reprisals when the opportunity occurs.”—*Chevalier, t. II. p. 408.*

|| “The mass of the American people are more fully initiated than the mass of European population, in what relates to the dignity of man, or at least in regard to their own dignity. The American workman is full of self-respect, which he manifests not only by an extreme susceptibility, and by his repugnance to use the term master, which he replaces by that of employer, but also by much greater good faith, exactitude, and scrupulousness in his transactions. He is exempt from the vices of the slave, such as lying and stealing, which are so frequent among our labourers,

a similar state of things. The necessary consequence is a vast waste of time and labour expended in the performance of operations that in the United States or England would be deemed unnecessary, and the general effect is to render labour unproductive, as it must always be where insecurity exists.*

It is impossible to look to any part of the operations of France, without being struck with the universal want of confidence in each other. No man can act as a stock-broker, attorney, or notary, without giving security for the due performance of his engagements; and personal security not being deemed sufficient, he must pay to the government, in money, the amount required as *caution*. On the first of January, 1834, the government held 61 millions of francs, or 12 millions of dollars, as security for the honour and honesty of 21,530 stock-brokers, attorneys, and notaries,† being an average of nearly 3,000 francs each. That bail should thus be demanded, is evidence of the want of confidence in each other, and the small average amount is evidence of the small amount of business to be transacted, and of the *very small* amount of confidence that would be required.

Collectors of taxes, cashiers, paymasters, receivers, retailers of tobacco, &c., place their funds in the hands of the government, and the total amount so held, on the first of January, 1834, was 225 millions,‡ or nearly 45 millions of dollars. The effect of this system is to take from those whose means are small and who desire to make a living by retailing tobacco, or by acting as brokers, or attorneys, the very capital by aid of which they might

particularly those of our cities and factories. The French workman is outwardly much more submissive, but pressed by want and surrounded by temptations, he rarely omits an opportunity of deceiving his employer, when he thinks he may do so with impunity. The workman of Lyons steals the silk that is given to him to weave. (The loss to the employers of Lyons is estimated at a million of francs, or \$200,000.) The workman of Rheims does the same by the wool. (The loss is also estimated at a million.) Frauds are also committed in America; charcoal is sold for indigo, and talc for white soap, but they are rare exceptions. The character of the American workman, considered as a labourer, is most honourable, and excites the envy of the European, who compares what he sees here, with that which he has left at home.”—*Ibid.*

* “A long time must elapse before we can enjoy in France a system of credit as extensive as that which exists in England and the United States. We are, in that respect, in a state of barbarism.”—*Chevalier, t. II. p. 248.*

† *Documens Statistiques de la France.*

‡ *Ibid.*

possibly succeed, and they are therefore compelled to leave all such employments to those who can give security, and yet retain the means with which to carry on their business—to the capitalists. The consequence is, that those *who have little capital* find it exceedingly difficult to place themselves in business, and those who are *without* find it almost impossible, and thus this uniform distrust of each other almost forbids the improvement of condition. Production is diminished, and the capitalist is enabled to take *a large proportion* thereof as compensation for the use of his capital.*

The amount of exchanges performed in France is very small. The great mass of the population is engaged in producing the commodities directly required for their own subsistence; and as the quantity produced but little exceeds that which they require for themselves, they have very few exchanges to perform with the shopkeeper. The latter has therefore but few to perform with the manufacturer, as is shown by the exceedingly limited amount of the operations of the Bank of France, although performing the chief part of the banking operations of the kingdom. As a necessary consequence, there should be a very limited amount of bankruptcy. We find, however, that in 1831, the number of bankrupts was 800; in 1835, 329; in 1836, 529. Of the latter, it was stated by the president of the Tribunal of Commerce, that

* "It is with the utmost difficulty that a poor German or a Frenchman succeeds in the acquisition of property; his progress is slow and tedious, and his facilities of credit never much in advance of his actual stock in trade. In America, the case is different. Men are there trusted in proportion to their reputation for honesty, and adaptation to business. Industry, perseverance, acquaintance with the market, enterprise—in short, every moral qualification of a merchant increases his credit as much as the actual amount of his property."—*Grund. The Americans*, p. 260.

"In a country organized for commerce, and possessing a system of credit, the dollars of the merchant, and the merchandise which he has in store, are not his whole capital; the most essential portion is that which comprises the skill which he has acquired, the relations which he has established, and the value which is attached to his word, constituting a capital which fire cannot destroy, and which can brave all risks of whatever nature. In New York, because of this moral capital, so much valued in countries possessing a genius for commerce, a merchant possessing 200,000 francs, does business to the amount of a million or a million and a half. In Paris, the same man, under the same circumstances, could with difficulty do it to the amount of half a million."—*Chevalier, t. I. p. 393.*

191	did not exceed 20,000 francs each,
57	“ 60,000 “
105	“ 200,000 “
20	exceeded 200,000 “
59	statements not made out.

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If we suppose the first class to average 10,000 francs, the second 40,000, the third 130,000, the fourth 300,000, the last 45,000, there will still remain 97 of which we have no account, and if we average them at only 30,000 francs, we shall have an aggregate of 30 millions of francs, being about $\frac{3}{7}$ of one per cent. of the total product of France,* and probably *one and a half per cent. of the amount of the commodities parted with by the producer in exchange for other commodities needed for his consumption.*†

Here we find that although want of confidence prevents individuals from parting with their property without prompt payment, the bankruptcies bear, nevertheless, *a large proportion to the whole amount of exchanges performed.* How large a proportion it bears to the amount upon which credit is given, may be inferred from the fact, that while the government can borrow at 4 per cent., the owners of capital require from 6 to 15 per cent. on loans to individuals, even on mortgage security, the difference being the charge for collecting the interest, and insuring the repayment of the debt.

* The production of France is estimated at from six to eight thousand millions of francs. We have taken seven thousand millions as being nearest the true amount.

† "If, up to the present time, failures are more frequent in the United States than with us, they are as numerous with us as in England."—*Chevalier, t. I. p. 393.*

CHAPTER III.

OF CREDIT IN ENGLAND.

IN ENGLAND, confidence is *almost* universal. The banker credits the manufacturer and the farmer. They are willing to give credit to the merchant, because they have confidence that he will pay them. He gives credit to the shopkeeper, who, in his turn, gives credit to the labourer. Almost all have it in their power to improve the machinery of production, by the use of the capital of others, who receive interest for its use. The labourer is generally willing to receive the notes of the Bank of England in lieu of coin, and to invest his savings in the savings' banks,* or to pay them over to some of the numerous friendly societies,† with full confidence that he can have coin for his notes; that his savings will be returned; that the promised aid will be rendered; or that his widow or children will receive the amount for which he has effected insurance.

The consequence of this general confidence of man in his fellow man, is, that there is little disposition to permit capital to remain unproductive—and that the quantity of coin required to perform the exchanges is much smaller than in France.

Immense masses of property change owners without examination, confidence thus producing a great saving of labour. Orders to a vast extent are given with a certainty that they will be executed with perfect good faith, and this system is continued year after year, proving that the confidence was deserved.

Almost every man who possesses capital places it in the bank, or with his banker, who lends it out to those who desire to use it, and those who have commodities are ready to part with them on receiving promise of payment from those who require them.

We have no means of showing the number or extent of the

* "The number of savings' banks in England and Wales, in 1834, was 401, and the amount invested £13,919,000, = \$66,800,000."—*Porter's Tables, Part III. p. 8.*

† "The number of friendly societies, in 1832, was 17,365."—*Porter's Tables, Part IV. p. 29.*

bankruptcies, but they are great. In Manchester, alone, 66 cotton manufacturers failed in the years from 1831 to 1835,* being an average of more than 13 per annum. One mode of testing the risks of trade is to ascertain the rate of insurance, or the amount of security required. In France we have found that the bank requires *three endorsers*, and in England we find the Northern and Central Bank requiring *two* names in addition to the drawer,† being a less amount of insurance, and indicating diminution of risk. The losses of banks in their business with individuals will enable us to form a tolerably accurate idea of the punctuality with which contracts are executed in that country—more accurate than could be obtained from any statement of the number or amount of bankruptcies.

It is stated that *of the bills re-discounted in London* for account of the Bank of Manchester, "only 7s. 4d. in every £100" was dishonoured, many of which were afterwards paid,‡ and the smallness of this proposition is adduced and received as indisputable evidence of the prudence and judgment of the directors.§ If we suppose the time to average ninety days, we shall have bills dishonoured to the amount of £1 9s. 4d., (or nearly 1½ per cent.,) per annum upon the average amount of capital loaned.|| The bills re-discounted are usually those of the best description, and their character is above the average.¶ That such is the case we have evidence in the fact that at the Northern and Central Bank, although requiring, as we have stated, *two endorsers*, the discounted bills on hand, *overdue and unpaid, fluctuated, during the first 11 months of 1836, between 43 and 95 thousand pounds, while the whole amount of bills varied from 293 to 483 thousand pounds. In the early part of the year, at a period of the highest prosperity, the past due bills exceeded 60 thousand pounds, being more than one fifth of all the discounted*

* Wheeler's Manchester, p. 244.

† Report of Committee on Joint-Stock Banks, 1836, p. 110.

‡ Ibid. p. 7.

§ Ibid. p. 10.

|| If the average amount of capital lent be one million, and all loans be for a period of 90 days, the total annual amount of loans in the year will be four millions. A loss of one half of one per cent. upon the *amount of loans*, (four millions,) would give a loss of two per cent. upon the *capital*.

¶ "Bankers, in general, do not re-discount bills that are at all doubtful in their estimation; they re-discount bills that they think to be good, and therefore the risk upon their return is not great."—*Evidence of P. M. James, Report, 1836, p. 54.*

bills on hand.* At the close of the year the bills on hand not at maturity, amounted to £192,678, and the past due bills to £115,703.† The losses of that institution, in four years, amounted to £160,000,‡ being an average of £40,000. The capital was £800,000, and if we take its average amount of loans to have been £1,500,000, the losses are $2\frac{2}{3}$ per cent. per annum upon the capital lent. Large as is this proportion, it was stated before the Committee of Parliament that it was “notorious,” that the institution “had made fewer losses than any other joint-stock bank.”§ This view is not materially different from that which we obtain from the evidence of Paul Moon James, Esq., for twenty-three years a private banker, and upwards of five years manager of the Birmingham Banking Company. That gentleman states, as the result of his experience, that the losses had not averaged one per cent. upon the *amount of loans*.|| If we suppose them to have been three fourths per cent., it will amount to three per cent. per annum *upon the capital employed*; if we take them at a half per cent., it will give two per cent. as the average loss. That it does not vary materially from this we have evidence in the fact that the average annual loss of the Branches of the Bank of England, from 1828 to 1831, was £12,400, or nearly one and a half per cent. upon the average amount of loans, which was £866,000.¶

The average number of private banks, from 1808 to 1818, was 691,** and from 1824 to 1827, 765.†† Of these the bankruptcies were

From 1809 to 1814, 6 years, 91, being an average of $15\frac{1}{6}$ per annum.

1815	1820,	“	87,	“	“	$14\frac{1}{2}$	“
1821	1826,	“	97,††	“	“	$16\frac{1}{8}$	“
1827	1830,	4 “	28,	“	“	7	“

The proportion, in the first period, was	-	-	2.20	per cent.
do. do. second do.	-	-	2.10	“
do. do. third do.	-	-	2.12	“
do. do. fourth do.	-	-	0.92	“

* Report, 1837, Appendix, p. 161.

† Report, 1837, p. 97.

‡ Ibid. p. 91.

§ Ibid. p. 48.

|| “In-point of fact it has not averaged, within my own experience, one per cent.”—*Report*, 1836, p. 53.

¶ Report on Bank Charter, Appendix, p. 51.

** Supplement to Encyclopædia Britannica. Article, Money.

†† M’Culloch’s Commercial Dictionary, p. 88.

‡‡ Ibid. p. 85.

Exclusive of the above, many others stopped payment that afterwards resumed, and the affairs of some bankrupt concerns were arranged without a commisson. In 1814, 1815, and 1816, no less than 240 stopped, *being more than one third of the whole number*. This, too, was at a time when they were not required to redeem their notes in specie. It is obvious that the losses of the bankers must be very heavy, but of this we have further evidence in the statements of the Bank of England.

That institution until within a few years has limited its transactions to the city of London, and a very large proportion has been with *the bankers* in and out of the city, to whom it advanced money on the security of the bills which they had previously discounted, the advantage to the latter being that of borrowing at a rate somewhat lower than that at which they had loaned. Here the bank has had the security of *drawer, endorser or endorsers, and banker*, and could lose nothing until all of those parties were ruined. We have no means of ascertaining what is the general proportion its loans to bankers bear to those to individual traders, but in the year 1831 they amounted to 55 per cent. of the whole.* For many years past there has been a constant increase in the facilities afforded to individuals in doing business directly with the bank, accompanied by an increase in the proportion which their business bears to that of the bankers. It is fair, therefore, to estimate, that during the previous forty years three fourths of the discounts have been guarantied by bankers. As a consequence of this increased guaranty obtained by the Bank of England, we find that, in the 37 years from 1795 to 1831, both inclusive, during which time the average amount of loans on commercial paper was £7,500,000, the average amount of losses was only £31,696, or $\frac{4\frac{2}{3}}{1000}$ of one per cent. upon the capital employed. If we suppose the bills to have averaged three months, the loss has been one tenth of one per cent. upon *the total amount of bills discounted*, whereas the losses by the private banks can hardly be taken at less than one half of one per cent., as proved by the experience of the witnesses examined by the committee, and by the proportion of failures among those institutions. It must be obvious that their losses must be very much heavier than those of the Bank of England, which, upon a very

* Report on Bank Charter, Appendix, p. 46.

large portion of its business, can sustain none unless the private banker is ruined.

The amount of past due bills held by one of the joint-stock banks in 1836, as above given, bears a small proportion to the amount held on another occasion, by the Bank of England. The average amount of the loans on personal security, of that institution, for September and December, 1825, was £6,900,000, and the amount protested for non-payment from December 1, 1825, to April 30, 1826, a period of five months, was £208,487, *being about 4½ per cent. of the whole amount of loans.*

In comparing the bankruptcies of England and France, it must always be borne in mind, that although the production of England, with 15 millions of inhabitants, is but little more than equal to that of France, with 33 millions, the *proportion* that is exchanged is vastly greater, and is probably not less than three fourths of the whole, or 200 millions of pounds sterling. The products thus exchanged give rise to an amount of credit operations many times greater than arise in France, and the superior confidence of man in his fellow man, is shown in the fact that the difference between the rate of interest paid by the government, and that paid by individuals, is very small. British stocks pay about 3½ per cent. interest, while tradesmen and farmers obtain loans readily at 5 per cent., showing how small in comparison with France is the charge for the collection of interest, and for insurance of the repayment of the money loaned.

CHAPTER IV.

OF CREDIT IN THE UNITED STATES.

As confidence grows with population and capital, it should be found to a greater extent in Massachusetts, and in New England generally, than in any other part of the UNITED STATES, and gradually diminishing as we pass south and west to those States and Territories in which population is widely scattered, and where the superior soils only are cultivated. Such we shall find to be the case. Following the order of density of population, it should increase as we go from Massachusetts to France and England, in both of which it should be at a much higher point than in any part of the United States. How far this is the case, we propose to examine.

There are few circumstances connected with the American Union more worthy of remark than the credit system, which extends itself over the whole of their vast territory. The traders of Missouri and Arkansas—of Mississippi and Alabama—of Illinois and Michigan—distant 1000 or 1500 miles, and returning but once in 12 or 18 months, are supplied with merchandise on credit, and the small difference charged in consideration thereof is evidence of the punctuality with which they fulfil their engagements. Those traders give credit to the farmer, the planter, and the small storekeeper, who in turn grants it to the labourer, and the charge that is made therefor is exceedingly small. As the credit system is the offspring of confidence, and as no man reposes confidence where he deems it likely to be abused, the existence of this extensive and universal system of credit may be taken as evidence of a *general belief* among those who have commodities for sale, that those who desire to obtain them, have the disposition, and will have the means of paying for them, in such manner and at such times as may be agreed upon.* Desiring, however, to show from actual returns, what is the nature of the

* "There is, probably, no other country in which credit is so purely personal as in the United States."—*Grund's Americans*, p. 259. † See page 114, *ante*.

operations of the United States, we have collected statements of the operations of various individuals and institutions, for a quarter of a century, from 1811 to 1836, a period embracing times of *embargo, non-intercourse, war, suspension of specie payments, re-sumption thereof, change from a state of universal war to one of universal peace*, that period, in short, which has, throughout the world, been attended by the most remarkable changes in the fortunes and prospects of individuals and of nations, which was most likely to exhibit extraordinary losses by individuals, and consequently by banks.

In 1811, the number of banks in Massachusetts was 15. In 1835, it was 106. The average number during that period was 46. The average amount of capital was \$15,406,000. The average amount of deposits on interest, was \$1,600,000. The average loans were \$23,100,000.

If we suppose the whole sum to have been loaned at 6 per cent., the amount of interest has been, per annum,	\$1,386,000	
From which deduct 4 per cent. interest upon the deposits, say	-	\$ 64,000
Deduct also 1 per cent. tax on the capital,	154,000	
		218,000
The average dividend for the whole period,		\$1,168,000
has been	-	\$ 902,000
The reserved profits amount to	\$1,175,000	
From which are to be deducted doubtful debts, amounting to	335,000	
		\$840,000
This sum, divided over a period of 25 years, gives an average of	34,000	
		936,000
Leaving, to cover <i>all expenses and losses</i> ,	-	\$232,000*

Which sum, divided among 46 banks, gives \$5,000 per annum for each, and an average of one per cent. per annum upon the capital loaned. If we average *the expenses*, including those of cir-

* This statement is made up from the Schedule of the Condition of the Banks in Massachusetts, published by order of the Senate of that State, January 17, 1836.

ulation, at \$3,333 per annum each, we shall have \$1,667 for *the losses*, being one third of one per cent. per annum upon the average amount of capital loaned, and one fifth less than is sustained by the Bank of England, which has drawer, endorser, and banker, for security.

Although we have made every exertion, we have been able to obtain from the city of New York a return of the operations of but one institution, the Bank of America. During twenty-five years, from July, 1812, to July, 1837, its loans on personal security averaged \$2,945,000, and its losses \$2820 per annum, being less than one tenth of one per cent. This is not offered as a fair specimen of the losses incurred by the banks generally, but as the only statement that could be obtained. It is probable that the average loss has exceeded that of the banks of Massachusetts. One, the Franklin, failed a few years since, having sunk the whole of its capital.

We have now before us a statement of the operations of one of the largest purchasers of bills on England, from which it appears that in twelve years the amount purchased was nearly 21 millions sterling, and that the loss thereon, in the first eleven years, was less than £5000, but that in 1837, in consequence of the great fall in all American products, which caused numerous bills to be returned, there was a loss of £83,000, making in the whole £88,000, being $\frac{4\frac{2}{10}}{100}$ of one per cent. upon the whole amount of bills. We have here included the most calamitous year for transactions with Europe, yet the loss does not vary materially from that which took place at the branches of the Bank of England *in ordinary times*. During the first eleven years of this period the amount of *dishonoured bills* was less than £2000 per annum, or about $\frac{1}{5}$ of one per cent. It has been already shown, that *of the bills re-discounted in London* by private and joint-stock banks, 7s. 4d. in every £100, or $\frac{3\frac{6}{10}}{100}$ of one per cent., was dishonoured—that that amount was deemed very moderate—and that it was received as evidence that an institution had been well conducted. *Of the above 21 millions, three fourths at least were purchased upon the faith of a single name*, whereas, at the Bank of France, *three endorsers* are required for a note of 100 francs.*

* See page 13, *ante*.

Stephen Girard, of Philadelphia, commenced banking early in 1812, and died at the end of 1831, having acted as banker for nearly 20 years. The average amount of his loans for that period was about 2½ millions, and his losses were about 225,000 dollars, being about one half of one per cent. per annum.

One of the incorporated banks of Philadelphia, in the period from 1810 to 1838, 28 years, loaned upon personal security, \$131,816,000, upon which the total amount of loss was \$109,619, being only $\frac{8}{1000}$ of one per cent. If we take the average time of the loans as being 90 days, the average amount loaned out during that period must have been \$1,170,000, with an annual loss of less than \$4,000, or about $\frac{3.3}{1000}$ of one per cent. of the capital.

Another, for a period of 30 years, has had loaned out on personal security, on an average, \$1,950,000. During that period, the total amount of bills unpaid, and charged to profit and loss, has been \$641,000, of which there has been recovered about \$80,000, leaving a loss of \$561,000, being an average of \$18,700, or $\frac{9.6}{1000}$ of one per cent. per annum upon the amount of capital loaned.

During a period of 25 years, the loans of a third, on personal security, have averaged \$2,161,080, upon which there has been incurred a loss of \$704,000, or an annual average of \$28,188, being 1½ per cent.

A fourth, which commenced operations in July, 1828, has loaned in nine and a half years, on personal security, \$26,301,199, upon which it has suffered losses amounting to \$19,978, or nearly $\frac{8}{1000}$ of one per cent. Estimating the loans at 90 days, the average amount lent out must have been \$700,000, and the average loss \$2,100, being $\frac{3.0}{1000}$ of one per cent. per annum.

We are thus enabled to give a much more full view of the operations of Philadelphia than we could do of those of New York. The average amount of loans of the above named five banks has been \$8,231,080, and the average annual loss has been \$63,988, or $\frac{7.8}{1000}$ of one per cent. This is a higher average, we believe, than would be obtained by extending our examination to all the banks of the city, among which no case of failure has ever occurred.

A comparison of the above results with those given by the private and joint-stock banks of England, tends to show that the risk of loss is less in the United States than in that country. In

making this comparison it is important to remark that the losses of the Northern and Central Bank and others referred to, as well as those of the branches of the Bank of England, took place in a time of high prosperity, whereas those now given are the averages obtained during a period of a quarter of a century, embracing the terrible period between 1811 and 1820.

We come now to examine the operations of the Bank of the United States. The average amount of the loans by that institution, on personal security, during a period of twenty years, from 1817 to 1837, was \$36,644,790, and the average annual loss was \$223,000, or $\frac{6.1}{1000}$ of one per cent. The total amount of loss sustained was \$4,469,806, of which three fourths were in the first four years of its existence. That such should have been the case will not appear extraordinary to those who recollect the disordered state of the currency and of trade in the years following the close of the war, throughout the Union, and particularly in the Western States. Of the local banks that it was then attempted to establish in those States *every one failed*, and the branches of the Bank of the United States suffered heavily. Nearly one fourth of the whole amount of loss took place at those of Ohio and Kentucky. From the year 1820 to 1837, it has not exceeded one fifth of one per cent. per annum upon the capital lent on personal security at the parent institution and its twenty-seven branches.

We have already seen that the losses of the Bank of England amount to $\frac{4.2}{1000}$ of one per cent., notwithstanding the guaranty of *drawer, endorser, and banker*. Had the loans of the Bank of the United States been guarantied in like manner by other banks, it may safely be assumed that the losses would not have exceeded $\frac{1}{1000}$ part of one per cent. Not being so guarantied, to have suffered a loss of only $\frac{6.1}{1000}$ of one per cent. indicates a higher degree of security in banking operations throughout the Union than exists in London.

In comparing the two institutions, it is important to observe how great is the difference between one transacting its business in London, the great centre of trade, and another having numerous branches scattered over the vast territory of the United States. Credit should be higher and punctuality should be greater in that city than in Boston, New York, or Philadelphia, and if so, how vastly greater should it be than in Pittsburg, Cin-

cinnati, or St. Louis. We have already seen, that while the losses of the Bank in *London itself* are only $\frac{42}{1000}$ of one per cent., those of the branches are $1\frac{1}{2}$ per cent., and we should, of course, find the same result in the United States, as we pass from the dense population of Massachusetts, with their commercial habits, to the scattered population of Mississippi and Missouri; and this with some exceptions is the case. At the branch in Boston the whole amount of loss was \$75,206. At that of Providence, Rhode Island, doing business generally to the amount of nearly two millions, the *total loss* at the closing of the institution, was only \$3,797, being an average of less than \$200 per annum, or only the one hundredth part of one per cent.* Passing south and west we find generally an increase in the proportion of losses; and thus at the two offices of Norfolk and Richmond, doing a smaller business than that of Providence, they were \$486,514—at Charleston, \$250,000—at Louisville and Lexington, \$556,000. At St. Louis, on the other hand, the whole amount of loss was \$263. At Mobile, \$620—and at Natchez, nothing!

A Bank having twenty-seven branches dispersed throughout the Union, has thus carried on business with a loss little greater than that of the Bank of England, in London, and with only two fifths of that incurred at the branches of that institution. When it is recollected that a large portion of the capital has been managed by directors who had little or no interest in the institution, we think it will be taken as evidence that the credit system of the United States at large is better than that of England at large.†

There exist in the United States, [1838,] 677 banks, with a capital of 378 millions of dollars. Of these, 33 are in the distant States of Ohio, Kentucky, Tennessee, and Mississippi, with a capital of 90

* For many years not a single note remained unpaid. At length there was one amounting to \$100, and the directors paid it themselves, rather than permit it to remain on the books.

† In two years and eleven months the *Leeds branch* of the Northern and Central Bank lost £40,000, the *Nottingham branch* £12,000, and the *Sheffield branch* from £12,000 to £14,000, the average loss being above £20,000 per annum, and more than the average losses of *all the banks in Massachusetts for 25 years*, and more than those of the Bank of the United States during a large portion of its existence, when its loans on personal security were from fifty to sixty millions of dollars.

millions, *owned chiefly by the capitalists of New York, Philadelphia, or Boston*, who thus place it at a distance from them and out of their immediate control, hoping to secure seven or eight per cent. per annum, while *the best securities* at home yield them five per cent. At the same time the capitalists of Europe place their funds under the control of the directors of the banks of Boston, New York, and Philadelphia.*

* In the division of labour which takes place with the increase of population and of capital, the trade in money gradually separates itself from others, as does that in sugars or cloths; but if any one attempt prematurely to confine himself to dealing in money, or in cloths, or sugars, he will find that his expenses will eat up his profits. The *rate of profit* is already fixed by his neighbours, who deal in various commodities, and he cannot demand a larger *proportion* than they do. In a new settlement, if a shopkeeper undertook to confine his operations to buying and selling wheat or flour, the quantity to be exchanged would be so small that it would be necessary for him to take 15, or 20, or perhaps 50 per cent. of the commodities passing through his hands, to enable him to live, whereas his neighbours, who bought and sold provisions, wool, and other articles, could do the same business for one half. If he attempted to increase his business by importing a quantity of wheat, he would find that he had more than would be purchased by those possessing the means and the ability to pay him, and he would be obliged to choose between keeping it on hand to be spoiled, or selling it to those who probably would never pay for it. In either case he would probably be ruined. In like manner, a man who undertakes prematurely to deal in money finds that his neighbours have but little to lend, and that he cannot live by his trade unless he can have a large commission. To increase his business, he obtains a supply of capital from abroad, in hopes to make considerable profit by lending it out; but he soon finds that he cannot safely do so—that although he might advantageously place \$10,000, he cannot place \$50,000 without incurring great risk. He has, however, agreed to pay interest, and if he cannot lend his capital, he will be ruined by the operation. He therefore risks it in the hands of those who have no immediate use for it, and the immediate consequence is a rise of prices, or, in other words, a fall in the value of money. The borrowers commence speculations which end in the ruin of themselves and the money dealer. Every premature attempt at extending the division of labour is attended by similar results.

Most governments, and among others those of the United States, have undertaken to determine who shall, and who shall not trade in money. The existence of these restrictions has tended to induce a belief that much profit was to be realized from that trade, and whenever there has been a disposition to remove the restrictions, there has existed an almost universal disposition to rush blindly into it, establishing banks wherever they were *permitted*, without attending to the fact, that lenders and borrowers are essential to the existence of such institutions. They have been created where only borrowers could be found, and where only very small amounts could be profitably used. Capital has been introduced from a distance, to the injury of both lender and borrower, and the result has been the ruin of all the parties concerned, precisely as men are ruined who attempt prematurely to establish manufactures, or to commence mining operations.

Whenever restrictions of any kind have existed and are suddenly removed, the

The following table shows the manner in which those institutions increased in number from 1811 to 1830.

	1811.		1816.		1820.		1830.	
	No. of Banks.	Capital.	No. of Banks.	Capital.	No. of Banks.	Capital.	No. of Banks.	Capital.
Massachusetts,	15	6,292,144	26	11,650,000	28	10,485,700	66	20,420,000
Maine,	6	1,250,000	14	1,860,000	15	1,654,900	18	2,050,000
New Hampshire,	8	815,250	10	998,000	10	1,005,276	18	1,791,670
Vermont,					1	44,955	10	432,625
Rhode Island,	13	1,917,000	16	2,317,320	30	2,982,026	47	6,118,397
Connecticut,	5	1,933,000	10	4,017,575	8	3,689,337	13	4,485,117
New York,	8	7,522,000	27	18,766,756	33	18,562,774	37	20,083,353
New Jersey,	3	739,000	11	2,072,115	14	2,130,949	18	2,017,009
Pennsylvania,	4	6,153,050	43	15,384,597	36	14,681,780	33	14,610,333
Delaware,			5	974,500	6	974,900	6	1,000,000
Maryland,	6	4,895,202	20	8,406,782	14	6,708,131	13	6,250,495
Dist. of Columbia,	4	2,341,395	10	4,294,013	13	5,525,319	9	3,875,794
Virginia,	1	1,500,000	12	4,512,173	4	5,212,192	4	5,571,100
North Carolina,	3	1,576,600	3	2,776,600	3	2,964,887	3	3,195,000
South Carolina,	4	3,475,000	5	3,832,758	5	4,475,000	5	4,631,000
Georgia,	1	210,000	3	1,502,600	4	3,401,510	9	4,203,029
Alabama,					3	469,112	2	643,503
Mississippi,			1	100,000	1	900,000	1	950,000
Louisiana,	1	754,000	3	1,422,300	4	2,527,420	4	5,665,980
Tennessee,	1	100,000	4	815,281	8	2,119,782	1	737,817
Kentucky,	1	240,460	2	2,057,000	42	8,807,341		
Ohio,	4	895,000	21	2,061,927	20	1,797,403	11	1,454,386
Indiana,					2	202,857		
Illinois,					2	140,900		
Missouri,					1	250,000		
Total,	88	42,609,101	246	89,822,297	307	101,714,551	328	110,186,608

Having shown the nature of the transactions of the community with the banks, we offer the above with a view to show what has been the nature of those of the banks with the people, and what has been the proportion of loss sustained by failures among them. In doing this, we shall generally rely upon the statement furnished by Mr. Gallatin in 1830,* adding thereto the failures

results are the same. South America was abundantly supplied with warming pans and blankets when its trade was thrown open, and the consequence of the wild speculations of the day was immense loss. The removal of the restraints upon the formation of joint-stock banks in England was attended with results somewhat similar. In order that men should make a judicious use of freedom it is necessary that they should have been accustomed to feel free.

* Considerations on the Currency and Banking System of the United States.

from that time to 1836, thereby completing a period of a quarter of a century, embracing embargo, war, suspension and resumption of specie payments, the revulsion which followed the close of the war in Europe, the speculation of 1825, &c.

The average number of banks in Massachusetts, from 1811 to 1830,* was 34, and the average capital above 12 millions. The failures to 1836, were five† in number, or about $\frac{6}{100}$ of one per cent. per annum. The capitals amounted to \$700,000, but nearly all their debts were paid, the total amount of out-standing claims upon two of them having been, at the date of the last published returns, only \$19,878. A third paid off all its debts, and another it is believed did the same; and of the last, the amount of bills out-standing at the time of its stoppage, was only \$27,000. If we estimate the total loss at \$50,000, it will be a large allowance, and will give less than *five dollars in every million, or the two thousandth part of one per cent.* of the transactions that were facilitated by the existence of such institutions, and by the substitution of bank notes for a metallic currency.

This estimate is based upon the supposition that the capital of a bank performs in a year only forty operations. That this is below the truth will be obvious to the reader from the following statement. If lent for ninety days, and then repaid, we have annually eight operations. If it changed hands either by loan and repayment, or by the purchase and sale of commodities, only 2½ times in each period of ninety days, it would produce the number of operations we have stated, in every one of which the saving of labour afforded by the use of bank notes and checks, instead of gold and silver, would be material. Instead of changing 2½ times in every ninety days, it is probable that it would do so at least ten times in that period, which would give, during a period of twenty-

* We have in every case taken the average number of banks from 1811 to 1830, instead of that from 1811 to 1836, which would have caused a great decrease in the proportion which the failures would bear to the whole. We have done so because we were not desirous of diminishing the ratio of loss. The average number of banks in Massachusetts, from 1811 to 1836, was forty-eight, and the failures in the same period having been five, the proportion would be only 42-100 of one per cent. per annum.

† Mr. Gallatin gives six as the number, with capitals amounting to \$850,000. The Bedford Bank, however, did not fail. It closed its business under a law for that purpose, and divided its capital.

five years, a loss of one dollar and a quarter in every million of transactions, in the performance of which labour had been saved.*

The average number of banks in Rhode Island, in the same period, was 27, with capitals exceeding three millions. The failures have been two,† giving an annual average of $\frac{3}{100}$ of one per cent. The capitals amounted to \$50,000. The proportion of loss cannot vary materially from that of Massachusetts.

The average number of banks in Maine has been 13½. The charters of three expired in 1812, and were not renewed. They paid their debts, and were discontinued. The *failures* are five in number, being an annual average of 1½ per cent. The average capital has been \$1,700,000, and that of the banks which have failed has been \$500,000, or 1⅓ per cent. per annum.

In New Hampshire, the average has been 11½, and the failures have been two, or about two thirds of one per cent. per annum. The average capital has been \$1,150,000, and the failures \$129,600, being less than one half of one per cent. The amount of loss sustained by the creditors of the banks of Maine and of New Hampshire we have no means of ascertaining, but it is obvious that the per centage must be exceedingly small.

In Vermont, no failure has taken place.

In Connecticut, the banks have averaged nine in number. The failures have been two, or somewhat less than one per cent. per annum. The capitals have averaged \$3,500,000, and those of the two institutions which failed amounted to \$600,000, being about two thirds of one per cent. per annum.

The average number of banks in the above six States, constituting New England, from 1811 to 1830, was 97, and the whole number of failures in 25 years was 16, being two thirds of one per cent per annum. The average capital was about 22 millions. The capitals of those which have failed, were about \$2,000,000,

* We have made inquiry at one bank in Philadelphia, and find that the daily exchanges performed at its counter, amount, on an average, to one fourth of its capital, and annually to eight times its capital. If to this we add the exchanges facilitated by the circulation of its notes and drafts among the community, we shall find that this view is nearly correct.

† The Burrilville and the Scituate banks. Mr. Gallatin includes the Farmers' Exchange Bank, which failed in 1809, and was, it is believed, the first bank that failed in New England. He mentions also the Farmers and Mechanics', which we believe is a mistake.

giving about $\frac{36}{100}$ of one per cent. per annum. The whole loss sustained by the community cannot have much exceeded \$500,000,* being an annual average of \$20,000, or $\frac{1}{11}$ of one per cent. of the capitals of the banks, and probably about $\frac{1}{500}$ of one per cent. of the operations facilitated by those institutions. If this estimate be correct, the risk attendant upon transactions with the banks in New England, for a period of above a quarter of a century, has averaged one dollar in every fifty thousand. If we exclude Connecticut, in which one failure was attended with great fraud, productive of considerable loss, it has not exceeded five dollars in a million.

In New York, the banks have averaged 26 in number, and there have been 11 failures, being an annual average of 1½ per cent. The capital has averaged 16 millions, and that of the institutions which have failed, was about 3½ millions, being about seven eighths of one per cent. per annum. The losses, however, as in Massachusetts, fell generally upon the stockholders, and not upon their creditors. But two failures took place between 1825 and 1837, so that in that period the annual average was less than one half of one per cent. upon the number that existed in 1830. One of them paid all its debts, and there was no loss except that which fell upon the stockholders. The loss by the other was, we believe, small. In that time, the risk of loss in trading with a bank, or in using a bank note, could not be taken to exceed five dollars in every million, and probably, as we have stated in relation to Massachusetts, not more than a single dollar in every million of transactions the performance of which has been aided by the existence of those institutions.

In New Jersey, they have averaged nearly 12, and there have been 10 failures, being an annual average of 3 per cent.

In Pennsylvania, the average has been 29, and the failures have been 19 in number, being an average of 2½ per cent. per annum. Almost all of these, however, took place in the period immediately following the close of the war, and but three, all of trifling amount, occurred in the period from 1820 to 1837. The average capital of the State banks, from 1811 to 1830, was 15 millions, and the

* The Eagle Bank of New Haven owed, in 1827, after its failure, above \$800,000. What portion of this was paid we do not know. All the losses sustained in New England, in the period referred to, excluding this bank, have been trivial in amount.

capital of those which failed, from 1811 to 1836, was two millions, being one half per cent. per annum.

The average number of banks, in the above mentioned nine States, from 1811 to 1830, was 163. The whole number of failures was 56, being an average of $2\frac{1}{3}$ per annum, or $1\frac{1}{3}$ per cent. The average capital was 55 millions, to which must be added one half of that of the Bank of the United States,* making a total of 72 millions. The capitals of the institutions which failed were 10 millions, giving an annual average of little more than one half of one per cent. It is exceedingly difficult to ascertain the precise period at which some of these failures took place, but we believe that in the years from 1822 to 1837, their amount did not exceed two millions of dollars, giving an annual average of about \$ 133,000, or about \$ 1800 to every million of capital. The utmost loss sustained by those who have dealt with the bankrupt banks, or who have held their notes, *during the whole period*, cannot be estimated above three millions, and it is probably not one half of that amount. Assuming it, however, at that sum, it is not more than $\frac{1}{4000}$ part of one per cent. upon the transactions of individuals with those institutions, in the form of deposits, drafts, notes, &c., and would give a risk of one dollar in every 40,000. *In the last fifteen years* of the period it has not exceeded five dollars in a million, and has probably been less than a single one.

We are disposed to believe that in no country has so great a mass of transactions been carried on in a manner so advantageous to the community, and with so small an amount of loss, and that the rate of insurance upon the debts of individuals to banks, or of banks to individuals, is consequently lower than in any other part of the world.

Passing to the south and west, we find at every step, with diminished density of population, increase of risk. In the States south of Pennsylvania and of the Ohio river, there have been 84 failures, and in those west of Pennsylvania 27. Nearly the whole of these resulted, as did all those of Pennsylvania itself, from the premature attempt to establish shops for buying and selling money in regions where all desired to buy and none had any to sell. The consequences were what might have been anticipated. After

* But about one half of the capital of the Bank of the United States was employed in those States.

fruitless attempts to establish themselves in business, they stopped payment, precisely as would be done by men who attempted any other pursuit before the community was prepared for it. The whole number of failures in 25 years was 167, of which 140 were south and west of New York, and almost, if not quite, every one may be traced to this cause. The average number of banks in existence in that time was 242, and the average of failures was $2\frac{1}{3}$ per cent., being but little more than the average of the private bankers of England between 1821 and 1826, a period in which there was no extraordinary occurrence—no change from war to peace—or from peace to war—to produce insecurity or loss. *From the first institution of banks in America, to the year 1837, the failures have been less, by about one fourth, than those of England in the three years 1814, 1815, and 1816, and the amount of loss sustained by the public bears probably a still smaller proportion to the amount of business transactions.*

We have seen that in Massachusetts and Rhode Island the proportion of loss is least, and that it gradually increases as we pass from the closely peopled States of New England to the scattered settlements of the west and south-west. In passing from Massachusetts to France, and thence to England, we should find a higher degree of confidence, accompanied by a smaller proportion of loss, yet such is not the case. In both the losses are greater, and the confidence of man in his fellow man is smaller than in that State, where it is deservedly greater than in any other part of the world.* Individuals in Great Britain enjoy as high a degree of credit as can possibly exist, but confidence is more universal in the United States. Every man in the community receives bank notes,† and those which are payable at places distant five hun-

* "Here, any man who offers the guarantee of good morals is sure to obtain credit, and then it depends upon himself alone to acquire fortune."—*Chevalier, t. I. p. 64.*

† "The Americans have the utmost faith in paper money. It is not a blind confidence, for if we have had our *assignats*, they have had their continental money; and it would not be necessary to retrace their history far to find the banks failing, *en masse*. It is a confidence founded upon reason—a courage the result of reflection."—*Chevalier, t. II. p. 247.*

The adoption of the same measures by which it has been attempted in the United States to drive bank notes out of circulation would have ruined the Banks of England and of France. Nothing could have prevented the ruin of those of the United States but the general confidence of man in his fellow man.

dred or a thousand miles, pass from hand to hand, and from bank to bank, without difficulty. Those who, residing in Massachusetts, New York, or Pennsylvania, desire to invest their capital to obtain eight or nine per cent., place it in Mississippi, or Louisiana, or Tennessee, without apprehension.

The revenue of the United States from imports, from 1789 to 1827, amounted to \$475,000,000. During two thirds of that period, their ships were plundered at sea, burnt, or confiscated, by both of the belligerents, to the entire ruin of a large portion of their owners, whose bonds were held by the United States as security for the payment of duties, the credit upon which was from three months to three years. Under such circumstances it would be reasonable to suppose that the losses would be heavy. At the close of 1827, the whole amount remaining unpaid was \$4,369,617, of which \$434,000 was deemed recoverable, leaving the total loss short of \$4,000,000, or less than five sixths of one per cent.

In consequence of the facility afforded by joint-stock banks for employing productively small amounts of capital, the inducements to place money in savings' banks, and in life insurances, is much less than in England. Nevertheless, both exist throughout the Union, and they are found in greatest number where population is most dense, and where labour is most productive. In Massachusetts, there are 32 savings' banks, with a capital of \$4,781,426. In New York, there were, in 1836, eleven, with deposits amounting to \$4,831,613. In Pennsylvania, the number is less than in New York. That of Philadelphia has deposits to the amount of \$1,200,000. In Maryland, we believe there is only one, that of Baltimore, having deposits amounting to \$887,522.

Immense masses of property pass from hand to hand without examination, and in a million and a half bales of cotton now annually packed, frauds are of exceedingly rare occurrence. It is an evidence of the great improvement that has taken place in morals, with the increase of population, that the commodities formerly produced for exportation, as pork, flour, and tobacco, were then subjected to inspection laws, which still remain to impede the course of trade; whereas, cotton, more recently introduced,

has never been subjected to such restraint, and experience has proved that no necessity existed for it. In the conduct of trade with foreign nations we find a state of affairs very different from that described by M. Chevalier, in relation to that of France.

M. De Beaumont says, that *almost all Americans have failed more or less frequently*,* and in so saying, he but repeats what is not unfrequently asserted in Europe. M. De Tocqueville says, "the Americans are often shipwrecked, but no trader crosses the seas so rapidly."† The rate of insurance fixes the risk of loss, and where we find, as is the case, that an American ship *to Canton and back* can be insured for 2½ to 3½ per cent.; that the premium on an English ship is 4 to 5 per cent.; and that a French ship, *for the single voyage out to Canton*, cannot be insured at less than 3 to 3½ per cent.,‡ we may feel satisfied, notwithstanding M. De Tocqueville's impression to the contrary, that if American ships are more rapid they are also more safe than those of other nations. A similar examination of the credit system of the several countries establishes, we think, the same results as regards the disposition to comply with contracts.

A traveller who, on arriving in Lima from Europe and finding all the houses of one story, should thence conclude that it was safer to reside in them than in a house of six stories in London, would commit the same mistake as a writer, who, seeing the

* "All the Americans being engaged in business, and most of them having more or less frequently *failed*, it follows that to be a bankrupt is nothing. An offence of which so many are guilty ceases to be one. The indulgence for bankrupts springs, then, from the commonness of the misfortune; but its principal cause is the facility with which men there rise from such a fall. If the bankrupt were lost for ever, he would be abandoned to his misery; people are more lenient when they know that he will recover himself. This is not a very generous feeling, but it is human nature." M. De Beaumont might readily have found another mode of accounting for the facts observed. Whenever men easily acquire the means of living, they are lenient to those who are indebted to them. When the means of living are obtained with difficulty, the reverse is the case. The creditor of England is more lenient than that of France, and that of the United States is more so than either.

"Society says to the poor man in America, 'labour! * * * And if business should be against you, and you should fall, you will speedily rise again, for here failure is considered as a wound received in battle; it will not cause you to lose esteem or confidence, *provided you have been always temperate and regular, a good Christian, and a faithful husband.*'"—Chevalier t. II. p. 112.

† Democracy in America, Vol. II. p. 439.

‡ Prix Courant du Havre, 5 Mars, 1836.

small amount of credit in France, and that the average of the notes discounted at the Bank is less than \$400, and for an average period of 50 days, should infer that there was less risk than in the United States, where the average amount is so much greater, and the time so much longer. Had the people of Lima not experienced numerous earthquakes, they might now build houses of six stories; and had the people of France enjoyed security of person and property their production would now be *three* times as great, and their merchants would transact business on a scale *five* times as great, as there would be fewer traders and more exchanges to be performed.

The existence of the credit system is evidence of mutual confidence, and that confidence results from the knowledge which each man has of the conduct and disposition of his neighbour. Where property is most secure labour will be most productively applied—the power to accumulate capital will be greatest—and the tendency to moral and physical improvement will be most rapid. Where such is the case, confidence will be most universal, and the existence of that confidence may be taken as evidence of a general disposition to comply with engagements. Where it is greatest the insurance on debts will be least. Such is the case in the United States.*

That it should be so is most natural. Where good conduct insures to the workmen the power to obtain the aid of capital, by which his labour is rendered more productive and he is enabled to improve his condition, he has the strongest inducements thereto; but where capital is scarce, and where the best conduct will not have that effect, the inducement does not

* In nothing is the beneficial effect arising out of a general state of ease and security more fully shown, than in the conduct of men towards their fellow men in cases of misfortune, such as is given in the following passage from M. Chevalier, describing the effects of the great fire at New York.

“At the first news of the fire there was not a merchant in Europe who did not tremble for his American debtors, for in Europe, and particularly in France, if a similar circumstance had occurred, the people who had been injured would have been deprived of all credit, and of every means of repairing their misfortunes. *In France, if you want credit, you cannot obtain it, but if you do not want it, it is offered to you.* In the United States, on the contrary, we see that immediately after the fire, the President of the Bank of the United States repaired to New York, and placed 11 millions of francs at the disposal of New York, and the banks in general determined to discount in preference the paper of those who had suffered by it. * * The result of this admirable disposition was, that no failure of any considerable amount occurred.”—*Tom. I. p. 391.*

exist. Were the people of France to abstain from war; were they to reduce their army; were they to *permit* capital to increase, every day would bring with it new inducements for exertion and for good conduct on the part of the workmen, who would desire to show themselves worthy of confidence; and the credit system would gradually extend itself throughout society, with constant advantage to the community at large—to both labourers and capitalists.

We will now proceed to inquire into the causes of the differences we have remarked.

CHAPTER V.

INSECURITY OF PROPERTY AND ITS EFFECTS.
ENGLAND.—FRANCE.—THE UNITED STATES.

PROPERTY is secure where its owner enjoys the right of using it in such manner as he deems likely best to promote his great object of maintaining and improving his condition. It is insecure where he is denied the exercise of that right.

Before the revolution, it was held in France that the *right to labour* was a royal privilege, which a sovereign might sell, and which his subjects must purchase.* In accordance with this doctrine individuals obtained grants of the permission to apply their labour and capital to the manufacture of various commodities. What they previously possessed as a *right*, was thus, by the will of the sovereign, converted into a *privilege*, for which a high price was paid. In order to induce the payment of such prices, the number of persons permitted to follow certain trades was limited, and thus was granted to them a *monopoly*, enabling them to tax their fellow subjects. In England, similar restraints existed, and monopolies were frequently granted to the favourites of the sovereign, or in reward of public services.

With the increase of population and of capital, we observe a constantly increasing disposition to combine exertions for the attainment of any given object. In the infancy of society men associate for the maintenance of security. Another step in their progress shows associations for the purposes of commerce; and in the most advanced stages of society we find them associating for the construction of roads, canals, and bridges—for the erection of theatres, hotels, and club-houses—and for the working of mines, or the fitting out of steam-ships. We may therefore assume that a tendency thereto is natural to man, and that where he is *permitted* to indulge it, he is most likely to attain the object that he seeks—the improvement of his condition. To

* Œuvres de Turgot, t. VIII. p. 337.

deny him the exercise of that right is an infringement of the rights of person.

In a country in which the *right* to labour was converted into a *privilege* held of the sovereign, it is not extraordinary that the *right* of the people to associate together for the purpose of rendering labour more productive, should also be converted into a source of power and emolument to those who could grant permission to exercise it. Such was the case in both England and France, and thus this right, which previously existed in all, was converted into a privilege for which a high price was demanded; and to enable the purchasers to indemnify themselves from their fellow subjects, the grant was generally accompanied by a prohibition to other persons from associating themselves in like manner for the like purposes.

In England, the rights of person and of property were thus violated by prohibitions to associate for the purpose of trading in coal*—for effecting marine insurances†—for banking‡—for the formation of any species of company having a transferable stock, &c.§

* “With the view of suppressing societies amongst coal buyers, and thereby of keeping the coal trade open and free, a partnership composed of more than five persons, for the purchasing of coals for sale, or for making regulations with respect to the manner of carrying on the trade, is by a legislative provision rendered illegal.”—*Gow on Partnership*, p. 30.

† In the case of marine insurances, the right of jointly assuring any ship, or goods, at or going to sea, was prohibited, (except in the instances of the *Royal Exchange* and *London Assurance Companies*, upon whom, in consideration of a compensation made by them to the public, an exclusive monopoly in this respect was conferred,) and the *policies of assurance effected by underwriters having a joint interest, were not only declared to be, ipso facto, void, but every sum underwritten was forfeited in equal moieties—one to the king, the other to the informer.*—*Ibid.*

‡ The year 1708 is chiefly memorable in the history of the banks, for the act that was then passed, which declared that during the continuance of the corporation of the Bank of England, “it should not be lawful for any body politic, erected or to be erected, other than the said governor and company of the Bank of England, or for other persons whatsoever, united or to be united in covenants or partnerships exceeding the number of six persons, in that part of Great Britain called England, to borrow, owe, or take up any sum or sums of money on their bills or notes, payable on demand, or in any less time than six months from the borrowing thereof.”—*M'Culloch, Dictionary of Commerce*, p. 66.

§ Lord Ellenborough was of opinion that it might “admit of a doubt, whether the mere raising transferable stock is in any case, *per se*, an offence against the act.”—*Gow on Partnership*, p. 37.

While the people at large were thus forbidden to associate for certain purposes, or to transfer their property from one to another in such way as they might deem most advantageous, certain persons obtained grants of power to exercise the rights thus forbidden to be exercised by others, and the Bank of England, the Royal Exchange Assurance Company, the East India Company, the Levant Company, &c., were organized under charters in which the parties interested were authorized to trade with others who were willing to do business with them with the understanding that the joint funds alone were liable for the performance of their engagements.

The capitalist of England was thus denied the right of investing his means in such way as he deemed most advantageous. He might purchase land—or he might become a manufacturer—or he was permitted to become a member of a banking house, provided the number of partners did not exceed six—or if indisposed to any of these modes of employing his capital, he might lend it out on mortgage, attended with the inconvenience of probable delay in the return—or he might lend it to the government, at a low rate of interest, or to a private banker with the risk of total loss*—but he was not at liberty to unite with his friends and neighbours in establishing an office under the control of an agent selected by themselves, at which they might trade with such as might desire to borrow or lend upon personal security.

The impolicy of some of these monopolies having become manifest, the legislature, a few years since, abolished some of the restrictions upon the business of banking. Unfortunately, however, they were not sensible of the absurdity of all restraints, nor aware that men can always manage their own business better than governments can do it for them, and therefore, although permission was granted *within certain limits* to associate for the purpose of banking, they were expressly restrained from contracting engagements on the principle of limited liability, even although those who traded with them might be willing to do so on that footing. The owner of capital may now, in addition to the above mentioned modes of investment, place his funds in a joint-

* "The numerous failures that have taken place among them have, by generating a feeling of insecurity in the minds of the depositors, confined this branch of their business within comparatively narrow limits."—*M'Culloch, Dictionary of Commerce*, p. 85.

stock bank, in which any share, however small, involves the risk of his whole fortune for a period of three years after he shall have ceased to hold it. Thus, if he purchase an interest on the first of January, 1836, and sell it on the next day, or in a month thereafter, his whole property is liable until January, 1839.

The idea of limited liability is commonly associated with that of *monopoly*, in consequence of the enjoyment of the right thus to trade having been restricted to a few persons, and it has been denounced by many writers on political economy, who have contended strenuously for the system of perfect or *unlimited* liability. The maxim, however, that should govern the political economist is "*laissez faire*," and when he finds men, animated by the desire of improving their condition, frequently adopting a certain mode of operation, he may be sure that there must be good reason for it, although it may not at the moment be obvious to him. One of the first objects for the promotion of which men associate themselves together, is that of government. They desire security for themselves, and are willing that others shall enjoy it. Here we find them adopting the principle of limited liability. Every man is bound to contribute his share, and *his share only*, to the payment of the expenses incident to the maintenance of security. Were it otherwise—were the whole property of a single individual liable to be taken for that purpose—*there would be no security*. No man would transfer himself from Europe to the United States, if he were not certain that his property was secure against being seized for the support of government—did he not feel confident that the payment of his proportion would exempt him from further liability.

We find the same principle introduced into associations for mutual insurance against the dangers of fire and water, proving that such limitation of liability naturally arises in the course of the operations of men desirous of improving their condition. We find it universally adopted by men who associate for any purpose, when left free to select their own mode of action.* In this manner were formed some of the earliest insurance offices

* The *corn banks* of Norway are the most primitive institutions of this description, of which we have any knowledge. Owing to the restraints upon the employment of capital in that country, there are no stores or places of exchange at which the farmer can dispose of his surplus grain; nor, consequently, are there any places at which those whose supply is deficient can purchase it. To remedy this diffi-

in the United States—several of the early banks—and there are now a few institutions trading under such agreements. We may suppose that the persons thus investing their capital, *and those doing business with them*, understand their own interests, and that those interests will be best promoted by non-interference on the part of the community. The right of associating having, however, been made the subject of regulation, and that of forming companies with transferable stock having been denied to all except a few favoured individuals, it has been deemed the duty of courts of justice, wherever possible, to discourage association, and to prevent trading on the system of limited liability. The consequence has been to produce a feeling of insecurity in regard to the formation of such associations, because it is known that, in case of suit, a court will set the limitation aside whenever it may be possible, thus changing the arrangements between the parties to a contract, *to the entire destruction of security*.

Every measure tending to limit liability, tended to establish the right of the people to determine for themselves in what way they would trade together, while the opposite course tended to increase the power of the sovereign, who was thus enabled to confer upon a few as a privilege, that which should have been possessed as a right by all, and therefore the courts of law omitted no opportunity of enforcing the doctrine of unlimited liability.

culty the farmers have associated themselves for the establishment of banks, at which corn is received on deposit, and lent out on interest.—*See Laing's Norway*, p. 256. The depositors receive interest at the rate of one eighth, and the borrowers pay at the rate of one fourth, the difference being appropriated to defray the expenses of management.

Even here the principle of limited liability must obtain. The profit, if any there be after paying the expenses, is the property of the community, in the ratio of their interests. The debt, if any arise, must be the debt of the community. If from carelessness or mismanagement the wheat deposited by any certain persons be destroyed, they must be entitled to remedy somewhere. They are partners as regards profit or loss, but in the capacity of depositors they are as much separated from the community as is the person intrusted with the property, by whom a suit might be brought for his wages. Under the system of unlimited liability any depositor, on failure of the fund, might commence suit against any other member of the association, and compel him to make up the deficiency. It is obvious that no one would incur such a risk, however he might be disposed to associate with his neighbours with an understanding that in case of deficiency each man should be assessed, *in proportion to his interest*, to make it up. Here would be limited liability and justice. On the other hand would be unlimited liability and injustice.

Acts of incorporation, instead of being *grants of privileges*, are thus merely *re-grants of a right* the exercise of which has been forbidden for purposes of monopoly. *The security of property has been impaired by forbidding its owners to use it in the manner they deemed most advantageous, in order that the exercise of that right might be deemed a privilege, and paid for accordingly, and therefore it is that men have been and still are compelled to apply to a sovereign or a legislature for permission so to do.* This interdiction is in perfect accordance with the system of monopoly, restriction, and exclusion, that has existed in past times. With the increase of population and of wealth, and with the improved modes of thinking of modern times, we find a disposition to remove restraints of all kinds upon trade and commerce, by the reduction of tariffs; by the abrogation of navigation laws; and by the liberal grant of *dispensations from the restrictions imposed in former times upon associating for the purpose of trading upon such terms—whether of limited or unlimited liability—as the parties selling and buying, giving and receiving credit, may deem most beneficial.*

In England, as yet, the only change is that of abolishing restrictions upon association. Joint-stock banks may now be formed, but the capitalist finds himself restrained by a law which *expressly denies to him the right of trading with others on any footing but that of unlimited liability*; he finds himself embarrassed by laws regulating partnerships; and he learns that let the deed of partnership be framed “ever so skilfully”—let the clauses be “ever so minute”—“if any one of the shareholders disputes the facts which must be connected with any operation” coming within certain clauses, he is “still as much at sea as if the deed were badly prepared.”*

The following statement of the difficulties attendant upon the working of the joint-stock banking system, will satisfy the reader that the machinery is of a very clumsy kind, and attended with risks that should prevent prudent men from engaging in it.

“If A, B, C, and D, are joined in a trading partnership carrying on business, say under the firm of A, B, and Co., either A, B, C, or D, may accept bills, or sign other documents

* Evidence of P. Mahony before Committee of House of Commons, 1837, p. 241.

binding the whole firm. A joint-stock bank being only an extended partnership, it is a matter of doubt whether any single partner of the five hundred or a thousand partners of which it may consist, has not the power of accepting bills, or signing instruments, that shall bind the whole bank. Surely the want of a declaratory statute on such a point as this, is a serious defect in our laws.

“If A, B, C, and D, are carrying on business in partnership, and a bill bearing their endorsement be dishonoured, notice of the dishonour may be served upon any of the partners, the law holding that notice to one partner is notice to all. Hence arises another difficulty. If notice of the dishonour of a bill be given to one of the five hundred in a thousand partners of a joint-stock bank, it is doubtful whether it would not be held to be legal notice to the bank, although the partner served with notice might reside at a distance of a hundred miles from the place where the bank carried on its business. This point, we need hardly remark, is of great importance to banks that re-issue or re-discount the bills they have discounted.

“If A, B, C, and D, be united in partnership, they cannot sue each other in a court of law, but must settle any disputes that may arise between them in a court of equity. Now, a joint-stock bank being, as we have already observed, only an extended partnership, it is doubtful whether the bank can sue any one of its partners, or whether any one of its partners can sue the bank. Thus, if a partner should borrow 10,000*l.* from the bank, and then refuse to repay it; or if a partner should lodge 10,000*l.* in the bank, and the bank should stop payment, it is questionable, in the present state of the law, whether either party possesses a legal remedy.

“If A, B, and Co., bring an action against any other party, they must state the Christian and surname of every one of the partners; and if an action be brought against them, the plaintiff must likewise state the Christian and surname of every partner in the firm of A, B, and Co. The same rule applies to a joint-stock bank partnership such as we have described, and the Christian and surnames of the five hundred or one thousand partners must be stated with the same precision. If, during the progress of such an action, any change takes place in the firm by the transfer of shares, or by the death of a partner, or by the marriage of

a partner, or any other casualty affecting any individual partner, then the action stops, and the parties must begin again, whether it be the bank that sues or is sued. This inconvenience is, to a certain extent, remedied with regard to those joint-stock banks that are established at a greater distance than sixty-five miles from London, such banks being allowed to sue and be sued in the names of their public officers, whose names are registered at the Stamp Office. But all other joint-stock banks are exactly in the same condition as ordinary trading partnerships, and are compelled to have recourse to clumsy expedients to remedy the incompleteness of the law.”*

All the difficulties here described, arise out of the existence of laws which dictate how men shall trade with each other. Even the persons who wish to associate themselves together are not permitted to fix the terms of association. That is done by law, and as is always the case when law-makers undertake to dictate in what way men shall act, the difficulties are such as to render association too dangerous for men of common prudence.

It is difficult to imagine upon what ground the community can deny to any number of persons the right to contract upon what terms they will trade with each other, even were it admitted, which it cannot be, that it could better judge what the interests of the parties required than they themselves could do. To do so is an interference with the security of person and of property. If a man borrow money upon a pledge, and it be shown that his liability for its return was expressly limited to the value of the pledge, no court or jury can undertake to change the contract. If ten men open a place of business, and announce to the world that each has placed therein ten thousand dollars, which sum, and no more, shall be liable for the debts of the concern, and if every engagement for the payment of money expresses on its face that it shall be paid out of the joint funds, and no other, the parties who trade with them do so with their eyes open, and are bound by the contract. *To deny to individuals, or to an association, the right to make engagements in this manner, is as much a denial of a right as it is to prevent them from exchanging their wheat with those who would give them the largest quantity of cotton-cloth, shoes, or hats therefor, and is, we think, as little susceptible of defence.*

* London Atlas.

It is perfectly proper for the community, in order to guard against frauds upon the unwary, to define the conditions necessary to the enjoyment of this right. Thus, they may pass a law, requiring that every association shall put over its doors a sign on which shall be painted the words "limited liability," in letters two feet long; or they may require it to be advertised in one or more newspapers, every day in the year; or they may require a compliance with certain other forms, as is done in the present acts of incorporation, which merely define the terms upon which the parties named therein shall enter upon the enjoyment of a previously existing *right*, which the policy of the makers of laws has rendered a *privilege*. A general law, defining the terms upon which this right should be exercised, would at once correct the evils that have resulted from the desire to confine its enjoyment to a few individuals, and would enable all the members of a community to trade with each other, upon such terms as they might find mutually advantageous, whether of limited or unlimited liability.

The smaller the amount of risk the less will be the compensation required. The owner of capital places his funds in the Bank of England, receiving no interest, in preference to giving it to a private banker, who will allow $2\frac{1}{2}$ per cent. He does so because it is more secure in the hands of the former than of the latter. If the latter would give him 5 per cent. he would take the risk, but not otherwise. So it is with the joint-stock banks. Their owners have to incur great hazards, and they require to be paid for them. On a recent occasion the Bank of England had a judgment against the Northern and Central Bank for one million, under which that institution might seize the whole property of any one, ten, or twenty of the shareholders. It was a lien upon all their property, and not one could sell an acre of land until it was discharged. Such immense risks must, of course, be paid for, and accordingly we find that the owner of shares in such concerns will not be satisfied with less than six per cent. interest, being nearly twice as much as the ordinary rate.*

* Extract from the evidence before the Select Committee on Joint-Stock Banks, in 1837.

"Now let me suppose that the individual shareholder against whom that execution was directed, held shares to the value only of £100, but that the execution levied amounted to £100,000, what remedy would he have for an apportionment

As evidence of this we offer the following list of prices of shares in joint-stock banks, and of dividends received:

	Shares.	Paid up.	Price.	Dividends.
London and Westminster,	£ 100	£ 20	£ 21 $\frac{1}{4}$	5 per cent.
Manchester and Liverpool,	100	15	19 $\frac{1}{2}$	7 $\frac{1}{2}$ "
Manchester,	100	25	27	7 "
Monmouthshire,	20	10	13 $\frac{1}{2}$	12 "
Northamptonshire Union,	25	5	11	14* "

Average interest upon the selling price $6\frac{1}{4}$ per cent., with the privilege of paying up the balance of the shares at par, whenever the business shall require it.

Such profits cannot be made by any regular and safe business. They are always held out as the rewards of wild adventure and reckless speculation. If it were safe, competition would reduce the rate of profit. Accordingly, we find that the Joint-Stock banks of England do a large business upon small capitals, and make their dividends chiefly out of the profits of their circulation and deposits. In a list of those now before us, there are very few with capitals exceeding £70,000, and there is one as low as £28,000, which last appears in three years to have divided 28 per cent. among its stockholders. Even those which had large capitals pursued the same course of operation, and thus we find the Northern and Central Bank, with £800,000 paid in, lending above £1,900,000, and having in its possession only £160,000 to meet its circulation and deposits, amounting to £1,300,000.†

amongst his other co-partners, who were proprietors in the company? He might commence a suit against the public officer; he might obtain a judgment upon that, and *deal with some other partners as he had been dealt by*, or he might file a bill against the whole partners for a contribution. * * * I was concerned against the St. Patrick Insurance Company for various claimants under their marine policies; I think they stopped somewhere about the year 1826 or 1827. It became my duty to recover very large sums from them, and I did so on the equitable principle, that if a party would pay his calls, I would not take out execution against him. There was one man who refused to do so; he was a Mr. Gough, of Dublin; I issued execution against him, and levied about £800 or £900 for one of my clients; he commenced his proceeding for indemnity, and it was only late last year that I was examined in the cause to prove the facts. *He was able, by that length of time, just to get so far as to prove the fact that he paid me the money.*"—p. 236.

* Atlas, January 27, 1838.

† "Half the Joint-Stock banks in the North of England are merely bill-brokers."—*Report of 1836, p. 151.*

No man not possessing the nerve of a thorough gambler, would deem even 8 or 10 per cent. interest sufficient compensation for these risks.* The solid capitalist therefore does not purchase, preferring even to let his capital lie idle in the one incorporated bank which he deems perfectly secure, receiving no interest therefor. He thinks, however, that there is no good reason why he and ten or twenty of his neighbours might not each place £5000 in the hands of an agent, to be employed by him *under an agreement with all who deal with him, that the liability of his principals shall be limited to the capital so employed.* He knows that *such an association, trading upon those terms, would command a far greater amount of public confidence than any one, two, or three of the individuals trading separately could do, and he finds it difficult to understand why, if those who wish to do business with him are content to take the liability of the subscribed capital, the community should insist that they should not do so, and require them to retain the right of looking to the private property of the party.* He says, and with great reason, "I would be willing to take four per cent. for the use of my capital, if permitted to use it in my own way, but if I must take the responsibility of an ordinary joint-stock bank, I must have six or seven per cent." He is thus *compelled* either to take large risks, for which he demands a large *proportion* as interest, or to place his capital in the Bank of England and get nothing, until he can himself seek out some mode of using it, perhaps by the purchase of the stock of some company in the United States, yielding perhaps only five per cent., but in which he risks only the amount of the capital paid in.

The Bank of England, an institution possessing a monopoly of the right of trading on the principles of limited liability, and within 65 miles round London a monopoly of the right of banking on the principle of a joint-stock company, enjoys so high a degree of credit that it is enabled to maintain a circulation of about 18 millions of pounds sterling, while all the private banks throughout the kingdom, numerous as they are, have a circulation of only eight millions. It has also, in general, deposits to the amount of 10 or

* "It may well excite astonishment that any one who can really afford to make a *bona fide* purchase of shares in a bank, should be fool-hardy enough to embark in such concerns."—*M'Culloch's Dictionary. Article, Banks.*

12 millions, and of late years varying from 13 to 20 millions, upon which it pays no interest, another evidence of its high credit.

This large sum is placed there partly by the public and partly by individuals, as will be seen by the following statement of the average amount held in the quarter ending March, for each year, from 1815 to 1832.*

	Public.	Private.	Total.
1815,	£ 10,853,100,	£ 1,657,000,	£ 12,510,000
1816,	11,738,500,	1,328,700,	13,067,200
1817,	9,502,000,	2,163,300,	11,665,300
1818,	6,746,500,	1,929,900,	8,676,400
1819,	5,817,900,	1,889,800,	7,707,700
1820,	3,584,200,	1,385,900,	4,970,100
1821,	4,181,300,	1,658,800,	5,840,100
1822,	3,877,100,	1,997,800,	5,874,900
1823,	5,665,800,	2,674,900,	8,340,700
1824,	7,546,200,	2,769,900,	10,316,100
1825,	6,404,300,	3,252,900,	9,657,200
1826,	4,297,700,	3,196,900,	7,494,600
1827,	4,323,300,	4,888,100,	9,211,400
1828,	4,114,100,	5,472,300,	9,586,400
1829,	4,420,900,	5,840,000,	10,260,900
1830,	4,812,600,	6,227,700,	11,040,300
1831,	4,720,900,	7,058,300,	11,779,300
1832,	3,723,500,	5,595,100,	9,318,500

Here we see that while the expenditure of government was great, and the public loans absorbed capital as fast as accumulated, the private deposits did not exceed, and rarely equalled two millions, although the period from 1815 to 1821 was that at which the credit of the local banks was lowest, and when the owners of capital must have felt most anxious to place it in security. We see, also, that since the expenditure has diminished and loans have ceased, there has been a constant increase in the amount of private deposits, marking a constant accumulation of capital, the owners of which have been seeking the means of profitable investment. In 1831, they had reached the sum of seven millions, of which two millions were probably required for the daily operations of London, and the remaining five millions

* Report on Bank Charter, Appendix, p. 43.

were totally unproductive to their owners, who were waiting an opportunity to place them where they would yield income. At the close of the same year, the public deposits had fallen to little more than three millions.

Subsequently to 1833 we can no longer distinguish the public from the private deposits. It is reasonable to suppose, that as the revenue has, since 1832, been materially decreased, they must have fallen below three millions, but we shall suppose them to have averaged that sum.

December 31, 1833, the deposits rose to	£ 15,169,000
December 28, 1834, " "	13,019,000
December 26, 1835, " "	20,370,000
December 13, 1836, they fell to	13,330,000
February 12, 1837, they were	14,230,000

Which may be thus divided :

	Public.	Required for London circulation.	Seeking investment.
1833,	£ 3,000,000,	£ 2,000,000,	£ 10,169,000
1834,	3,000,000,	2,000,000,	8,019,000
1835,	3,000,000,	2,000,000,	15,370,000
1836,	3,000,000,	2,000,000,	8,330,000
1837,	3,000,000,	2,000,000,	9,230,000

Its capital, which is nearly 15 millions, is all lent to the government, and it trades entirely upon that of others which its credit thus places in its hands, amounting commonly to about 30 millions. Of this it lends out from 20 to 25 millions, retaining the balance, on an average about eight millions, in bullion, to meet any claims that may be made upon it. The following is the usual average state of its affairs :

Capital, - - -	£ 15,000,000	Loans drawing interest, £ 37,000,000
Circulation and deposits, - - -	30,000,000	Bullion, - - - 8,000,000
	<u>£ 45,000,000</u>	<u>£ 45,000,000</u>

The stockholders, having invested 15 millions, are thus enabled to draw interest upon 37 millions, the consequence of which is, that the stock sells at an advance of 100 or 120 per cent. upon its par value. The owners are permitted to transact business with those who desire to deal with them on terms that are mutually agreeable and advantageous, while their fellow citizens are deprived of the right, being forbidden to do business on any terms but *those prescribed by the law*. The first are content with 3½ per

cent. interest for their capital, while the others demand 6 or 6½, the difference being the charge for the risk that is incurred.

The favoured few enjoy perfect security, and eight per cent. per annum *upon the original investment*. The gambler has a high degree of risk and 6 to 7 per cent. The widow and the orphan, the mechanic and the labourer, the prudent merchant, lawyer, or physician, unwilling to encounter such risk, and unable to obtain permission to form associations to trade upon such terms as may be most agreeable to all parties, must invest their capital in mortgages, or in the public securities, yielding them three per cent., when under a different system they would enjoy four per cent., or perhaps even more, with perfect security.

The inequality of such a system must strike every one; but its effects upon the security of property, and upon the productiveness of industry are what we chiefly propose here to consider. We have shown that the means of the Bank of England amount to 45 millions, of which only 15 millions are capital. The remaining 30 millions are liable to be called for, in gold, at any moment, but it is supposed that a reserve of eight millions is sufficient to meet all claims that are likely to be made. A demand for five millions reduces the liabilities to 25, and the means of meeting them to three, being less than one eighth. Such a demand is liable to produce ruin to the bank and to those who are accustomed to do business with it; and while the possibility of such an occurrence exists there can be neither steadiness of action, nor security of property.

With a view to show the action of the system, and the mode in which it may be improved, we shall assume the paper circulation, the circulation of the precious metals, the deposits, and the bank capital, *of all England*, each at 30 millions, and that the reserve of gold in the banks amounts to 10 millions, the remainder being loaned out at four per cent. These quantities are not probably very wide of the mark, but even were they so, the fact would not affect the principles upon which our remarks are based.

The account will now stand thus :

No. 1. Capital, -	30	Loans, -	80
Paper circulation,	30	Gold in banks,	10
Deposites, -	30	Coin in circulation,	30
Coin in circulation,	30		
	<u>120</u>		<u>120</u>

The currency here consists of—

Paper in circulation, - - -	30 millions.
Coin in circulation, - - -	30
Deposites, liable to be converted at any moment into paper or gold, - - -	30
	—
Total,	90 millions.

Of the sum thus remaining in the form of deposits in the various banks, it is probable that not less than 20 millions is temporarily placed therein, waiting until means can be found of investing it advantageously. The remaining 10 millions we will suppose to be required for the purpose of carrying into effect existing arrangements. In addition to these deposits there are probably not less than 12 millions of coin equally unproductive to their owners. The quantity of gold now circulating is estimated at not less than 22 millions; whereas, 10 millions of £1 notes performed the same operations when gold was not used, whence we are induced to suppose that 12 millions remain *on deposit with their owners*, making in the whole 32 millions of deposits seeking permanent investment.

A man who has £1000 in gold in his possession, which he wishes to invest, makes no inquiry for sugar or coffee, nor are the prices of those commodities more affected by the existence of that sum than if it had none. He inquires for stocks, or real estate, and his demands therefor tend to raise their prices. In like manner, when a man comes to London to purchase sugar, although he may add 10 per cent. to the price of that commodity, his presence will have no influence upon stocks or real estate.

If A., the owner of that gold, lend it temporarily to his neighbour B., to purchase with it sugar or coffee, there is thereby produced in the prices of those commodities a *tendency to rise*. Although A. has lent it to B., he is still desirous of finding some mode of investing it, and is a competitor with other capitalists for the purchase of stocks or real estate. This competition *tends to keep up their prices*, and to keep down the rate of interest derivable from capital invested therein. The effect upon prices generally is the same that would be produced by *two persons each owning £1000, which they had in their possession in gold*, and which they desired to invest in sugars or stocks. If A. now conclude to build a house, or to unite with others in making a canal or rail road, he must call upon B. to return his gold, to accomplish which B. must sell his sugar or coffee, and thereby is produced a

tendency to fall in the price of the commodity. The building of the house, or the making of the rail road, increases the number of investments, withdraws A's £1000 from competition with other capital, and *tends to produce a fall* in the price of stocks and real estate, and an increase in the rate of interest derivable therefrom.

The existence of capital for which the owner is seeking employment, and which is temporarily lent out, *tends* to raise the prices of commodities, of stocks, and of real estate above the proper level, in consequence of *the double demand* produced by the competition of *the owner of it, and of the person to whom he has lent it*, and as soon as this double demand ceases, in consequence of its permanent investment, prices fall. If A., instead of lending it temporarily, had given his £1000 in exchange for a mortgage upon the property of B., having five or ten years to run, no double demand could in the first place have been produced, nor could any change have taken place until the five or ten years should have elapsed. A. would at once have ceased to be in the market, as a purchaser of stocks, or real estate, and his absence therefrom would have *tended* to produce a decline in prices, and an increase in the rate of profit, or interest. If, instead of taking a mortgage, he had united with one hundred of his neighbours in creating a bank, the whole capital of which was lent to B., the investment would thus have been made permanent, the shares of stock in his possession being exactly equivalent to the mortgage. He would thereby have created a security for himself, instead of being a competitor for those already existing: there would be consequently no disturbance of prices produced, and no subsequent adjustment would afterwards be required. The reader will now, we think, see that the more complete the facility for investing capital as it is accumulated, the less will be the quantity temporarily lent,* and the less will be the tendency to disturbance in consequence of the double demand of the owner and the temporary employer; and that, on the contrary, the greater the impediments to investment, the greater will be the tendency to the accumulation of capital to be temporarily lent, and the greater the tendency to disturbance.

We will now apply this. Let us suppose that in a community there exists an association, with a capital of ten millions, possessing *an exclusive privilege* of banking. Their capital being

* The loans of banks to *individuals* are temporary, but as regards the *community at large* they may be deemed permanent. The unemployed capital of individuals is temporarily loaned to the community.

lent out at five per cent., and the expenses being one per cent., they may divide four per cent. If they purchase five additional millions of securities, giving bank notes in exchange for them, they will obtain six or six and a half. The immediate effect of this increase of five millions in the loans, is to raise the prices of stocks and real estate, and to lower the rate of interest upon them; and thus the same operation by which the interest upon bank stock is raised, tends to lower that of all other investments. Capital is rendered superabundant, and its owners, desirous of placing it are always in the market and thus aid in keeping up prices; but they are unwilling to purchase at the high rates, and therefore leave their capital on deposit with the bank, hoping for an opportunity to invest more favourably. The bank, in consequence of this increase of deposits, feels itself at liberty to purchase two more millions. The same operation is repeated. Prices rise and deposits again increase. Three more millions are now issued, with a still further increase in the profits of bank stock—in prices—and in the superabundance of capital, with a further reduction of interest and consequent increase of deposits. The owners of these, at length, unable to obtain interest at home, conclude to lend their capital abroad. For that purpose they demand gold. The bank now calls upon the owner of commodities, or of stock, to pay the amount lent. He finds that capital has suddenly become scarce. A fortnight before, the owners were anxious to purchase the stocks which he himself held with *their* capital borrowed from the bank. Now, they have contracted for its investment and wish it returned to them. Instead of a *double demand* on one day, there is *no demand* on another. The bubble bursts. Prices of commodities fall in consequence of the necessity for converting them into gold. The prices of stocks fall from the same reason, and from the additional one that some foreign state has created a further supply of the same commodity. Instead of selling at 25 years' purchase of the income, they will now sell only at 20, or perhaps 15, or even 12 years' purchase. The profit of bank stock has fallen from the necessity for reducing loans, and that of all other capital has risen, *because of this necessity imposed on the bank*. The larger its loans the greater must be its dividends, and the less must be the profit upon all other capital. *It is therefore to its interest to pursue a course that increases the difficulty of investing capital profitably, and that increases the difference between the profit of banking and other capital.*

Let us now suppose a community in which there were *no privileges*, and in which men were free to exercise *the right of associating and of trading with each other upon such terms as they might mutually judge most advantageous*, and in which, of course, banking was perfectly free. We have seen that the effect of the increase of loans from 10 to 15 millions, is to increase the profits of bank stock, while it increases the difficulty of making investments, diminishes the rate of interest, and increases the deposits. Bank stock now yields five per cent., while all others yield only three. The owners of a million, or of two millions, of the deposits come to the bank and demand gold, for the purpose of establishing a new bank to participate in the profits. The bank diminishes its loans and the dividends fall to four per cent. The two millions cease to be in the market seeking for investment, the prices of stocks fall, and the rate of interest rises to four per cent. Equality is again restored. Instead of this, let it be supposed that whenever bank stock rose to one quarter per cent. above the usual rate of four per cent., and other stocks showed a tendency to fall to one quarter below that rate, the owners of deposits to the amount of \$50,000, or \$100,000, should at once create a bank, and thus invest their surplus. In such a case no deposits exceeding the amount required for immediate demands would ever exist, and no double demand produced by the same capital could ever arise. It would be to the interest of the bank to pursue a course that would maintain the profits of the institution as nearly as possible upon a level with that of other capital, because any departure tending to diminish profits generally, and to produce an accumulation of deposits, would have a tendency to produce rival institutions, and if they were produced too fast, the effect would be that the profits of banking capital must fall below the usual rate, and some of them must retire from the business.

In the statement given above, 80 millions of pounds are loaned out at four per cent., yielding as interest £3,200,000, being more than ten per cent. upon 30 millions of capital invested, while the owners of 30 millions of deposits obtain nothing. Were the interest divided among the owners of the 60 millions, each would have five per cent., or, after deducting expenses and losses, perhaps 4 to 4½ per cent. net. Here is the *inequality* of the present system.

The liabilities are 60 millions, and the immediate means of meeting them are 10 millions. Here is the *insecurity* of the system.

Let us now suppose that to the owners of those deposits were granted the *privilege* of forming an association on the same principle of limited liability that we find in the system of the Bank of England, to the amount of 10 millions, and see what would be the effects. The first would be to withdraw that sum from the existing institutions, which would be obliged to call it in from their debtors, in order that the new one might lend it out again—or the owners of the 10 millions would be willing to take that amount in good notes from the bank, which would thus at once cancel its liabilities and diminish its loans to that amount—or the bank might increase its capital 10 millions, and give them certificates in lieu of their deposits, by which the same effect would be produced. The *circulation* would remain precisely the same, because *it is now always kept as full as it is possible to be without forcing a large export of the precious metals, which would at once correct any mistake that might be made in extending it.*

The account would now stand thus :

No. 2. Capital, -	40	Loans, -	80
Paper circulation,	30	Gold in bank,	10
Deposites, -	20	Coin in circulation,	30
Coin in circulation,	30		
	—		—
	120		120

While this 10 millions remained in the bank to the credit of the depositors, it was seeking investment. By the change that has taken place it has become invested, and is no longer a part of the *currency*, which has now fallen to *eighty millions*. The owners of the deposits receive the interest which before was received by the owners of bank stock. No other change has occurred, and no effect is produced upon prices, except that as the amount of investments yielding interest has been slightly increased, and the amount of capital seeking investment somewhat reduced, the average rate of interest has had a *tendency* to rise, and consequently property yielding interest will not sell for quite as many years' purchase as before. The prices of *commodities* are no more affected by this increase in the supply of *investments* than would be the price of fish by an increase in the supply of lumber.

Here would be £ 3,200,000 of interest to be divided among the holders of 40 millions of stock, giving them eight per cent., while 20 millions would yield nothing. *Inequality* would still exist. The liabilities of the banks would now be 50 millions, and their means of meeting them would be 10, so that *security would be increased.*

A similar operation would be attended with the following effect :

No. 3. Capital, -	50	Loans, -	80
Paper circulation,	30	Gold in banks,	10
Deposites, -	10	Gold in circulation,	30
Gold in circulation,	30		
	—		—
	120		120

Total currency 70 millions.

Inequality would be diminished and security would be increased, but yet the holders of stock would have a *gross* income of six per cent., and the liabilities would still be four times as great as the means of meeting them on any instant.

Instead of these partial grants, let us suppose a law at once passed recognising *the right possessed by every man of seeking in his own way the means of improving his condition, and of employing to that end whatever capital he may possess, in such way as he deems most likely to produce the effect.* Let it say that men may associate in such way as they may deem most advantageous; *that if persons think proper to contract to trade with them on the principle of limited liability, they may do so, and that the courts shall grant security to both, by enforcing the performance according to the terms of the contract;* but let it require that due notice shall be given in such way as may be deemed most certain to prevent fraud. Let it say, if deemed necessary, that every person trading with them shall give his assent by signing his name to a certain paper—or that in every bank book, upon every contract, shall be printed the terms of the association—so that none may trade with them under an erroneous notion that the parties to the concern are liable in their private property for the debts of the concern.

That having been done, the remaining depositors, or at least a large portion of them, would feel desirous of applying their means in such way as to produce interest. There must, of course, always remain a moderate amount of money on deposit, but for the present we shall assume that the remaining 10 millions are applied

to the formation of new banks, after which the account will stand thus:

No. 4. Capital, -	60	Loans, -	80
Paper circulation,	30	Gold in bank,	10
Gold in circulation,	30	Gold in circulation,	30
	<hr/>		<hr/>
	120		120

Total currency 60 millions.

There is now £3,200,000 to be divided among the holders of 60 millions of stock, giving to each a gross interest of $5\frac{1}{2}$ per cent., or *net* from 4 to $4\frac{1}{2}$ per cent. Here is *equality*. The liabilities of the banks are 30 millions, and the means of meeting them are 10 millions. Here is *comparative security*.

There would be a strong desire on the part of the stockholders, under such circumstances, to increase their profits by substituting paper in place of gold in circulation, and they might with that view increase their loans to 85 millions, the immediate effect of which would be to cause the shipment of five millions of gold. If those notes were of £5 and upwards, they would cause a drain upon the bank, and it would be necessary at once to recall them; but *if they were one or two pounds, they would take the place of the gold in circulation, five millions of which would go abroad.*

The account would now stand thus:

No. 5. Capital, -	60	Loans, -	85
Paper circulation,	35	Gold in bank,	10
Gold in circulation,	25	Gold in circulation,	25
	<hr/>		<hr/>
	120		120

There would now be £3,400,000 to divide among the holders of 60 millions of stock, giving them $5\frac{2}{3}$ per cent., or *net* about $4\frac{1}{2}$. The immediate effect of issuing this additional amount of notes would be to render bank stock *more profitable*, and by making credit more easy to be obtained, to render capital otherwise employed *less profitable* than before—in effect, to offer a bonus to capitalists to establish a new bank or banks with five millions of capital. This sum we will suppose to be paid in in gold, when the account will stand thus:

No. 5. Capital, -	65	Loans, -	85
Paper circulation,	35	Gold in bank,	15
Gold in circulation,	20	Gold in circulation,	20
	<hr/>		<hr/>
	120		120

Total currency 55 millions.

We have, now, gold held by the banks to the extent of one half of their paper in circulation, and the total circulation diminished five millions.

Here would be a diminution in the quantity of coin and of paper money in circulation, and it might be supposed that such a reduction would have some effect in reducing prices and causing an import of gold. Much of this sum would however be furnished by those who, in consequence of the increase in the number of shops* at which money could be had when wanted, would be enabled to diminish the quantity of currency retained for the purposes of trade. Checks would be substituted for coin or bank notes. Banks of equal solidity with the Bank of England would exist in various parts of the kingdom, and the gold now hoarded would be invested in their stock, or placed in them on deposit. The increased activity of the 55 millions and the substitution of checks of individuals would prevent any reduction of price resulting from reduction in the amount of the currency, whether of bank notes, or of gold and silver.

The issue of five millions more of small notes would produce a repetition of this operation. Capital would become slightly abundant—the rate of interest would fall—gold would go abroad—the profits of bank stock would rise—and the account would stand thus:

Capital, - -	65	Loans, - -	90
Paper in circulation,	40	Gold in bank, -	15
Gold in circulation,	15	Gold in circulation,	15
	<hr/>		<hr/>
	120		120

Total currency 55 millions.

Another five millions applied to banking, would give us the following state of affairs:

* See page 9, *ante*.

No. 6. Capital, -	70	Loans, -	-	90
Paper circulation, -	40	Gold in bank, -	-	20
Gold in circulation, -	10	Gold in circulation, -	-	10
	<hr/>		<hr/>	
	120			120

Let us suppose the loans now increased to 95 millions, yielding £ 3,800,000, being 5½ per cent. gross interest, and that the effect is to substitute five millions more of paper for gold, which goes abroad.

Capital, -	-	70	Loans, -	-	95
Paper circulation, -	-	45	Gold in bank, -	-	20
Gold in circulation, -	-	5	Gold in circulation, -	-	5
		<hr/>			<hr/>
		120			120

Or the loans are made in gold, which is exported.

Capital, -	-	70	Loans, -	-	95
Paper circulation, -	-	40	Gold in bank, -	-	15
Gold in circulation, -	-	10	Gold in circulation, -	-	10
		<hr/>			<hr/>
		120			120

Total currency 50 millions.

There would be a strong tendency to an increase in the amount of issues, and an increase in the rate of profit. A further portion of the gold would go abroad. Affairs would now stand thus:

Capital, -	-	70	Loans, -	-	100
Paper circulation, -	-	45	Gold in bank, -	-	15
Gold in circulation, -	-	5	Gold in circulation, -	-	5
		<hr/>			<hr/>
		120			120

Five millions of circulation, being rendered unnecessary for the performance of exchanges, in consequence of the further increase of confidence and of the increased number of banks, may now be converted into the capital of new banks, with a view to obtain a share of the profit resulting from this increase of loans, and the account will now stand thus:

No 7. Capital, -	75	Loans, -	-	100
Paper in circulation, -	40	Gold in bank, -	-	15
Gold in circulation, -	5	Gold in circulation, -	-	5
	<hr/>		<hr/>	
	120			120

Here we have a constant improvement in the *security* and in the *economy* of the currency. In the first there are 60 millions

of liabilities with only 10 millions to meet them, and this insecure currency is maintained at the cost of the wear and tear of 40 millions of gold. In the last there are 45 millions of liabilities, with 15 millions of gold to meet them, and the total cost of this secure currency is the wear and tear of 20 millions. In the first, the state of the currency is dependent upon a few men, directors of the Bank of England, who have, on various occasions, proved their total incapacity for performing the duties of regulators, while in the latter it is regulated by the laws of nature. In the first, a departure of half a dozen millions from the true course of policy might take place without being marked, except by the few who study the returns of the bank, while in the last it would be marked by all those who possessed capital and desired to invest it, and the error would be almost instantly corrected. This will be obvious to the reader on an examination of the following table:

No. 1. Total currency, 90 millions.	An increase of 5 millions would be	1-18
2. " 80 "	" "	1-16
3. " 70 "	" "	1-14
4. " 60 "	" "	1-12
5. " 55 "	" "	1-11
6. " 50 "	" "	1-10
7. " 45 "	" "	1-9

In the first, an error of 10 millions would produce no more effect upon prices than would be produced in the last by one of five millions, and error might thus accumulate for a long period without being marked, whereas, in the last, it would be almost as promptly marked as would a change of temperature by the thermometer. In the first there is no immediate check upon the disposition of the banker to make large profits. In the last there would exist a knowledge that *every attempt to make large profits would at once diminish the market value of money and offer inducements for the establishment of new shops for dealing therein; and that thus any departure from the true principles of trade must produce competition in trade, and reduction instead of increase of profits.*

With the increased freedom in the employment of capital, and in the number of banks, or money shops, there would be a steady decrease in the quantity of gold or bank note currency required, and it would ultimately be found that the whole quantity required would not exceed 30 millions of gold and of paper, and would probably be much less. Checks of individuals to an equal, and probably much larger amount would take their place, as

confidence in individuals was increased. We have already seen that in London, where every man has his bank near him, the average of private deposits for many years was less than two millions. Yet that sum daily cancelled engagements to the amount of possibly 30 millions, with the aid of an exceedingly small amount of bank notes, gold, or silver.*

We will now briefly state the operations of the Bank of France, that the reader may see how similar are the effects of monopoly in both nations. The capital is nominally 90,000,000 of francs, but 22,000,000 thereof have been bought up by the bank, in order to diminish the amount upon which dividends are to be made, and the present capital is therefore 68,000,000, = \$14,000,000. Its circulation in 1836, was 200,000,000, or three times the amount of its capital, and its deposits were 48,800,000. The cost of a share was 1000 francs. The selling price in 1836, was 2,290, and the dividend 112 francs. Here is a monopoly in virtue of which certain persons obtain 11½ per cent., while the nation is agitated with the discussion of the question, whether or not the interest upon a part of the public debt shall be reduced from five per cent. to four. The following may be taken as being nearly the state of the bank:

Capital,	-	-	-	68 millions.
Deposites,	-	-	-	48
Circulation,	-	-	-	200
				316 millions.

The quantity of specie retained on hand is above 100 millions, leaving nearly 200 millions to be loaned out. After seeing this statement, the reader will not be surprised at the extraordinary reduction of its loans in 1832.†

We now submit to the consideration of the reader the following propositions:

I. That perfect security of property is inconsistent with restrictions upon the mode of its employment.

II. That the greater the freedom, the greater will be the tendency to uniformity in the rate of profit obtained by its owners.

* It was stated in 1810, that the daily amount of transactions at the Clearing House varied from £ 5,000,000 to £ 15,000,000, and that the amount of bank notes paid varied from £ 250,000 to £ 500,000.

† See page 13, *ante*.

III. That the more numerous the restrictions, the greater will be the difference in the rates of profit; and, consequently,

IV. That perfect freedom in regard to its employment is most in accordance with *justice*.

V. That the excess of loans over capital is limited by the amount of currency that can be maintained.

VI. That the more perfect the freedom enjoyed by the owners of capital, the smaller will be the amount unemployed by them, remaining in the form of gold or bank notes, or on deposit in the banks.

VII. That the currency will thus be diminished in amount; and, consequently,

VIII. That freedom in the employment of capital tends to limit the power of bankers to expand their loans.

IX. That the smaller the mass of currency, the more immediate is the effect produced by any improper expansion, and the more prompt is the effect of any measure of contraction. It is therefore *more sensitive*.

X. That perfect freedom is therefore most in accordance with *stability*.

XI. That every diminution in the quantity of currency tends to diminish the quantity of the precious metals required.

XII. That perfect freedom in the employment of capital tends to diminish the cost of performing exchanges, and is therefore most in accordance with *economy*.

XIII. That the capital which is thus set free may be otherwise applied to increase the production of commodities.

XIV. That thus there is a *constant diminution in the proportion* which the currency bears to production.*

XV. That the larger the quantity of commodities produced, the larger will be the quantity falling to both labourer and capitalist.

XVI. That perfect freedom in the employment of capital tends

* Here we find the result before given in regard to transportation of merchandise. Every improvement of the roads diminishes the quantity of capital required to be employed in wagons and horses, and increases the quantity that may be applied to cultivation. There is therefore a *constant diminution in the proportion* which the wagons and horses, or other means of transportation, bear to the products to be transported.

to benefit both labourer and capitalist, and is therefore dictated by an enlightened self-interest.

We shall now proceed to inquire how far the results obtained by an examination of the banking operations of the several portions of the United States, tend to confirm the views we have thus submitted.

In none of them have the restrictions upon the right of associating and trading in money been entirely repealed, but in some of them they have *virtually* been so, by granting acts of incorporation to all or nearly all who have thought proper to ask for them. In others, restrictions have been maintained, and their abolition in regard to a few persons has been regarded as a *privilege* enabling them to obtain large profits, as is the case in England. In Massachusetts and Rhode Island, and very generally in New England, banking is almost entirely free; but as we pass south and west we find a constantly increasing tendency to restriction. Throughout New England, notes of one dollar and upwards are used, and scarcely any of the precious metals are required for circulation except the fractions of a dollar.

	Population, 1830.	Capital, 1830.	Per head of population.	Total currency.	Per head of population.	Specie in Banks.	Specie per head.	Amount of loans.
		Dolls.	Dols	Dolls.	Dols	Dolls.	D.C.	Dolls.
R. Island,*	97,000	6,118,000	63	1,534,000	16	343,000	3 55	7,309,000
Massachu'ts,	610,000	20,420,000	34	7,292,000	12	987,000	1 64	26,825,000
Connecticut,	297,000	4,415,000	15	2,400,000	8	415,000	1 40	6,400,000
N. Hamp'ire,	263,000	1,791,000	6	916,000	3	226,000	80	2,481,000
Maine,	309,000	2,050,000	7	1,046,000	3	208,000	67	2,878,000
Vermont,	280,000	432,000	1½	804,000	3	428,000	1 50	856,000
	1,862,000	35,226,000	19½	13,992,000	7½	2,607,000	1 40	46,759,000

Here we find in Rhode Island banking capital in a higher ratio to population than in any other part of the world. The steadiness of the action of the system may be judged from the fact that, small as is the amount of specie on hand, a reduction of 10 per cent. of the amount of loans, combined with that specie, would absorb more than two thirds of the whole currency. The whole amount

* These tables have reference to the local banks only. The capital of the Bank of the United States was distributed throughout the Union, and tended to increase in all the ratio of banking capital to population.

of capital remaining in the form of deposits, was \$861,000, or *one seventh* of the amount employed in banking.

Massachusetts is next in order. A reduction of 10 per cent., combined with the specie on hand, would absorb one half of the currency. The whole amount of deposits was \$2,545,000, or *one eighth* of the banking capital.*

In Connecticut, we find a diminution in the ratio of capital to population, and an increase in the ratio of currency to capital. A reduction of 10 per cent., combined with the specie on hand, would here absorb but two fifths of it.

In Maine, we find banking capital amounting to only \$7 per head. A reduction of 10 per cent., would produce an effect somewhat similar to that of Connecticut.

In New Hampshire, the same.

The amount of exchanges to be performed in Rhode Island is far greater than in Maine which possesses treble its population, and therefore a larger *amount* of currency is required. Viewing New England as a whole, which is the proper mode, we find banking capital amounting to \$19, or £4 sterling, per head, which is more than in any other part of the world. We find a currency of \$7 50, or £1 11s. per head, being the total quantity, except the smaller silver coins required for payments of fractions of a dollar. It bears a *smaller proportion to the amount of production* than the currency of any other part of the world. An increase of 10 per

* The currency of Massachusetts is rendered less sound than it would otherwise be, by the imposition of a tax of one per cent. upon banking capital.† It will be obvious to the reader that no investment will be made unless it will yield as much above the usual rate of interest as will pay the expenses and the amount of the tax. To do this, requires business 40 per cent. beyond the capital: thus—

Capital,	-	-	-	-	-	\$500,000
Interest thereon at 6 per cent.,	-	-	-	-	-	\$30,000
Tax,	-	-	-	-	-	6,000
Expenses and losses, say 1 per cent.,	-	-	-	-	-	6,000
						<hr/> \$42,000

To cover this there must be permanently loaned out \$700,000, leaving 40 per cent. excess. Were the tax repealed, a part of even the small sum remaining on deposit, and upon which the existing banks now trade, would be applied to the formation of new ones, accompanied with a diminution in the amount of currency—a diminution in the proportion which it would bear to the capital—an increase of sensitiveness to change—accompanied by increased facility in the reparation of error and consequent increase of safety.

† See page 26, *ante*.

cent. in the amount of loans would give an addition of above 30 per cent. to the currency. A reduction of 10 per cent. would absorb one third, independently of all the specie in the vaults of the banks. It was, therefore, the *most sensitive* system in the world. The loans exceeded the capital by little more than one third, and if they were all made at 6 per cent., there would be 8 per cent. of gross profits to cover tax, losses, expenses of management, and circulation, and to give dividends to the stockholders. The interest derived by owners of bank stock was nearly the same as that obtained from other loans upon equal security. It was, therefore, *the most just system* in the world. It was maintained at the cost of the interest and wear and tear of \$1 40=5s. 10d. sterling, per head, and was therefore the *cheapest system* in the world.

Let the reader now compare it with that of the Bank of England, which stands thus:

Capital.	Currency.	Specie.	Loans.
£15,000,000	£30,000,000	£8,000,000	£37,000,000

The currency furnished by that institution is twice the amount of its capital, whereas in New England the excess is only one third. It pays 8 per cent. interest to its stockholders, being twice as much as others would be willing to receive, under similar circumstances. The system is therefore *less just*. A reduction of 10 per cent. on its loans, united with all its specie, would absorb but little more than one third of the currency furnished by it. It is therefore *less sensitive and less safe*. It requires an unemployed capital invested in gold, in bank, sixteen times as great as that of New England, in addition to a large quantity in circulation, while the amount of its business is but little more than four times as great. It is therefore *less economical*.

New York, New Jersey, and Pennsylvania, in 1830.

	Population.	Capital.	Currency.	Specie.	Loans.
		Per head.	Per head.	Per head.	Per head.
		Dolls.	D.	Dolls.	D.C.
New York,	1,918,000	20,083,000	10	23,000,000	12
New Jersey,	320,000	2,016,000	6	1,700,000	5
Pennsylvania,	1,348,000	14,600,000	11	16,000,000	11
To this must, however be added the specie in circulation in Pennsylvania, in which no notes under \$5 were used, say,				1,500,000	
	3,586,000	36,699,000	10	42,200,000	12
				6,600,000	1
					84
					64,500,000

Here we find capital only one half as great, per head, as in New England. The loans are nearly double the amount of capital. The communities *sell* to the banks the privilege of trading upon the principle of limited liability, and endeavour to limit the amount for which they shall be permitted to contract debts. The right of issuing paper money is regarded as a source of great profit, and the governments desire to obtain a portion thereof. Thus, by the very act of granting as a privilege what belongs to every man of *right*, is produced a *necessity for over-trading*, and consequent insecurity of property. Banks make large dividends, while large amounts remain in the form of deposits yielding nothing to their owners. The system is *less just*. The currency rises to \$12 per head. An increase of 10 per cent. in the loans would cause an increase of only one seventh. The system is therefore *less sensitive*. The liability to a necessity for decreasing it, and the difficulty of accomplishing it are both greater, as a reduction of 10 per cent., with all the specie on hand, would absorb only 30 per cent. of the currency, whereas in New England the same operation would absorb one half. It is therefore *less safe*. It is based upon a much larger amount of specie, and is therefore *less economical*.

In Maryland, we find banking capital rise to \$14 per head. Currency falls to \$9.

	Population.	Capital.	Currency.	Specie.	Loans.
		Per head.	Per head.	Per head.	Per head.
		Dolls.	D.	Dolls.	D.C.
Maryland,	447,000	6,300,000	14	4,100,000	9
Virginia,	1,211,000	5,571,000	3	5,831,000	5
North Carolina,	737,000	3,195,000	4	1,883,000	2½
South Carolina,	581,000	4,631,000	8	7,600,000	13
Georgia,	516,000	4,203,000	8	4,101,000	8
	3,045,000	17,600,000	6	19,415,000	6
				2,836,000	93
					34,181,000
There being no notes under \$5 in circulation in these States, the specie in circulation must be added, say					
				3,200,000	
					3,200,000
					2
					00
					34,181,000

Here we have capital amounting to \$6 per head, and giving

rise to loans to nearly double the amount. Here we have large dividends on bank stocks. Charters are granted as privileges to a favoured few. The capital lying in the form of deposits, in the vaults of the banks, amounts to more than one fourth as much as the banking capital; whereas, in Rhode Island it was only one seventh. There is *no justice*. An addition of 10 per cent. to the loans would add but one sixth to the currency, which is therefore *not sensitive*. It is nearly as great, per head, as that of New England, although the amount of production is not one half, nor are the exchanges one quarter as great. A reduction of one tenth would absorb less than one sixth of it. The system is therefore *unsafe*. It is based upon a large amount of specie, and is therefore *not economical*.

Upon comparing these results of experience with the propositions which we have submitted to the reader, he will find them in perfect harmony with each other. Where there is the most perfect freedom in the employment of capital, there the safest and least expensive currency is to be found.

In France, the paper circulation amounts to	\$ 40,000,000
the deposits are probably about	12,000,000
the coin in circulation is about	580,000,000
	\$ 632,000,000

or nearly 19 dollars per head, while the coin in the possession of individuals, and in the vaults of the bank, amounts to 18 dollars per head.

In England, the currency may be taken at 90 millions of pounds, being about 28 dollars per head, of which one third consists of coin, in addition to that held by the bank.

In the United States, the total currency cannot usually exceed 9 dollars per head, of which not more than one fourth would usually consist of coin.

In New England, the currency is about \$7 $\frac{50}{100}$ per head, while the whole coin in circulation, and in the banks, is less than 2 dollars.

The total annual production of France is about 7000 millions of francs, or 40 dollars per head of the population, equal to 13½ cents per day for 300 working days. That of England is stated at 260 millions of pounds sterling, or 81 dollars per head, equal to 27 cents per day for 300 days. That of the United States is

about 1500 millions of dollars, or 95 dollars per head, equal to 31½ cents for 300 days. That of New England may be taken at 35 cents per day.

The currency of France is equal to the product of the nation for	144 days.
That of England is equal to	110
That of the United States is equal to	33
That of New England is equal to	21

The capital employed in the form of coin is,

In France, equal to the product of	129
In England, “	40
In the United States, “	7
In New England, “	5½

Here we find currency in the inverse ratio of production. The capital that should be employed in machinery to aid the labourer in producing commodities for exchange, remains in the form of coin, and is unproductive. Were security as complete in France as it is in New England, there would be 16 dollars of coin for each head of the population, to be converted into rail roads, canals, horses, ploughs, and machinery of all descriptions.* As security and confidence increase there will be a constant reduction of currency and increase of production, giving a constant decrease in the proportion which the former bears to the latter.

It is a very common error to suppose that the gain to a nation from using bank notes, or checks, in place of coin, is only the interest on the amount of coin that is dispensed with. Thus Mr. Gallatin says,† “the substitution of a paper currency to the precious metals, does not appear to be attended with any other substantial advantage than its cheapness; and the actual benefit may be calculated with tolerable accuracy.” He then proceeds to estimate that forty millions are thereby added to the productive capital of the United States, which, “at the rate of five per cent. a year, may be considered as equal to an additional annual profit

* “If we had in France the habits of the English and the people of the United States, it is probable that 1000 millions of circulation, half in paper and half in coin, would suffice for our transactions. Allowing for our commercial inferiority, let us admit that 1500 millions would be required, and that it should be composed of two thirds metals and one third paper, it follows that we might usefully dispose of 2000, or at least 1500 millions, now unproductive in the form of coin, *adding nothing to our comforts, to our enjoyments, or to our productive power.*—Chevalier, *t. I. p. 99.*

† Considerations, p. 19.

of two millions of dollars. The substitution of bank notes to a metallic currency produces the same effect as an addition of two millions a year to the exports of the United States, or as a diminution of taxes to the same amount." It is here totally forgotten that the *employer* of capital derives a profit from its use, as well as the *owner* of it. Forty millions of dollars would add ten dollars to the machinery of production of every family in the United States, but to perform the services now rendered by credits in the form of bank notes, checks, drafts, &c., two hundred millions, perhaps five hundred millions, would be required. All the roads and canals of the United States have cost but a small portion of the capital that has thus been saved. Those roads and canals pay interest to their owners, while they increase greatly the wages of the labourer, and the profit of the farmer and manufacturer.

The coin now in France that would be set free by the establishment of credit as universal as that which exists in Massachusetts, is not less than 2500 millions of francs, or 500 millions of dollars. That sum would give to every man the use of rail roads or canals, or other capital, enabling him to manure his land, to increase his product, and to exchange that increased product more advantageously with the manufacturer of cloth or shoes. *It would give interest to the owner, and would add one third to the quantity of commodities at the command of every landholder and capitalist of France.* The destruction of credit that would cause the substitution of coin for bank notes, checks, and drafts, in the United States, (were such a thing possible,) would prevent the construction of another canal or rail road for half a century to come.

CHAPTER VI.

FRICTION.

FRANCE.—ENGLAND.—SCOTLAND.—THE UNITED STATES.

THE difference between the rail roads of the present day and the mud roads of the last century consists in the difference of friction, and in that likewise consists chiefly, as we propose to show, the difference between the several systems which we have described.

A century since, the roads of England were such that it required above a fortnight to pass from London to Edinburgh, and for a part of the distance there was none practicable for carriages. At that time capital was limited—manufacturing establishments scarcely existed—and the town population was small. The shops, or places of exchange, were few in number. The market for the surplus produce was distant, and the modes of transportation were bad.

The large farmer who had wheat or rye for sale, could send it to London, or to Bristol, but the cost of transportation was such, and the share taken by those who sold or exchanged it for him was so great, that not more than half of the price paid in London reached his pocket. The cultivator of an acre or two, who had eggs or butter, a little milk, or a few vegetables, or possibly a calf to spare, could not look for a market beyond his immediate vicinity, where almost all raised their own vegetables, and ate their own eggs and butter. If he found a purchaser, it was at a price not half so great as might have been obtained in London, while the commodities required for his consumption were in a corresponding degree enhanced above the cost in that city. The manufacturing labourer could not obtain, in exchange for the product of his exertions, more than half as much eggs or butter as was paid by the consumer in the country, while the latter could not obtain for his eggs or butter more than half as much cloth as was given for them by the consumer in town. *Here was great friction.*

With the increase of population and of capital there has been

a great improvement of roads, while the rapid extension of manufactures has brought the consumer of wheat, of eggs, and of butter to the immediate neighbourhood of those engaged in their production, who are thus enabled to choose between the markets of Birmingham and of London. The producer of wheat obtains within five or ten per cent. as much as is paid by the consumer, and the producer of eggs and butter is enabled to send them speedily and safely to the capital, through the intervention of the numerous dealers scattered throughout every portion of the country. Each of these dealers collects from day to day the surplus of numerous small producers, with infinite advantage to them, as they are thereby enabled to obtain clothing or groceries for commodities that would otherwise be almost useless; and the producer of clothing finds thus a market for his products, receiving a constantly increasing quantity of the necessaries of life in return for a given quantity of labour. *Here is a daily diminution of friction.*

France is now, in relation to the trade in money, in the condition first above described. She has one principal market, and four or five smaller ones. Restraints upon the free circulation of capital enable the owner of that employed at the great market (the Bank of France,) to obtain eleven per cent. for the use of it, while innumerable small sums remain idle in the form of coin, because of the want of modes of safely investing it, and the owners, in the words of M. Chevalier, derive from its possession "no addition to their comforts, their enjoyments, or their productive power." If they wish to transfer it from one place to another, the charge made by the government for doing it is five per cent. Here is great friction.

In England we find a single institution of high credit. This is the great market, accessible only to the large proprietors, as London was to the farmers, growers of wheat. In both cases we find the traders taking a large proportion as compensation for their trouble, leaving little for the producer. The owners of bank stock have an interest of eight per cent. upon the capital originally invested, which has, nevertheless, long since been lent out at three per cent. The real owners of the capital that is chiefly used, (the depositors,) have *nothing*. Here there is great friction.

While access to the great market has been limited to the large proprietors, the smaller owners of capital have been prohibited from employing their own agents to transact their business for them, and have been compelled to depend upon the small trader, or private banker of the neighbourhood, who borrowed at two or two and a half per cent. interest, and who lent at four to five per cent., charging also commission for paying the checks of his customers.* Here was great friction, yet the system was better than that of France. Many of the smaller portions of capital were thus brought into activity with advantage to all. Unfortunately, however, the owners have found that they had little security for the sums so invested, and that while the return was small the risk was great; the consequence of which is the hoarding of large amounts of capital in the form of coin, adding nothing to the comfort, the enjoyments, or the productive power of their owners.

The disadvantage of restrictions having been seen, they have been in part removed, leaving, however, still so much as should forbid men of common prudence to unite in the associations now permitted. England is converted into a great gaming house, where people of all stations in life put at risk their whole property, in the hope of making eight or ten per cent. upon a small portion thereof invested in a joint-stock bank. These risks establish a monopoly of banking in favour of those who have great nerve, or of those who have nothing to lose, and effectually prevent the prudent owner of small capital from uniting in them. Here, again, we find great friction.

If it thus exists to a great extent in the transactions between those who own, and those who lend out capital, it exists in no less degree in the relations between the latter and their agents, all business being transacted in a wasteful manner, when competition is from either natural or artificial causes diminished. The amount of securities usually held by the Bank of England may be taken at about £22,000,000,† being nearly five times as much as

* The Northern and Central Bank, in 1836, charged commission upon more than £400,000 in a single week. In the first three months of that year it received commission upon more than four millions, or five times the amount of its capital.—*Report on Joint-Stock Banks, 1837, Appendix, p. 161.*

† In addition to this the capital, 15 millions, is lent to government, but that requires no expenditure for management.

those held by the Banks of Massachusetts.* The *expenses* amount to £425,000, or \$2,040,000, being nearly *nine times* as much as the *losses and expenses* of all those banks, whereas, they should increase much more slowly than the capital. The total revenue derived from the loan of *the capital* of the institution is less than £450,000, and is nearly all swallowed up in expenses. Here is great friction. The cost to the public is far greater than the revenue to the proprietors.

The bank has eleven branches, which receive, on an average, £3,000 each in interest, and £300 in commissions. The average expenses are £3,000 each, or as much as the interest received.†

The expenses alone of the Northern and Central Bank, with a capital of £700,000 or \$3,400,000, (being little more than one fifth of the average of the banking capital of Massachusetts,) were about £25,000 = \$120,000 per annum, or more than one half of all the *expenses and losses* of the banks of that State.

The expenses of the Norfolk and Norwich Bank, with a capital of £17,000, were £4,055 11s. 2d., or nearly *twenty-five per cent.*‡ So wasteful are the operations of associations that are, from any cause, permitted to enjoy monopolies.

Such institutions are as little calculated to inspire confidence as the private banks have shown themselves to be; but were the trade in money set free—were men permitted to select their own agents—and to trade together as they thought proper, there would speedily be established in every part of England banks owned by the cautious and the prudent, and governed by men of sound judgment, that would inspire in every village the same confidence in its local institution that is now felt in the Bank of England, and then every shilling of capital would be brought to aid in the increase of productive power. Competition would compel the practice of economy in the management, and the proprietors would thus divide among themselves nearly the whole price paid by the employers of capital, as the farmer now pockets nearly as much as is paid in London or in Manchester for his wheat, his butter, or his eggs, and finds in his increased reward the strongest inducement to use every exertion to increase the quantity sent thereto. Here would be a daily diminution of friction.

We now proceed to examine the system of the SCOTTISH BANKS,

* See page 26, *ante*.

† Report on Bank Charter, Appendix, p. 46.

‡ Report on Joint-Stock Banks, 1836, p. 30

in which we find a much greater degree of freedom than in that of England. Three banking companies were incorporated in 1695, 1727, and 1746, respectively, the capitals of which have been gradually increased until they now amount to £3,500,000, being one half greater in proportion to population than the capital of the Bank of England, and twice as great in proportion to the amount of exchanges to be performed.

No restraint has ever been imposed upon the formation of joint-stock banks, but *they could trade only on the terms fixed by the law*—those of the unlimited liability of all interested. In consequence of this *comparative* freedom we find such institutions gradually increasing in number. Their dates and the number of partners are as follows:

Banks.	Partners.	Banks.	Partners.	Banks.	Partners.
1,	1738,	8.	2,	1777,	7, 61.
1,	1746,	3.	1,	1778,	15.
1,	1761,	6.	1,	1783,	6.
2,	1766,	147, 60.	1,	1785,	14.
1,	1767,	80.	1,	1787,	5.
1,	1773,	8.	1,	1788,	4.
1,	1792,	15.	3,	1802,	6, 4, 7.
2,	1809,	85, 19.	1,	1810,	521.
1,	1814,	97.	1,	1814,	97.
4,	1825,	446, 112, 202, 1238.			

Mr. McCulloch informs us that there have been “comparatively few bankruptcies among the Scotch banks.”* Unfortunately he does not state the number, and we are therefore unable to ascertain whether it exceeds or falls short of the number shown to have taken place in Rhode Island or Massachusetts. The average number in existence, during the last twenty-five years, may be taken at twenty-eight. The annual average of failures in those States having been about one half of one per cent., would give for Scotland in the same period three and a half bankruptcies. It is not, however, by them alone that we are to judge of the system. The most important subject for consideration is the amount of *friction*—the difference in *the cost* of the commodity, money, to the user, and *its product* to the owner.

The incorporated banks divide from eight to ten per cent. upon their capitals, and their shares sell for *more than double the original cost*. The owners of capital are willing to take four per cent. interest, *provided they can have security*.

The restraint upon the freedom of action, which prevents other persons from forming associations to trade upon the footing of limited liability, compels those who are unwilling to incur the risk

* Dictionary of Commerce, p. 89.

of joint-stock banks, to leave large sums in the hands of their bankers on interest. In 1831, the amount was estimated at 24 millions of pounds, or 116 millions of dollars, the interest allowed on which was from 2 to 2½ per cent.* In 1826, it was four per cent. The difference between the average rate at which capital is borrowed and lent by the banks cannot be taken at less than one per cent., and it is probably more. This one per cent., and the profit of circulation, are retained by the banker. Here is the friction of a good wagon upon a tolerable turnpike road, a system somewhat better than that of England, but still an inferior one, as the reader will judge from the following statement:

The capital of the three incorporated banks is	£ 3,500,000
Let us suppose that of all the joint-stock banks to be twice as much, say,	7,000,000
	<hr/>
	£ 10,500,000
Yielding, at five per cent.,	£ 525,000
The deposits being 24 millions, and invested in the public funds, yielding only 3¼ per cent.,	780,000
The circulation consisted, in 1826, of £ 2,079,344 in notes under £ 5, and £ 1,229,838 in notes of £ 5, and upwards. It is now estimated by Mr. M'Culloch at £ 4,000,000, which we will suppose to be likewise invested in the funds at 3¼ per cent.,	130,000
	<hr/>
	£ 1,435,000
Less 2½ per cent. upon 24 millions of deposits, say	600,000
	<hr/>
Balance,	£ 835,000

Being, without counting commission, which is charged upon most of the transactions, above eight per cent. gross interest upon the capital, to meet the expenses and losses. If that capital does not exceed eight millions, which we think likely to be the case, it gives a gross interest of nine per cent. Here, it will be observed, we have considered the whole amount of deposits and circulation as placed in the funds, and yielding only 3¼ per cent., whereas a large portion is probably lent out at four and five per cent., thus greatly increasing the profits of the bankers.

If we estimated the unnecessary friction at only one per cent. per annum, it would amount, in Scotland, to about £ 250,000 per annum, or two fifths of the sum paid as interest in 1831. When it is known that "more than one half of the deposits" are "in sums

* M'Culloch, Dictionary of Commerce, p. 89.

from ten pounds to two hundred pounds,"* and are the property of labourers, smaller tradesmen, &c., it will be seen how important would be the saving of this amount, by an improvement of the machinery.

The comparative freedom of the trade in money has been accompanied by a gradual increase in the number of places at which it is carried on. The prudence with which the banks have been conducted has inspired confidence to such an extent as to induce the smaller owners of capital to place it on deposit, and the small trader and the labourer to have implicit faith in paper money. The consequence is that the total circulation is little more than £ 2 per head, and of that sum a very small portion consists of coin. The growth of improvement in Scotland has been greater than in any other portion of Europe, and is to be attributed in a great degree to the comparative absence of restraints upon the employment of capital. Were all restrictions abolished, her growth would be still more rapid. Those who now obtain 2½ per cent. would then have four, and many who cannot now obtain the aid of capital would then do so. The amount invested in the *English funds* would be smaller, and that applied to the improvement of *Scottish agriculture and manufactures* would be larger. Production would be increased, and both capitalist and labourer would be benefited.†

* M'Culloch, Dictionary of Commerce, p. 89.

† The comparative security of the Scottish banks results from the fact that a very large portion of their capital is not employed at home. Their managers transfer a large portion of their deposits to the exchange of London, to be invested in the public funds. When those deposits are large, they purchase freely there, and thus increase the difficulty of investment in England—increase the deposits in the Bank of England—and increase the risk of change. When called upon for a return of the deposits—in consequence of its investment by the owners in foreign loans, or securities, they sell out in London, and thus increase the pressure.‡ The disadvantage of the system is in most respects similar to that of England,§ but its effects in causing violent changes are felt chiefly in the great market and its vicinity. Were Scottish capital more extensively applied to the improvement of Scottish cultivation or manufactures, the injurious as well as the advantageous effects of the system would be more extensively felt at home.

‡ "In times of prosperity they push out their notes and credits to an undue extent, and are consequently compelled to diminish them as violently, when circumstances alter."—*Remarks on Currency*, by G. W. Norman, p. 62.

§ "In periods of commercial difficulty, no country is said to suffer from insolvency more severely than Scotland."—*Ibid.* p. 61.

In New England, there is almost literally no capital not directly employed for the advantage of its owners. The whole sum on deposit and in circulation is merely that which is required from hour to hour by them. The class of persons who in Scotland place their capitals on deposit, in New England purchase stock, and they obtain as dividend the same rate of interest that is paid by the borrower, the expenses being paid by the profit of circulation, as we have seen. Here there is the friction of a fine locomotive upon a well built rail road. How far this system has the tendency of collecting and bringing into activity the small amounts of capital that might otherwise remain idle and unproductive, as is the case when roads are bad and communications difficult with the small surplus of the occupants of farms of two, three, or five acres, who cannot find market for their eggs or their milk, will be shown by the following statements.

It appears from careful examination, that of the stock of all the banks in Portsmouth, New Hampshire, six in number, and comprising an aggregate of 11,045 shares, there are owned by

Females, -	2438 shares.	Mariners, -	434 shares.
Mechanics, -	673	Merchants, -	2038
Farmers and labourers, -	1245	Traders, -	191
Savings' bank, -	1013	Lawyers, -	377
Guardians, -	630	Physicians, -	336
Estates, -	307	Clergymen, -	220
Charitable institutions, -	548		
Corporations and State, -	157	Total shares,	11,045
Government officers, -	438		

Six other banks in New Hampshire show about the same proportion of ownership between the different classes.

The whole number of stockholders of the *Bank of Utica* (New York,) is one hundred and ninety-one, of whom

28 are Farmers.	4 Civil engineers.
18 Merchants.	3 Bank officers.
15 Trustees of estates, executors, or guardians.	2 Officers of the United States Navy.
45 Females, generally unmarried, or widows.	1 Broker.
1 Clergyman.	1 Presbyterian church.
9 Lawyers.	1 School district.
1 Physician.	17 Aged persons retired from business.
9 Manufacturers or merchants.	27 Unknown, residing out of the State.
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More than one fourth of the whole capital stock of the banks in the State of Massachusetts is held by females, trustees, guardians, executors, and administrators, and institutions for savings. The apportionment is as follows :

Amount of stock held by females, -	-	\$ 3,834,011	83
" " " trustees, -	-	2,625,616	67
" " " guardians, -	-	588,045	17
" Savings' institutions, -	-	2,255,554	33
" Executors and administrators, -	-	692,519	17
		\$ 9,995,747	17

It is impossible to conceive of a system more purely democratic, more perfectly fair, just, and equal than that of banking in New England. It is a system of savings' banks. In England, it is deemed disadvantageous to have joint-stock banks with shares of £5 or £10, lest they "degenerate into mere savings' banks"—in which "servant-men and women and little tradesmen will put their money."* Banks with unlimited liability are anxious to present the names of "men of rank and fortune"† as shareholders, the credit of the institution resulting from the power on the part of the creditors to look to their private fortunes. Banks of limited liability permit "little tradesmen" and even "servant-men and women" to become stockholders, the credit of the institution depending upon the extent of its capital, and not upon the rank or fortune of the proprietors.

The banks of Massachusetts have received on deposit the surplus funds of the people, and they have paid them over as required, or they have transferred them from the account of one to that of another. They have furnished a circulating medium more convenient than gold. The people of that State have enjoyed the advantages resulting from the credit system more completely than those of any other part of the world, except Rhode Island; their labour has been aided thereby as much as by their turnpikes and rail roads; and the cost has been almost nothing. The owners of bank stock have received common interest, (six per cent.,) for the use of their capital, and, in addition, each institution has received on an average \$5,000 per annum for the payment of its expenses and losses in thus doing the business of the people. A commission of one fiftieth of one per cent. upon the transactions facilitated by them would have amounted to a much larger sum. There is scarcely any friction whatever. The stockholders thus perform numerous and important duties for the community, and they give as security for the faithful per-

* Report on Joint-Stock Banks, 1836, p. 128.

† Ibid

formance thereof the whole amount of their respective interests in the institutions. The security being thus limited, they perform those duties almost without charge. Were their responsibilities increased, their charges would more resemble those of the joint-stock banks of England.*

Leaving New England and passing south, we find, as has already been shown, a constant increase in the dividends of the owners of bank stocks, and an equally constant increase in the capital of others remaining in bank in the form of deposits, to be employed for their benefit. Nevertheless, the tendency towards freedom of action is such as to render it necessary for all to endeavour to accommodate the public at moderate cost, and so to conduct their business as to enable them to do it.

We have before us a statement of the operations of the Girard Bank in Philadelphia, an institution now having a capital of five millions of dollars, but which had originally one million and a half. In about five years and a half it discounted bills to the amount of \$85,931,000, being an average of about 16,000,000 per annum. In 1836, it transacted domestic exchanges to the amount of 43,000,000. During a considerable portion of the time it was one of the fiscal agents of the government, for which it received and paid out \$14,000,000, and paid twice a year above 2000 invalid pensioners. It was, in addition to all this, agent for numerous distant institutions, of the capital of which upwards of \$7,000,000 stood on the books kept by its clerks.

The total amount of its expenses, including those attendant upon the organization of the institution, the engraving of its notes, &c., has been \$185,000, or an average of \$33,700 per annum, being less than double that of the Norfolk and Norwich Bank, with a capital of £17,000—little more than one fourth of that of the Northern and Central Bank—and exceeding by a very small amount that of *two branches* of the Bank of England, whose whole receipts for interest and commissions do not amount to £7,000.

The usual rate of interest is 6 per cent. per annum. The stockholders of the Girard Bank have had 7 per cent. Thus, between the people and the stockholders, and between the stockholders and their agents, there is a very small amount of friction.

We have also a statement of the operations of the Bank of the

* The Bank of Hamburg charges nearly one half per cent. on all moneys that pass through its hands.

United States in 1832, from which it appears that the total amount of transfers of funds from one part of the Union to another, in that year, was \$255,000,000, and that the total charge to the public for this amount of accommodation was but one twelfth of one per cent.* When the great extent and scattered population of the American Union, and the consequent difficulty of transferring money from one part to another are considered, it must be admitted that no parallel to this can possibly be found. Here is a charge averaging but five days' interest over this vast country, whereas, in England, densely peopled as it is, the bankers issue, as cash, post notes payable in London on the ninth day, making a charge nearly twice as great as the average of the United States. From Edinburgh to London we believe it is thirty days, or six times as great.

The bank had twenty-seven branches, scattered over a surface of 750,000 square miles. It was the fiscal agent of the government, collecting and disbursing the whole of the public revenue—paying the interest on the national debt—paying during many years about 20,000 pensioners—transferring in a single year, as has been shown, \$255,000,000—Independently of the business resulting from the large amount constantly invested in public and private securities—yet the average expenditure of this immense concern has been only \$381,181, being less than $1\frac{1}{10}$ per cent.

* The following case, given in the Report of the Select Committee on Postage, shows a very different state of things in Great Britain.

"I have, (says Mr. Dillon), a bill here upon Edinburgh for £25, and if that were our only transaction, or if it were the transaction of a small tradesman, having no other, he must send that bill to a banker in Edinburgh, which would be a double postage; he would receive another bill on London in exchange, which would be another double postage; and he is bound, by the course of business, to send a letter of advice; that would be five postages of 1s. 1½d. each, incurred upon a two months' bill of £25. In all probability there would be a sixth postage, in acknowledgment to the banker. This amounts to more upon a two months' bill of £25 than the discount for the time."

In addition to all these expenses, the owner of the bill would lose perhaps thirty days' interest upon the bill on London remitted him in payment. The same "small tradesman," living in any town in the United States in which there was a bank, could obtain payment of a bill due in almost any other town, distant 1000 or 1500 miles, in which there was also a bank, at *less cost*, and without the trouble of writing or reading letters. Throughout a large portion of the Union there was *no charge whatever*, and the *highest rate* charged by the Bank of the United States, in making collections *from any one part of the Union to any other part*, was only thirty days' interest.

upon the capital, and about $\frac{1}{8}$ of 1 per cent. upon the average amount of investments. The total amount of *expenses and losses* does not exceed $1\frac{1}{4}$ per cent. upon the amount of loans, and if we take the last fifteen years it does not amount to 1 per cent.

It may safely be asserted that there is no instance to be found in which a business so large and so widely scattered has been transacted with so small loss—in which the community has been so largely benefited at so small cost—in which the cost of management has been so small—in which there has been so nearly a total absence of friction, as in the case now offered for consideration. It was a nearer approach to perfection than the world had ever seen, or than probably will soon again be seen, unless the people, by their representatives, shall see the propriety of restoring to all men the right of associating and of trading together on such terms as they may deem most advantageous.

On a review of the operations of the United States, the reader will be satisfied that at no period, nor in any nation, has so large an amount of service been rendered at so small a cost as by their banks. They have brought the owner of capital into direct communication with the active, the industrious, and the enterprising, who desired to use it, and the cost of management has been so small as scarcely to deserve notice. They have enabled the owner of a single hundred dollars to trade on the same terms as the owner of millions, and with a security so nearly complete that none have feared to invest their savings, and thus they have acted as savings' banks of the best kind. They have furnished facilities for the transfer of property from hand to hand, and from place to place, more complete than exist in any part of the world, and thus have acted as great labour-saving machines. By their aid labour has been rendered productive, and both labourer and capitalist have experienced the advantage in a constant increase of reward for their time, their talents, and their capital.

In opposition to this is the fact, that there has been unsteadiness in their operations. We do not, however, find this to so great an extent as in the Bank of France, which increased its loans from 151 millions, in 1832, to 760 millions, in 1836; nor to so great an extent as in the Bank of England, which increased its loans from 17 millions, in 1823, to 33 millions, in 1826. This disadvantage exists with those institutions to an extent greater than

has ever been experienced in the United States, while they afford in return fewer advantages, and at far greater cost. It is a disadvantage that must continue to be attendant upon the system of granting, as privileges, the powers that should be exercised by all men as rights. It has its origin in the erroneous idea that banking is different from all other trades; that it affords the means of making large profits; and that the right to bank should be held as a privilege *to be sold* to a few individuals. Communities, acting under this false impression, demand large *bonuses* for its use, *thus imposing upon the parties a necessity for trading much beyond their capital*; and when inconvenience results therefrom, the error is attributed to the bankers; whereas, it belongs to the community, who limit the number of bankers, and thus close one of the markets for capital, while they make it the interest of those to whom they grant the privilege to act in a manner that shall render capital superabundant to remain in their hands as deposits, yielding no profit to the owners. In proportion as we find that idea disappearing, we find the States enjoying the advantage without the disadvantage, and that in Rhode Island* there exists a system less liable to change than in any country in the world. Such will be the case throughout the Union and throughout the world whenever the existing restrictions shall come to be abolished, as we doubt not they soon will be.

* However sound may be the system of Rhode Island, her merchants are still liable to loss and failure from error in the system of New York or Pennsylvania. In the late convulsion, most of the failures of that State arose out of the irregular action of the banks south and west of that State, and would have been produced if their own banks had not changed their operations in the slightest degree. Under a good system aid may be rendered to those who suffer from error in that of other States or countries; whereas, under a bad one, the error of other States or countries is increased, and the banks, instead of aiding others, are compelled to confine their regards to themselves.

CHAPTER VII.

THE UNITED STATES IN 1836-7.

It becomes necessary now to inquire into the causes of the recent and still existing agitation in the monetary system of the United States, with a view to show how far it tends to confirm or to contradict the views which we have submitted. By way of illustrating it, we will first take an *imaginary* case, as nearly as possible similar.

Let us suppose a community with a population of one million of persons, having banking capital to the amount of ten millions, upon which are loaned thirteen millions, giving a paper circulation of three millions, and that in addition thereto there is in circulation one million of gold. The account will now stand thus:

Population.	Banking capital.	Per head.	Currency.	Per head.	Of which gold.	Per head.	Total of loans.
	Dolls.	D.	Dolls.	D.	Dolls.	D.	Dolls.
1,000,000	10,000,000	10	4,000,000	4	1,000,000	1	13,000,000

Gross profits of banking capital $7\frac{8}{10}$ per cent.; net profit $6\frac{1}{2}$ per cent. Let us now suppose that one of the wealthiest members of the community is carried off by death—that this person has five millions invested in bonds and mortgages falling due at the rate of a million per annum—that he has left no will, and that no power exists to prolong those loans, which consequently must be paid up.* The judge, or the chancellor, may permit them to be paid into the banks, there to remain until a division can be made—or he may order them to be paid into court, in gold. We will now examine both of these operations, and try their effect on the currency. In the first case the bank receives one million of deposits at the same moment that a demand is created for one million to meet the claims of the estate. The bank, knowing that it cannot be reclaimed until a decision shall have been obtained,

* This supposed case is exactly parallel with that of a government having a large surplus revenue which it can neither invest nor expend, as was the case with that of the United States.

which may not take place for several years, concludes to lend it out—or, in other words, takes new mortgages in place of the old ones, and becomes itself responsible to the estate. The currency is *nominally* increased by one million of deposits; but as that is a deferred debt, there is *really* no increase, and affairs stand thus:

Population.	Banking capital.	Per head.	Total currency.	Per head.	Of which gold.	Per head.	Amount of loans.
	Dolls.	D.	Dolls.	D.	Dolls.	D.	Dolls.
1,000,000	10,000,000	11	4,000,000	4	1,000,000	1	14,000,000
Permanent deposit, 1,000,000							
Total,	11,000,000						

The only difference produced by this operation, is that the estate no longer receives interest, and that the bank *does* receive it. The gross profit of banking is now increased to $8\frac{4}{10}$ per cent., and the net profit to about seven per cent.

A second year produces another million. The account now stands thus:

Population.	Banking capital.	Per head.	Currency.	Per head.	Of which gold.	Per head.	Loans.
	Dolls.	D.	Dolls.	D.	Dolls.	D.	Dolls.
1,000,000	10,000,000	12	4,000,000	4	1,000,000	1	15,000,000
Permanent deposit, 2,000,000							
	12,000,000						

The gross profit of banking capital now rises to nine per cent., and the net profit to about $7\frac{1}{2}$ per cent. Here is a change produced by the simple transfer of the mortgages of the estate to the banks, which have been almost entirely passive. They have increased their liabilities two millions, and their loans two millions, and have rendered themselves responsible for the production of that sum, whenever demanded. The currency has not been altered, nor has any variation in prices been produced.

If, instead of placing this capital at the control of the banks, the chancellor had required it to be paid into court, in gold, the following would have been the state of affairs at the end of the first year:

Population.	Banking capital.	Per head.	Currency.	Per head.	Loans.
	Dolls.	D.	Dolls.	D.	Dolls.
1,000,000	10,000,000	10	3,000,000	3	13,000,000

The whole million of gold had gone into court, and the cur-

rency had been diminished one fourth, leaving only three millions of paper in circulation. This change must have produced a depression of prices, and the necessary consequence must have been extensive ruin. Here would have been no action of the banks.

A second year would produce the same effect. A million of bank notes would now be received in payment of bonds and mortgages, and the banks being compelled to produce gold in exchange therefor, would be obliged to diminish their loans one million, in order to meet the demand. The following would now be the state of affairs:

Population.	Capital. Dolls.	Per head. D.	Currency. Dolls.	Per head. D.	Loans. Dolls.
1,000,000	10,000,000	10	2,000,000	2	12,000,000

The great reduction of prices would of course cause an influx of gold, and thus enable the bank to produce the sum required.

The reader has seen* that when an individual has *in his possession* a quantity of gold for which he is seeking investment, there is produced a demand for securities *precisely equal* to the amount to be invested; that *when he loans it temporarily* until he can find a mode of investing it, there is produced a *double demand*, viz. that of the owner and employer of it; and that this tends to raise prices and produce irregularity. The case here suggested is precisely the reverse of this last. *The amount paid in would cease to produce any demand for commodities or securities, and all prices would fall.* To place it in the hands of the banks, who should continue to use it as it had before been used, was to continue all as it had been, and all that would be necessary to prevent difficulty would be *that the owner should not enter upon the use of it until withdrawn from the employer.* To that end it should be withdrawn as gradually as it had been deposited.

We have seen that the accumulation of deposits in the banks did not *necessarily* produce any change in the state of the currency. The adoption of the other system, on the contrary, could not fail to produce a violent change. The first mode of operation we will suppose to have been the one adopted. It, however, was attended with circumstances of some difficulty. The bank had loaned out two millions, for which it was responsible, and if pay-

* Ante, page 56.

ment were suddenly demanded, it would be under the necessity of calling in its loans equally suddenly, thereby producing the same mischief that it had prevented by taking the place of the proprietor, and this could be avoided only by making the demand upon it for repayment very gradual, in order that the re-investments should proceed step by step therewith. It was liable also to another difficulty. The whole of this capital had been managed by a single individual. It was taken from his control by an act of Providence tending to produce considerable disturbance, and in attempting to prevent that disturbance it would be important to depart as little as possible from the previously existing state of things. If the court continued the management of it in the hands of one bank, or among a certain number of existing banks, *not liable to be changed*, the profits would, it is true, constitute a bonus to the stockholders of those institutions, but would cause no change in the banking system; but if the management were to be divided among all the banks that might be created, the effect would be equivalent to offering a bounty upon the creation of new ones, and to the diversion of capital from one employment, or one place, to another.* Let us suppose the latter to be the course pursued—that it had the effect of increasing profits of banking capital generally, and, consequently, offered inducements for the establishment of new banks, and for the importation of capital for that purpose, with a view to divide these large profits.

Let us now suppose that at the same time that this bonus is offered in the form of interest upon capital employed in banking,

* If the management were granted to a single *individual* who was permitted to enjoy the profit, no disturbance would be produced; but if the revenue were to be divided among *all persons who thought fit to apply themselves to making hats or shoes*, it would operate as an inducement to many to do so, who were already otherwise more productively engaged. Good farmers would be converted into bad shoemakers who could not live by their trades, were they not aided by the *bonus* thus offered. *Production would be diminished.* The supply of hats and shoes would be increased, but with every such increase there would be a diminution in their power to command other articles in exchange. If wages were paid in those commodities the labourer would find himself receiving a constantly increasing return for his labour, *in appearance*, accompanied with a constantly increasing difficulty of supporting himself and family. The capitalist would obtain a constantly increasing *rate* of profit, accompanied by a constantly decreasing power of obtaining the conveniences and luxuries of life. What is true in relation to hats and shoes is so in regard to gold or silver.

another bonus is offered upon the importation of gold, by enacting that the same quantity which heretofore passed for ten dollars should now pass for eleven, thus increasing its value in exchange for silver.

In a neighbouring community B., capital could be readily had at four per cent. A million is imported in gold, and appropriated to the establishment of a new bank, which lends out the whole sum. We now have the following state of affairs:

	Banking capital.	Per head.	Total currency.	Per head.	Gold.	Per head.	Amount of loans.
	Dolls.	D.	Dolls.	D.	Dolls.	D.	Dolls.
	11,000,000	13	5,000,000	5	2,000,000	2	16,000,000
Permanent deposit,	2,000,000						
	<u>13,000,000</u>						

Gross interest, 8½ per cent.—net 7½ per cent.

Here we find a change in the currency of 25 per cent., produced *not by the increase of deposits*, because the owner thereof was not in the market seeking for means of employing them, but *by the importation of foreign gold*. Prices now fall in B. and rise in A., and unless the laws of trade be counteracted, coin will be re-shipped in exchange for other commodities, and the equilibrium will be restored. The banks in community B. may, however, prevent this by replacing the million of gold by a million of paper, thus concealing the deficit, maintaining the circulation, and preventing the action of the laws of trade, by which coin would have been compelled to flow back from A. to B.

The effect of this increase of capital in A. is to render it superabundant, and to diminish its price. It becomes necessary to find new modes of employing it, and rail roads or canals are projected. The prices of commodities, of real estate, and of securities rise, and speculation begins. Large apparent profits are made. The demand for loans is thereby continued, and another million of gold is imported and applied to the creation of a new bank, at the same time that another million of bonds becomes due, and is placed on deposit. The account now stands thus:

	Banking capital.	Per head.	Total currency.	Per head.	Of which, gold.	Per head.	Loans.
	Dolls.	D.	Dolls.	D.	Dolls.	D.	Dolls.
	12,000,000	15	6,000,000	6	3,000,000	3	18,000,000
Permanent deposit,	3,000,000						
	<u>15,000,000</u>						

The loans have now risen from thirteen to eighteen millions—the increase arising from three millions of permanent deposits, and two millions of borrowed capital. The currency has risen from four to six millions.

Each increase prepares the way for a new one. Capital is superabundant—prices rise—new projects are started—every man that can obtain the use of capital makes his fortune, and more is therefore imported. Let us now suppose that five millions of deposits have fallen due, and been placed in the bank, and that four millions of gold have been imported, and applied to the creation of new banks, and that the banks of B. have steadily replaced the gold by paper, and see what is the state of affairs:

	Banking capital.	Per head.	Total currency.	Per head.	Of which, gold.	Per head.	Loans.
	Dolls.	D.	Dolls.	D.	Dolls.	D.	Dolls.
	14,000,000	19	8,000,000	8	5,000,000	5	22,000,000
Permanent deposits,	5,000,000						
	<u>19,000,000</u>						

Gross interest 9 5-6 per cent.—net 8½ per cent.

The loans, which were originally 13 millions, have now increased to 22 millions. The currency has risen from four to eight millions. The liabilities of the banks are now three millions of notes and five millions of deposits. The interest on bank stock has risen from 6½ to above 8 per cent. The whole of this change has been produced by circumstances over which the banks had no control, and *without any increase in the amount of paper circulation*.

Had not the deposits been liable to division among the banks, there would have been no inducement to import capital for the creation of new ones. Had not the value of gold been altered, it would not have come in that form. Had it come in any other form there would have been no change in the amount of currency. Without a change in the amount of currency, there would have been no speculation. Had not the banks in community B. kept up the circulation by the constant emission of paper in place of the gold exported, the laws of trade would have prevented the possibility of thus continually abstracting their coin. The import of a single million would have raised prices in A, while its export would have depressed those of B. The substitution in the latter of a million of paper would prevent such depression, but

an increase in the total amount of currency would be required to force prices up sufficiently to prevent the reflux of gold from A. to B.

An account of the banks now made out, would stand thus:

Dr.	Capital,	-	-	-	-	\$14,000,000
	Deposites,	-	-	-	-	5,000,000
	Circulation,	-	-	-	-	3,000,000
						\$22,000,000
Cr.	Loans,	-	-	-	-	22,000,000

The community would owe four millions of borrowed capital employed in the creation of the new banks. The proper statement of the account would be thus:

Original capital,	-	-	-	-	\$10,000,000
Borrowed do.	-	-	-	-	4,000,000
Deposites,	-	-	-	-	5,000,000
Circulation,	-	-	-	-	3,000,000
					\$22,000,000*

The banks are liable to be called upon to pay twelve millions of dollars in gold, while the amount in circulation is only five millions, and if the demands be all made at one time they must fall, whereas if the demands be made in moderation, they may all be promptly met, and the institutions maintain their credit, although the absolutely necessary reduction of the currency must cause a great amount of loss to individuals. The increase of it has not arisen from the issue of bank notes, as no increase whatever has taken place therein; nor has it been produced by any action of the banks, as they have throughout remained almost entirely passive.

Let us suppose that community B. calls suddenly for the gold that had been abstracted—that its banks recall the paper they had emitted, and thus lower prices to such an extent as to compel its return. The gold still remains in community A, but it is not in the banks. If those who are indebted can collect it from those in

* This account is precisely the same that it would have been had the borrowed capital been applied to the production of houses, factories, machinery, canals, or rail roads. Whether the importer of gold lent it out, or used it himself, or made a bank with it, would be of no importance whatever. The error consisted neither in importing capital, nor in the mode of using it, but in importing gold, by which the currency was disturbed.

whose hands it exists, the excess of currency may be corrected, as it was produced, without any action of the banks. If the owners of the four millions of bank stock that have been created can induce those to whom they are indebted in community B, to take that stock in payment of their claims, the foreign debt will be discharged without the export of coin, or other commodities, and the total currency will still consist of eight millions, five of which will be of gold. There will still be an excess. Prices will remain high in A, and will fall still lower in B. The radical error is an excess of currency, produced by the import of gold, and it can only be corrected by exchanging a part thereof for cloth or other commodities.

If the court should now pronounce judgment, making it necessary to pay off the five millions of deposits, much inconvenience would result, unless the operation were a very slow one, enabling the banks to call in their loans gradually. If the demand were instant, they would be compelled to issue their notes for the amount, trusting to the confidence of the people to maintain them in circulation until they could call them in by a reduction of their loans. The account would then stand thus:

Capital,	\$14,000,000	
Paper circulation,	8,000,000	\$22,000,000
Amount of loans,		22,000,000

The gold in circulation being five millions, the total currency is now thirteen millions. The deposits, while permanent, produced no effect upon prices, but being now at the command of the owner, who is seeking the means of profitably employing them, there is produced a double demand* for both commodities and securities, tending to raise prices still higher, and to increase the necessity for exporting coin or bullion. The banks owe eight millions. If the demand for coin be made upon them, they must stop payment, whereas, if the paper be kept in circulation, and the gold in circulation be exported, the currency may be reduced five millions without making any demand upon them.

Let us now suppose that community B. should claim payment; that at the same instant of time payment of the deposits should be claimed; and that the holders of bank notes should become alarmed and demand gold for them. The banks would have demands amounting to 22 millions, upon one set of people, and liabilities to

* See page 57, ante.

others for little more than half that amount, and their ability to meet the one would depend upon their power to obtain payment of the other. They would endeavour to reduce their loans, and would probably pay for a time, but ultimately would be compelled to choose between breaking all that were indebted to them, or suspending operations for a season, with a view to collect their debts and gradually discharge their liabilities.

During the whole of this operation there has been a constant fall in the value of the currency in A, *produced by the import of gold*, and marked by an increase in the prices of commodities of all descriptions. The effect of this fall would have been to create an export demand for specie, in consequence of its diminished value, had not the banks in community B. kept up the amount of its currency by issuing paper still faster than gold was withdrawn, thereby diminishing the value of their currency also. If, instead of importing into A. four millions of gold, there had been imported four millions of cotton and woollen cloths, and other commodities, as would have been the case had no alteration taken place in the value of gold, the following would have been the state of affairs, supposing the parties to have applied the proceeds of the cloths in a similar manner—to wit, in the creation of new banks.

Banking capital.	Per head.	Total currency.	Per head.	Per Gold.	Per Loans.
	D.	Dolls.	D.	Dolls.	D. Dolls.
14,000,000	19	4,000,000	4	1,000,000	1 22,000,000
Permanent deposits, 5,000,000					
		19,000,000			

The effect of this operation would have been directly the reverse of the other. The prices of cotton and woollen cloths would have fallen on account of the increased ratio which the supply of such commodities would bear to the supply of currency; whereas, in the former case, the increased ratio of currency to commodities had a tendency to raise prices.

No gold being, in this case, withdrawn from community B, no necessity would there be experienced for supplying its place with paper, and its currency would be undepreciated. The reduction of prices of cotton and woollen cloths, in A, would have a tendency to prevent any further import of them, while exports

would be increased, and in a short time the debt would be paid off. The amount of currency and the transactions with foreign communities being thus left undisturbed, there would remain to be settled only the question of the withdrawal of the deposits. If that were done gradually, it would be attended with little inconvenience; but even if done promptly, it might perhaps be accomplished without any very extraordinary inconvenience to the community or the banks.

We now submit to the reader the following propositions.

I. That the necessity for calling in the five millions of bonds, without the power of re-investing the same, tended to produce disturbance.

II. That placing the bonds and mortgages of the great proprietor in the hands of the banks, and permitting them to loan out the proceeds thereof, tended to preserve steadiness in the monetary concerns of the community.

III. That much disturbance would have resulted from collecting the proceeds of the bonds in gold to be deposited in court.

IV. That the use of the deposits tended to increase the profits of banking stock.

V. That if the enjoyment of these profits had been limited to any certain institution or institutions, an increase of their profits would not have offered any inducement to create new ones.

VI. That not being so limited, increase of their profits tended greatly to increase the number of new banks, competitors for the enjoyment thereof.

VII. That this increase in the profit of capital tended to promote the import thereof from community B.

VIII. That its import in the form of merchandise would tend to cause exportation of gold to B, and to raise the prices of commodities therein, while it would tend to diminish the prices of commodities and increase the value of the currency in A.

IX. That the import of the same amount, in the form of gold, tended to increase the currency—to diminish the value of gold—and to raise the prices of commodities in A, while it tended to lower the price of commodities in community B, and to promote importation therefrom of commodities to be re-exchanged for gold.

X. That this tendency to a fall of prices in B, could be counteracted in no other mode than that of supplying by paper the

place of the gold so exported, thus maintaining the currency of B. at its previous amount, and preventing the fall in the price of commodities.

XI. That every attempt at counteraction, by thus issuing new paper, must produce an increased export of gold, *tending* to reduce prices in B, and to raise them still further in A, which tendency to reduction of prices could only be counteracted by the emission of more paper to keep up, and even to increase the quantity of currency in B.

XII. That the longer this system was continued, the greater must be the excess of currency—the larger must be the proportion of gold—and the greater must be the decrease of its value in exchange for other commodities in A, and the larger must be the proportion of paper to gold, and the less secure the currency in B.

XIII. That a reduction in the amount of loans in B. must produce an increase in the value of capital in that community, compelling its members to demand payment from A. of the gold that had been lent.

XIV. That the loan of four millions to A. had doubled the amount of the circulating medium of that community, and doubled the prices of commodities in gold.

XV. That the necessity for returning that sum would reduce the circulating medium one half, and reduce prices in like manner.

XVI. That no injury would have arisen from the death of the great proprietor, had not the use of the deposits been offered as a bonus for the creation of new banks—that no injury would have resulted from the creation of new banks, had not a bonus been offered for the increase of the currency, in the form of a bounty on the importation of gold—that no injury would have resulted from both these causes combined, had not the banks in community B. filled the vacuum with paper, thus preventing the action of the laws of trade by rendering the currency daily less sound.

Here we find the same phenomenon, in regard to community A, that we have described as existing in England, viz. a large amount of capital for which the owners have no immediate use, and which being placed in the banks, is used by them for the purpose of increasing their loans, and consequently their profits. We find, however, that in consequence of the owner not being in the mar-

ket for the purpose of investing them, their existence had no influence upon the currency, but that when rendered active, by being converted into circulation or temporary deposits, they tended rapidly to increase prices. We find that the importation of a single million of gold produced that effect in a very great degree, but that any error resulting from such importations would speedily be corrected by the laws of trade, unless the banking institutions of B. should attempt to prevent the action of those laws.

The picture which we have thus submitted to the reader, is almost precisely that of the United States in the five years from 1833 to 1838. The existence of a surplus revenue that could neither be expended nor distributed without an order of Congress, was liable to produce disturbance. To permit it to accumulate, in the form of gold, in the vaults of the Treasury, would have been to lessen the circulating medium. To permit the banks to take the engagements of those indebted to the government, was simply to permit the currency to remain unaffected by this new state of things. To permit the banks to receive interest upon the funds of the government, was to increase their profits. To confine the receipt of this interest to one bank, or any certain set of banks, was to continue every thing almost precisely on the former footing. To offer a division of these profits among all banks, was to offer an inducement to the creation of institutions not called for by the trade of the country. To offer such bounty tended to induce a forced import of foreign capital. To reduce the standard of gold tended to produce importations of that commodity. Each such import tended to increase the currency—to produce difficulty in making investments—to increase the amount remaining on deposit—to increase prices—to enhance *apparent* profits—and to increase the appetite for speculation. Every such increase of prices tended to produce a necessity for re-shipment of the gold that had been imported, for the purpose of filling the gap that had been created in England, and such demand for a single million of pounds would have arrested the progress of speculation. The Bank of England filled the gap with paper, which caused a new export of gold, and made a new gap, which was again and again filled with paper, until at length its extent and the consequent danger was seen. The change now took place. The following was the situation of the banks at the close of 1836.

Capital,	-	-	\$ 291,000,000
Deposites on interest,*	-	-	36,000,000
			<hr/>
			\$ 327,000,000
Deposites and circulation,	-	-	276,000,000
			<hr/>
			\$ 603,000,000
			<hr/>
Total amount of investments,	-	-	\$ 567,000,000
Notes held by banks,	-	-	36,000,000
			<hr/>
			\$ 603,000,000

It will be obvious to the reader that no danger could result from increase in the amount of capital of the banks. Whether the owner of capital chose himself to lend out his own money, or to place it in the hands of a board of directors to lend it out, could produce no effect upon the currency. If they were made too fast, the loss was likely to fall upon their owners, who could have but small dividends.

If a bank were injudiciously placed, the loss to the owner would be the same as if he had built a mill, or a house, from which he could get but little rent. If they were too numerous the price of stocks would fall, precisely as houses and mills would fall if the production exceeded the demand. The rapid import of capital consequent upon the excess of speculation produced by an increase of the currency, had caused a rapid augmentation in the quantity of stocks, houses, mills, &c., the prices of which must fall, with great injury to the owners, whenever it became necessary to pay the debts that had been incurred; but the only source of *danger to the banks* was to be found in the increased amount of their liabilities, the extent of which we will now examine.

At the close of 1829, the account stood thus:†

Liabilities,	-	-	-	-	-	\$ 117,000,000
Less, notes on hand, held by the various banks, but not yet returned,						10,000,000
						<hr/>
Net circulation,	-	-	-	-	-	\$ 107,000,000
Specie,	-	-	-	-	-	22,000,000
						<hr/>
Balance,	-	-	-	-	-	\$ 85,000,000

* The banks return this amount under the head of "other liabilities," and we believe that nearly the whole consists of capital placed with them for fixed periods and drawing interest.

† Gallatin on Banks, p. 53.

In 1837, it stood as follows:			
Liabilities, (exclusive of deposits on interest,)	-	-	\$ 276,000,000
Less, notes of other banks on hand,	-	-	36,000,000
			<hr/>
Net circulation,	-	-	\$ 240,000,000
Specie,	-	-	38,000,000
			<hr/>
Balance,	-	-	\$ 202,000,000

Here was a state of affairs very much resembling that of England, in which we find circulation and deposits amounting to above 50 millions of pounds (or 240 millions of dollars,) based upon six or eight millions of pounds in the vaults of the bank. In both we find great insecurity. In both a convulsion must result from any violent action, destructive of confidence.

In the case of the United States, we find an increase in the net liabilities of the banks from 1830, amounting to 117 millions. In the same period of time there had been an increase of population amounting to nearly 25 per cent., so that liabilities of 105 millions might now be deemed not greater than 85 millions were in 1830. This would leave an excess of 95 millions, of which above 40 millions were the property of the people themselves, placed in the hands of the banks for the purpose of being lent out to those who were indebted to the government, until some permanent disposition should be made thereof, and 40 millions more represented the debt due to the people of Great Britain, chiefly for the gold which had been taken from the vaults of the bank. Nearly the whole of this sum we find lying in the banks, in the form of deposits or unemployed capital, which had increased from 55 millions, in 1830, to 127 millions at the close of 1836, the difference being 72 millions. We find thus that whenever capital is rendered abundant, either by the desire of banks to make large profits, or by the forced import of it, in consequence of interferences such as we have described, there is produced a difficulty of investment, accompanied by an increase in the amount on deposit, yielding no advantage to the owners.

The superiority of the system of Massachusetts and Rhode Island, and of New England generally, was most clearly shown in this period of almost unparalleled speculation, as will be seen by the following statement.

The following was the condition of all the banks of New England at that time:

Capital, - - -	\$ 62,170,000
Deposites on interest, - -	7,015,000
Net circulation, - - -	17,500,000
Deposites, - - -	15,500,000
	<hr/>
	\$102,185,000
Specie, - - - -	\$ 2,587,000
Investments, - - -	102,882,000
	<hr/>
	105,469,000

The capital, deposites on interest, *and surplus*, amount to about 72 millions; and the total investments of *all descriptions* are but 43 per cent. above that amount.

A reduction of 10 per cent. upon the amount of loans, added to the specie on hand, would reduce the currency to about 20 millions, being about 11 dollars per head. How readily such a reduction might be made, if undertaken gently, and in such a manner as not to shake public confidence, will be seen from the fact, that the deposites, or capital unemployed by the owners, had risen from \$4,800,000 to \$15,500,000, being an increase of \$10,700,000. By a gradual reduction of the loans of the banks these deposites would be rendered productive to their owners, and would be made to cancel the debts to, and the liabilities of, those institutions.

We will now give the condition of Rhode Island and Massachusetts separately.

In the first, the Banking capital in January, 1837, was	\$9,837,000
Net circulation, - - -	1,673,000
Deposites, - - - -	2,113,000
	<hr/>
	\$ 13,623,000
Specie, - - - -	\$ 243,000
Investments, - - -	13,765,000
	<hr/>
	\$ 14,010,000

The capital and surplus exceed 10 millions, and the loans of all descriptions exceed that amount only 37½ per cent. A reduc-

tion of 10 per cent., with the specie on hand, would absorb nearly 45 per cent. of the currency, leaving the amount little more than in 1830. The whole of this reduction would come from the deposites, or unemployed capital.

In the second, the Banking capital was -	\$ 34,478,000
Deposites on interest, -	6,477,000
Net circulation, -	7,464,000
Deposites, - - -	8,784,000
	<hr/>
	\$ 57,203,000
Specie, - - - -	\$ 1,455,000
Investments, - - -	57,783,000
	<hr/>
	\$ 59,238,000

Here we have the investments exceeding by less than 40 per cent. the capital and deposites on interest. A reduction of 12½ per cent. would bring the currency nearly into the condition in which it was in 1830.

In Pennsylvania, we find, *including the Bank of the United States and its agencies*,

Capital, - - - -	\$ 58,750,000
Deposites on interest, -	8,337,000
Net circulation, - - -	23,600,000
Deposites, - - - -	15,200,000
	<hr/>
	\$ 105,887,000
Specie, - - - -	\$ 5,751,000
Investments, - - -	107,000,000
	<hr/>
	\$ 112,751,000

The loans here exceed, by about 50 per cent., the amount of capital, surplus, and deposites on interest. It is difficult to make a comparison with 1830, on account of the change in the position of the Bank of United States. It is, however, probable that a reduction of not less than 15 per cent. would be required to bring them into the condition in which they then were.

In New York, we find Capital,	-	-	\$ 37,101,000
Deposites on interest,			7,078,000
Net circulation,	-	-	13,311,000
Deposites,	-	-	30,883,000
			<hr/>
			\$ 88,373,000
			<hr/>
Specie,	-	-	\$ 6,500,000
Investments,	-	-	87,761,000
			<hr/>
			\$ 94,261,000

The loans exceed, by about 87½ per cent., the amount of capital, surplus, and deposits on interest. Had the banking capital been permitted to extend itself with the wants of the community, ten or fifteen millions of the circulation and deposits would have been converted into stock, by which the liabilities would have been diminished to that extent.*

In Virginia, we have Capital,	-	-	\$ 6,731,000
Deposites on interest,	-	-	294,000
Net circulation,	-	-	7,207,000
Deposites,	-	-	5,309,000
			<hr/>
			\$ 19,541,000
			<hr/>
Specie,	-	-	\$ 1,624,000
Investments,	-	-	18,930,000
			<hr/>
			\$ 20,554,000

The loans exceed, by 150 per cent., the amount of capital, &c. The currency has risen from \$ 5,831,000, in 1830, to above 12 millions, and the deposits alone are nearly equal to the deposits and circulation at that period. A reduction of 30 per cent. would here be required.

In Rhode Island, the deposits amount to 21 per cent. of the capital employed in banking. In Massachusetts, and in New England generally, they amount to 25 per cent. In Pennsylvania, the proportion is nearly the same. In New York, and in Virginia, they are about 80 per cent.

* In all these cases a part of the increase of deposits arises from an accumulation of the public revenue, that could not have been invested. In New York it amounted to about one fourth of the whole sum, being above seven millions.

In exact proportion with the tendency to monopoly that is found to prevail in legislation respecting banks, we find an increase in the quantity of capital lying in their hands to be employed for the benefit of the stockholders thereof, and a rise in the nominal price of money.

In proportion to the freedom that exists in banking transactions do we find a diminution in the proportion of deposits to banking capital, and *an increase in the disposition on the part of the owners of banks to allow interest for the use of deposits.* The loans of the banks of Massachusetts, for 25 years, exceeded the capital only 50 per cent., and of that small surplus more than one fifth consisted of moneys left with them on interest.

Capital,	-	-	-	\$ 15,406,000
Deposites on interest,	-	-	-	1,600,000
				<hr/>
				\$ 17,006,000
				<hr/>
Total loans,	-	-	-	23,100,000
				<hr/>
Excess,	-	-	-	\$ 6,094,000

or less than 40 per cent.*

In Rhode Island, the right to associate and to bank is almost as fully admitted as is the right to labour, and accordingly we find the currency more sound than in Massachusetts, where capital is restrained from flowing freely into that trade by a tax of one per cent. It is there, however, more free than in Pennsylvania, and its currency is more sound. Pennsylvania is more free than New York, which in its turn is more so than Virginia, and precisely as we find freedom diminish do we find the banks trading largely on the capital of others, who ought to have liberty to employ it for themselves. With the diminution of security, we find too an increase in the cost of currency. Massachusetts and Rhode Island employ but about \$2 50 per head, while New York and Pennsylvania have about \$3 50 in banks, in addition to at least \$1 50 per head employed in performing operations that in New England are performed with notes of one, two, and three dollars. The currency is therefore less sound, and at least twice as expensive.

New England maintains a currency at less cost than any other part of the world. New York and Pennsylvania increased the

* See page 26, *ante*.

specie basis, and increased the cost of the currency, which is nevertheless far less stable. Had their legislatures repealed all laws by which men are restrained from employing their capital as they judge most advantageous, instead of passing laws to increase restrictions, by forbidding the substitution of paper for silver, the currency of New York would be as sound and economical as that of Massachusetts.

The surplus revenue of the government so long accumulating in the hands of *the people*, was now to be paid by *the banks*, by which it had been lent. Had the government dealt directly with the people, the claim must have been made upon them, and great ruin would have been produced; but the banks having been interposed as endorsers, the demand was made upon them, and they looked to the people to return it. If the demand upon the banks were gradual, so as to enable the payment to go on *pari passu* with the investment, no great difficulty could take place, but if made promptly, it must produce great derangement.

The gold borrowed from England was also to be repaid. Had the whole quantity been placed in the banks, and paper put in circulation in its stead, although *the total currency would have been precisely the same*, the demand for its return could have caused no inconvenience to those institutions. Whenever the English creditor received a bank note or draft, and with it obtained a given amount of gold, the operation would at once diminish both the liabilities of the bank, and the amount of the currency. If we suppose 20 millions of this gold to be in circulation, and the banks enabled to substitute paper therefor, paying it out to those who had claims upon them as depositors, to be by them exchanged with the holders of gold, the result would have been the same. The sudden demand for 40 millions would have ruined many individuals, in consequence of the sudden contraction of the currency, but it would not be the consequence of any operation of the banks, nor could it in any manner affect them. The reader will be satisfied of this from an examination of the following statements.

Actual state of affairs:

Banking capital,	-	327	Specie in bank,	38
Net liabilities,	-	240	Loans,	529
		<hr/>		<hr/>
		567		567

Circulation and deposits,	-	-	-	240
To which add of the gold which had been imported,				20

Currency	-	-	-	<hr/> 260
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Had the gold been left in the banks it would have been—

Capital,	-	327	Specie in bank,	-	58
Liabilities,	-	260	Loans,	-	529

		<hr/> 587		<hr/> 587
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Currency,	-	-	-	<hr/> 260
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After the payment of 40 millions, *in either of the above supposed cases*, it would have been—

Capital,	-	327	Specie in bank,	-	18
Liabilities,	-	220	Loans,	-	529

		<hr/> 547		<hr/> 547
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Currency,	-	-	-	<hr/> 220
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If the government had not demanded payment, there would have been only 40 millions of English debt to be discharged, and if the banks could thus have induced the people to take bank notes in lieu of 20 millions of gold in circulation, that sum could have been paid, and the currency reduced 40 millions, without an immediate reduction of the bank loans. The same would be the case if only the claim of the government were pressed, while the English claim was converted into stock, or suspended debt.

If *either* party had been willing, supposing both to have possessed the power, to convert its claims into stock of a bank, or into a permanent loan to the banks, the state of affairs would, after the other had been paid, stand thus:

Capital,	-	327	Specie,	-	18
Deferred liabilities, or in-			Loans,	-	529

crease of capital,	40
Immediate liabilities,	180

		<hr/> 547		<hr/> 547
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Currency,	-	-	-	<hr/> 180
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Here the specie on hand would be nearly as great as in 1830, while the immediate liabilities would be 73 millions greater, of which 20 or perhaps 25 millions were required by the increase of population over so wide an extent of country. A reduction, gentle and gradual, to the extent of five per cent., would now bring the currency into a condition differing very little from that which existed in 1830, when it was certainly not in excess.

It will now be obvious to the reader that to whatever extent the banks might be able to substitute paper for the specie in circulation, there would be to that extent a power to pay their depositors, and thus reduce their liabilities, without diminution in the amount of their loans; and equally obvious that every measure tending to diminish the quantity of paper circulation, by the demand of specie in exchange for it, would tend to increase the difficulty. Twenty millions of paper substituted for specie would diminish the amount of reduction to forty millions, while a reverse operation to a similar amount would increase it to eighty millions.

Here were difficulties, very few of which were ascribable to the action of the banks of the United States, yet they were liable to be made the scape-goats on the occasion. The currency had been enlarged by the gold lent by the Bank of England, and the import of which had been forced by the measures of the government. It was now to be reduced by the return of that gold, which was scattered throughout the Union, and could only be collected very gradually. With gentle action on the part of the Bank of England, and on that of the administration, it might be accomplished without great ruin, but not otherwise. What was their action?

The Bank clamoured for the gold which she had squandered. Her only cry was—gold! gold! gold! She was like a lioness which had lost her whelps. Looking around she suspected in turn A, B, C, and D, as having been the cause of her trouble, and she laid her huge paws upon them, to their destruction. She found that the ruin of American houses did not produce the desired effect—that, on the contrary, the measures she had adopted, tended to produce uncertainty and doubt, and to prevent those who were solvent from paying their debts, and of course to prevent the reflux of the gold. Failing in this she endeavoured to induce the Bank of the United States to act as her agent in collecting it.

Here again she failed. She had produced alarm, and those who held the commodity she was anxious to obtain, would not part with it. But little gold was shipped, while much was withdrawn from the banks to be hoarded.

The Opposition compelled the passage of a law that made it necessary to call upon the banks for payment of the deposits.

The Administration destroyed the confidence of the people in bank notes, and caused the return of a vast quantity to be exchanged for silver—it transported gold and silver from places at which it was wanted, to others at which it was not wanted, and by every means in its power increased the demands upon the banks.

Those institutions would have met the foreign demand without difficulty. They could, with some difficulty, have met it and have paid off the government also, but they could not do so in the face of a constantly decreasing confidence in their ability to comply with their engagements, and in opposition to increasing demands upon them for silver and gold, for the purpose of being carted about the country from one place to another. They called in their loans, at the risk of producing universal bankruptcy among those indebted to them. Their debtors met their demands so long as any sacrifice whatever would enable them to do it. Both banks and individuals made exertions that cannot, we believe, be paralleled,* yet all would not do. The merchants stopped by scores, and almost by hundreds. Doubt and uncertainty existed everywhere. Confidence in bank notes was almost destroyed, and at length it became necessary for the banks themselves to suspend payment, and make preparations at leisure for resumption.

That there was some want of prudence in their operations, cannot be doubted, but they could have retrieved their own errors without difficulty. Those of the Bank of England, combined with those of their own government, were too much for them.

They have borne the odium that should have been borne by others. Should any future writer, however, examine this period,

* Between the 23d of March and 11th of May, 1837, when specie payments were suspended, the Girard Bank refunded to the government \$1,179,000, all of which it was obliged to collect, in that short period of fifty days, from those to whom it had been lent. In one year it refunded \$3,330,000, and is now ready to resume payment.

he will admit that more universal determination to comply with engagements never existed,* and he will be obliged to say that no case can be produced of more total incapacity than was exhibited by the administrations of the Bank of England, and of the Treasury of the United States.

The admirable effect of freedom is finely exhibited in the situation of the New England banks in 1837, after a period of unparalleled speculation, during which they *could not* increase their loans to more than fifty per cent. beyond their capital. Such being the case, it will be obvious to the reader that the suspension of payment by those institutions did not arise out of their own inability to call in as much as was necessary to comply with their engagements.† Had the system of the Union been the same as that of New England, no suspension could have taken place, but as it was rendered necessary on the part of the banks south and west, those of New England united in it from a desire to aid their merchants and manufacturers, who found it almost impossible to make collections. They were thereby enabled to extend their issues instead of decreasing them, and thus to prevent many failures that otherwise must have taken place. The difference in the situation of Massachusetts and New York is shown in the fact, that in the first no material reduction was deemed necessary in the first six months which followed the suspension, and payment was finally resumed after a reduction of about ten per cent. of the amount of loans, whereas in New York it was necessary to commence immediate reduction, which was continued until the loans were reduced more than 20 millions, or about one fourth. This could never have happened, had not the trade in banking been restrained by unwise laws.

In the latter State were exhibited the injurious effects resulting from the expulsion of the Bank of the United States. The local

* "He must say—and he said it the more freely because it related to another country—that the exertions made by the commercial men of the United States of America, had been such as to reflect the highest credit on their character as commercial people. (Heur.)"—*Speech of the Chancellor of the Exchequer, April 11, 1838.*

† "Several of the Massachusetts banks have failed. In some cases their failure is attributable to frauds—in others to mismanagement. No argument is to be drawn from this against the system. If the stockholders elect incompetent managers, the fault is with them, and to them belongs the loss.

banks filled with their notes the vacuum thereby caused. When the day of difficulty arrived, a temporary remedy was found in recalling that capital. It was temporary, because the loans were to be repaid in three or four months. Had the branch at New York possessed a capital of 5 millions, at least six millions of the notes of the merchants would have been held by it, and a reduction of 14 millions would have accomplished what has now required one of 20 millions. It is probable that 10 millions would have accomplished the object, because the pressure would not have been so severe—the distrust would not have been so great—the circulation would not have been so much impeded—and consequently a smaller amount of capital would have been required.

In Pennsylvania, we find the reverse of this picture. The capital of the United States Bank was thrown back upon that State, and the consequence was greatly to diminish the necessity for contraction. The gradual payment of the debts due to its branches, enabled it to diminish its liabilities without a rapid diminution of its loans at home. *The grant of an act of incorporation to that institution was to that extent a removal of the restraints upon freedom of action in Pennsylvania*, and the refusal of an extension of its charter by the United States was the re-imposition of restraints upon the freedom of action throughout the United States. By this approach to freedom Pennsylvania escaped much of the distress she would otherwise have experienced, and by a contrary course New York was injured.

It may be asked why Louisiana and Mississippi did not escape. In both banking capital was increased with an unsparing hand. The *grant of privileges* produced an effect very different from that which should have resulted from the *recognition of rights*. Every one was anxious to obtain a share of the privilege, because it was believed that fortunes might be made by all who could do so. Capital was imported to such an extent that it was rendered superabundant—prices rose—fortunes were made in a day, or a week—every one desired to do the same—every one borrowed all he could, and purchased all he could—until at length the day of reckoning arrived, and the golden apples proved to be

"Dead Sea fruits,

Which tempt the eye, but turn to ashes on the lips."

Had freedom been granted there would have been little or no speculation.

CHAPTER VIII.

ENGLAND IN 1825 AND 1836.

WE shall now briefly inquire into the operations of the Bank of England, in 1825 and 1836, and for some years prior to both, with a view to show the correctness of the views we have submitted.

	Circulation		Deposites.	Securities.	Bullion.
	under £5.	above £5.			
August, 1822,	£ 855,330	£ 16,609,460	£ 6,399,440	£ 17,290,510	£ 10,097,960
February, 1823,	681,500	17,710,740	7,181,100	18,319,730	10,384,230
August, 1823,	548,480	18,682,760	7,827,350	17,467,370	12,658,240
February, 1824,	486,130	19,250,860	10,097,850	18,872,000	13,810,060
August, 1824,	443,140	19,688,980	9,679,810	20,904,530	11,787,470
February, 1825,	416,730	20,337,030	10,168,780	24,951,330	8,779,100
August, 1825,	396,343	19,002,500	6,410,560	25,106,030	3,634,320
February, 1826,	1,375,250	24,092,660	6,935,940	32,918,580	2,469,510

Here we find the directors increasing their securities for the purpose of increasing the dividends on bank stock, and producing a daily increasing difficulty of investing capital advantageously, and of consequence a constantly increasing amount of unemployed capital in the form of deposits. We find them still increasing their investments in February, 1825, while the deposits have become stationary. The constantly increasing difficulty of making investments at home has driven the owners of capital to seek abroad for employment for it, and five millions of gold have been shipped. A continuance of the same state of things to August, 1825, causes a further withdrawal of deposits in the form of gold. The directors have now lost all control over the currency, and are compelled either to produce universal ruin, or to continue to enlarge their circulation, at the risk of bankruptcy, and thus we find them at the close of the year holding less than £1,300,000, in gold,* and issuing small notes in place thereof, while their loans are nearly double what they were three and a half years previously.

* Report on Bank of England Charter, p. 154.

Had the people of England been at liberty to form another joint-stock bank on the principle of limited liability, such a one would have absorbed the deposits of 1824; the gold would have gone to *another street*, instead of going to *another country*; the Bank of England would have made smaller dividends, and it would have been restrained from any further excess of loans, by the fear of creating three or four banks in London to divide with it its deposits, and the profits of circulation.

We come now to the recent period.

	Circulation.	Deposites.	Investments.	Bullion.
December 31, 1833,	£ 17,469,000	£ 15,160,000	£ 24,567,000	£ 10,200,000
December 28, 1834,	17,070,000	13,019,000	25,551,000	6,978,000
December 26, 1835,	16,564,000	20,370,000	31,764,000	7,718,000
December 13, 1836,	17,361,000	13,330,000	28,971,000	4,545,000
February 12, 1837,	17,868,000	14,230,000	31,085,000	4,032,000

Here we find a repetition of the same operation. Investments are increased. Capital is made redundant. Deposites grow from 13 to 20 millions. The owners of bank stock obtain large dividends. The owners of deposits wish to get something, and seek abroad the means of safely employing their capital, denied them at home. The stock of bullion is diminished. The bank endeavours to limit its operations, and produces universal distress and bankruptcy. It is at length compelled to extend its loans in the face of a constant diminution of bullion, and at the risk of stopping payment. Such are the results of monopoly. The same gold would have been applied to the formation of a bank at home, if permitted, and all the distress and ruin would have been avoided.

In Manchester, at the same moment, the Northern and Central Bank increases its loans from £1,400,000 in January, 1836, to £1,900,000 in June, 1836, and this is accompanied by a constantly increasing difficulty of making profitable investments, as is obvious from the fact that the deposits increased in the same period from £723,000 to £1,062,000. Had the owners of those deposits not been denied the liberty of forming a bank on the same principle as the Bank of England, they would have been so applied at home; but as they were denied the enjoyment of that right, they transferred their capital to the United States, where it could be exercised.

Numerous pamphlets have been published by the friends of the Bank of England and those of the joint-stock banks, each endeavouring to show that the fault rests with the other, when in fact they prove only that it belongs to the system, and cannot fail to occur periodically while that system shall be continued. The Bank of England makes its loans out of the uninvested capital which its monopoly causes to exist, and out of the circulation which its credit enables it to maintain. Every circumstance tending to increase the facility of using capital tends to diminish its deposits, and every one tending to the establishment of institutions of higher credit than those previously existing tends to diminish its circulation. With every such occurrence there should be a diminution of its loans, and consequently of its profits. The establishment of joint-stock banks had, to a certain extent, such a tendency, but the desire of profit prevented it from diminishing its loans as prudence required. The opening for investing in those banks the capital remaining with it on deposit, tended to diminish the amount of those deposits, and should have admonished it of the necessity for curtailment, and a similar opening in the United States should have admonished both it and the joint-stock banks; but both went madly on until they had approached the brink of ruin. The remedy to the bank was to produce doubt and insecurity. It did so, and its deposits were restored. The credit of the joint-stock banks not being so firmly established as that of the Bank, the former were the victims; whereas, the suffering should have been divided. Whenever capital can be securely invested in banks formed upon such a system as that of Rhode Island or Massachusetts, the dividends of the Bank of England must fall to four per cent.; but while the monopoly of banking is continued to the Bank of England, or to the hardened gambler, willing to risk his all in the establishment of a bank with unlimited liability, the profits of banking will be large, and there will be a great amount of capital in the form of deposits, for the use of which the owners will receive nothing, but which will always be a cause of disturbance in the currency. When property shall be perfectly secure, and the owners perfectly free in regard to its employment, there will be a constantly increasing tendency to uniformity in the rate of profit.

The complaint under which England labours is surplus capital, which her restrictive laws will not permit to be invested at home. The demand from the United States, *tended to produce a neces-*

sity for permitting it to be invested at home in the form of a new bank, or in that of an increase in the capital of the Bank of England, and thus prevent it from being exported. This necessity was produced by the credit of American securities, and was to be averted by discrediting them. It was done, and the danger was over. The flow of gold ceased. Capital ceased to be employed by its owners, and was returned to the bank to be loaned out for its own profit.

England is to the monetary system of the world what the heart is to the body. So long as her action is regular, there will be regular action throughout the whole system. There may be local irregularity, but that can only be temporary. If a bank at Cincinnati or St. Louis pursue an injudicious course, issuing too large an amount of its notes, the error is discovered at New York or Philadelphia, *provided they be not themselves in error*. If New York do so, the error is speedily discovered in London, and a demand for bullion tends to correct the procedure.

If New York and Philadelphia go wrong, their error is propagated throughout the Union, constantly increasing in extent, until they are compelled to endeavour to correct it at the cost of ruin to the trading part of the community. If London go wrong, the error is propagated throughout the world, as we have recently seen to be the case, and it can be corrected only at an enormous expense of human happiness.

It was in the power of the Bank of England to have arrested, at any moment, the career of speculation in the United States, and the gradual reduction of her loans would have arrested it—but, on the contrary, she fed the market with paper, and maintained the spirit of speculation. The directors were governed solely by the desire of making dividends, and willing to incur large risks to accomplish that object.

If, in 1834 or 1835, Parliament had authorized the establishment of a new bank with a capital of fifteen millions, the deposits in the present bank would have been converted into capital for that institution, and would have staid at home, and the excitement of 1836 would not have taken place. All the difficulty of the last three years has resulted from the existence of a large surplus of capital that is kept unemployed by the existing restrictions on its investment, and so long as that

exists there must always be a tendency to unsteadiness. It is, therefore, of the highest importance to the commercial world that the errors of the monetary system of England should be corrected.

The difference between the effect produced upon the United States and England, by the recent occurrences, is the same that is produced upon a banker and his customers by a change of operations. The former makes capital appear abundant by lending his credit freely. His neighbours commence building houses—they extend their business—or they make rail roads and build ships. When these operations are half completed the banker finds that he has overtraded, and that to save himself from ruin he must diminish his loans and his investments. He is pressed for payment and in danger of bankruptcy, but by compelling his debtors to pay him he places himself in a few weeks out of danger. His unfortunate customers, compelled to sacrifice their houses, ships, merchandise, and rail road stocks, are ruined, while he boasts of the skill with which he has extricated himself.* The loss which should fall upon him has fallen upon his innocent customers, and he escapes scot free; whereas, had they been as indifferent to their obligations to him as he was of his to them, the loss would have fallen upon him, and they would have retained their property. Their losses have been in the proportion of their integrity. Such has been the conduct of the Bank of England, which has proved its total incapacity for controlling the financial operations of that country. It is, we think, doubtful if any case has ever occurred, in which has been shown so total a want of capacity for business. Its loans were increased in the face of a constant reduction of bullion. It destroyed its customers with the hope of compelling a return. It thereby ruined the innocent merchants of the United States—paralyzed the operations of the country—and destroyed its power of purchasing the manufactures of Great Britain. It would take nothing but gold. Gold came. It was then found that gold was not wanted, and that it would do more good if replaced in the United States, and it was shipped to New York in search of a market. Such has been, and such will ever be the consequence of placing the control of currency in the hands of a few men intent upon making profit, instead of setting it free to be governed by the laws of trade, which forbid such mistakes.

* See Report on Renewal of the Bank Charter.

CHAPTER IX.

CONCLUSION.

GOVERNMENTS have arrogated to themselves the task of *regulating* the currency, and the natural effect is that nothing is less regular. At present each day brings to London an abundant supply of fish, meat, vegetables, &c., and each day proves that the persons who furnish those supplies understand tolerably well what is required. Were government to *regulate* the markets, as they do the currency, there would be a succession of over supplies, during which vast quantities of provision would be spoiled, followed by a succession of scarcities, when double prices would be paid for the necessaries of life, precisely as is now the case with *money*. Whenever those who control the operations of government shall learn that the trade in money is like all other trades; that every man has *a right* to associate himself with his neighbours and to trade with others on such terms as they may mutually deem most likely to be advantageous—whether of limited or unlimited liability; and that every man has *the same right* to furnish currency that he has to furnish hats, coats, or shoes; and whenever they shall abolish all restrictions thereupon, there may and will exist a good, sound, safe, and cheap currency, but not till then.

Various propositions have been made in regard to that of both England and the United States, by persons who believe that more steadiness would be obtained by having a single body or institution authorized to issue paper to be used therefor, and by others for preventing the circulation of notes under ten and twenty dollars, or pounds, &c. Experience, however, teaches that when governments undertake to regulate trade or commerce—to furnish roads, or education—that there is at one time, or in one place, an over supply, and at another a deficiency. Such would be the case in regard to currency. Experience also teaches us that when the people undertake to supply themselves, and they are not restrained in their action, the supply is well regulated. In no part

of the world is the power of supplying currency so much divided, in none are silver and gold so entirely dispensed with, and in no country of the world is there one combining so many of the requisites of a perfect currency as in Massachusetts and Rhode Island.

No advantage can ever result from attempting improvement by diminishing freedom of action—by limiting the number of persons who shall issue notes, or by enacting that they shall not be below a certain amount—while, on the contrary, great improvement may be hoped from the abolition of all restrictions. One dollar notes will not be used unless the benefit derived from them exceed the cost of furnishing them, and if it do so, their use is beneficial to the whole community, permitting every man to apply the silver that he would otherwise have been obliged to use, to the improvement of the machinery by which labour is aided.

Every man who now issues a note furnishes currency, and no law that could be passed would give him more power to do so than he now possesses. He gives his note, payable in 5, 10, 60, or 90 days, and it remains current so long and no longer, because at the end of that time no one is willing to keep it in his possession, preferring to take the promise of a bank to pay the same sum. He gives his check, payable on demand, but it remains current only an hour, because the person to whom it is given prefers that species of currency the value of which is known to all, a bank note. When two kinds of currency exist, the strong will always drive out the weak, because every man who receives the latter will at once exchange it for the former. All the private banks of England cannot maintain a circulation of one half the amount of a single bank in London. Were the system adopted that we have proposed, there would be established throughout England a large number of banks owned by men of the highest character for respectability, and they would speedily supersede altogether the circulation of individuals. Circulation is expensive, and unless the amount be considerable, it produces no profit. Under that system, the first private banker in England could not maintain a circulation the profits of which would pay his expenses, and the inferior ones could maintain none. The notes would be returned as fast as issued. There is no more propriety or necessity for regulating who shall or who shall not issue his note, to be exchanged with those who are willing to take it, than

there is for regulating who shall or who shall not grow potatoes or make shoes.

It may be asked, “would you permit all persons to trade upon the footing of limited liability?”

In answer, we would remark that there are always two parties to a contract, and that no man can get in debt unless he can find some one to trust him. If that person deem it advantageous to deal with him on those terms, what reason is there for preventing him from so doing? It may safely be assumed that he understands his interest better than any legislators can do for him. If the individual banker, or hatter, or shoemaker, were to propose to trade on such terms, no one would trust him, yet the persons who would refuse to give him credit would prefer the note of a banking company with a capital of half a million, which capital alone was responsible for its debts, to that of an individual worth millions, whose whole property was liable for the performance of every engagement he might make.

Limitation of liability must be confined almost altogether to associations. It will be permitted to them because the reason therefor is obvious; but it will be refused to individuals, because no such reason exists. The tendency to association increases every day, and will continue to do so, and with it there will be an increasing tendency to permitting men to trade together in such manner as they may deem most advantageous.* With every increase in the habit of association, there will be a tendency to increase in the productiveness of labour. At present one hundred individuals own a rail road or a canal, and a single individual, with a salary of three or four thousand dollars, superintends the whole concern; whereas, if each of the one hundred persons owned his separate mile of road, a large portion of his time would be required for its management. The owners of half a dozen or of a dozen ships unite them together to form a line of packets, placing the whole under the control of a single individual, who does all the business, leaving the owners to employ their talents

* Limited partnerships have made their way gradually through a considerable portion of the Union, and will in a few years be universally permitted. There is also a constant tendency to relaxation of the unlimited liability of partners of mercantile houses. At the late session of the legislature of New York, a law was passed authorizing creditors to compromise with individual partners, without prejudice to their claims upon the others.

in whatever manner they think proper. The Bank of the United States does as much business as would be sufficient for fifty or one hundred private bankers. The stockholders pay but one president. The consequence is, that the cost of management is less, and the institution can do business on more advantageous terms for its customers. A diminution of one per cent. in the rate of exchange is so much added to the production of the planter, or farmer, or manufacturer, and is a reduction of *friction* precisely similar to that produced by the rail road. The time is not distant when the same system will be applied, with the same results, to many other pursuits.

At present, certain persons in New Orleans place their capital in banks under charters. Certain other persons, called cotton factors, grant their acceptances to the growers of cotton, who forward their produce to them for sale. Those acceptances are discounted by the banks. Occasionally the cotton factor fails, and both banker and planter lose thereby. If any one of the companies now acting as bankers, with a capital of five or ten millions, were to announce to the world that in future it would confine itself to receiving cotton and selling it on commission—that it had, with that view, selected as president one of the most skilful of the dealers in that commodity—that it would make all advances in cash, on bills at short date—and that its charges would be the same as those of the cotton factors—the growers of cotton would desire to employ it, because of the perfect security, *notwithstanding the limitation of liability*. If they did not it would do no business, as no man would be compelled to trade with it. The owners of capital would deem it more advantageous to lend it on cotton, than upon the notes of cotton factors who might fail, and the owner of cotton would prefer the engagement of the company to that of any cotton factor. Both being thus willing to do business together, there would be only one difficulty in the way—*that of the law, which prevents people from associating and trading together in such way as they may deem most advantageous*. Were all restraints abolished, we should speedily see such a company engaged in receiving cotton, and making advances thereon, and with a single president it would do the business now done by fifteen or twenty cotton factors, who might be advantageously employed in cultivating cotton instead of selling it. If the planters preferred it as their agent, it would make large profits. If it succeeded it

would make large dividends, which would speedily give rise to another, and it would then be discovered that the commission might be reduced one half. A third would cause a further reduction, and at length it would perhaps be found that they required, as compensation for the sale of the cotton, very little more than is required by the banks of Massachusetts for taking care of the deposits of the people of that State, and for supplying them with a circulating medium*—in fact that a very small commission for accepting drafts, and common interest of the capital advanced, would enable them to make as large dividends as any other institutions. Here would be increased security and reduced friction, with a great increase in the productiveness of labour. *There would be no monopoly or exclusive privileges.*

Were such a company established in New York for receiving shoes or cotton-cloths, and making advances thereon, the makers of shoes and of cloth would most probably give their business to it, provided it were as well done, notwithstanding the limitation of liability. Existing restrictions will be abolished, and such arrangements will be made. *The tendency to combined action is such that it will triumph over all attempts to restrain it.* It increases every where with the increase of population, of capital, and of civilization. It has extended itself from Great Britain to France,† and is rapidly making its way throughout Germany.‡

It is asserted that joint-stock companies, not being generally under the control of persons largely interested in them, are not

* See page 83, *ante*.

† In connexion with this subject, tables have been published, showing the extraordinary increase of joint-stock companies, (*en commandite*) in France, from which it appears that their number, which in 1826 was but 26, was on the 1st of January, 1838, 1039, and their capital, which at the first mentioned period was but 56,397,090 francs, was at the latter 1,008,029,300. This increase is in part attributed to the sales made of 5 per cent. stock in expectation of its conversion, and the investment of the proceeds in joint-stock companies.

‡ A Vienna letter gives the following description of a scene which took place there a few days ago, on the opening of the subscription for a rail road from that capital to Raab:—"The magistrates having found the offices at first appointed too small, Prince Schwartzburg granted the use of his palace for this purpose; still the pressure of the crowd, which was estimated at thirty thousand at least, was so great, that doors were forced in, walls scaled, limbs broken, and even blood shed. The efforts of a battalion of grenadiers, a detachment of light horse, and two hundred police officers, were insufficient to keep back the crowd, and with the flats of their swords produced no effect. Several of the military were also hurt."

usually well managed, and that they constitute a very imperfect species of the machinery of production. In reply to this, we say, that the repeal of the law which forbids the exercise of the right to which we have referred, by no means implies any necessity on the part of people to avail themselves of it. No one will do so, unless he believes that he will be benefited thereby. It is said, however, that those who do so deceive themselves, and should not be permitted to do so. This is the same argument that is used in France in defence of regulations of every kind, and it is as true in relation to restrictions upon the time of gathering the grape, as in regard to restraints upon the mode in which men shall transact business, one with another.

Were all persons at liberty to associate themselves upon the same footing as the present incorporated companies, they would do so only after mature reflection. Under the present system, in many of the States, as well as in England, an act of incorporation is regarded as a *privilege*, and men rush headlong into enterprises that would not be thought of were not that idea connected with them. Two years since, the legislature of Pennsylvania passed a general law for the incorporation of companies for making iron with mineral coal, and up to the present time we believe but one company has been formed. Had they granted charters for twenty companies, persons would have been found to take up the whole under an idea that profit might result from the possession of the *privilege*. The State of New York has abolished nearly all restrictions upon associations for the purpose of banking.* As yet we hear of no new banks having been formed, but on the contrary, the merchants of New York have applied to the Bank of the United States to establish one. Had a charter been granted for an institution of fifty millions, the whole would immediately have been subscribed, because the parties would have obtained a privilege out of which they could make profit. Now they will examine carefully for themselves before they engage in the formation of a new one.

* They are restricted from issuing notes to an amount exceeding their capital. The passage of the law was equivalent to saying that no bank should in future divide more than the ordinary interest of money, or to a limitation of its liabilities to 30 or 35 per cent. beyond its capital. Wherever trade in banking is free, the interest receivable from capital employed in it will be equal to that of other capital, and the business will be limited to the quantity that is necessary to give that interest.

They will invest the capital they have unemployed and no more, being perfectly certain that as it may accumulate again, they will find means of employing it. *There can never be to any extent a double demand produced by the same capital, in consequence of its temporary loan, while the owner is seeking the means of permanently investing it.* Under this law banks will become at once the property of the owners of capital, large and small—the widow and the orphan, as well as the merchant and the *millionaire*—whereas, under the existing system, in the Middle and Southern States, it is notorious that the shares are taken by stock-jobbers, and float about in the market for months and perhaps for years, before they are taken up by the capitalist.

When trade shall become free the banks will know that if they act in such manner as to render capital superabundant, the immediate effect will be the production of rivals in business. When men shall be restored to the enjoyment of their rights, the prudent will, in England, be the owners of joint-stock banks; whereas, under the present system, they dare not incur the risk attendant thereupon.* When that time shall arrive, banking will become a safe and steady business; the losses of the banks by the people will be small, and those of the people by the banks will be so.

We now submit to the consideration of the reader the following propositions :

I. That with the increase of population and of capital, there is a tendency to increase of security, both of person and of property.

II. That perfect security of property is inconsistent with restrictions upon the mode of employing it.

III. That perfect security of person is inconsistent with re-

* “I think unlimited liability discourages a great many wealthy persons from taking shares. A party reasons with himself very justly, why should I, who have property, subject my property to loss on the chance of the trifling dividends I can obtain in a bank? If the liability was limited, he could not so view it; there would be a better class of stockholders.”—*Evidence of Gen. Austin, before Committee of the House of Commons, 1836, p. 127.*

“Would it, [limited liability,] increase the stability of banking?” “Yes, I think it would; it would very much increase the number of respectable persons taking an interest therein, and thus improve their management as well as their credit; the personal exertions of such individuals have great effect in time of alarm and discredit.”—*Evidence of V. Stickney. Ibid. p. 91.*

strictions upon the mode of applying labour, or talent, to production.

IV. That when men are left most free in the application of their talent, their labour, or their property—in other words, when person and property are most secure—their time and their property will be most productive.

V. That with the increase of security there is an increase in the confidence of man in his fellow man.

VI. That commercial credit is the result of that confidence.

VII. That where credit is greatest, we should find security the most complete—and *vice versa*—that where security is greatest, credit should be most universal.

VIII. That with the increase of confidence there is an increased disposition for employing capital in the construction of roads, canals, bridges, and ships; in the establishment of stores and banks; and in all other modes by which exchanges are facilitated.

IX. That increase of confidence tends therefore to diminish the stock of commodities kept on hand for the supply of daily wants—whether of wheat, cotton-cloth, gold, or silver—and to increase the quantity of capital that may be applied to facilitate production.

X. That increase of confidence tends to increase production and to diminish the quantity of currency, and therefore to diminish the ratio of currency to production.

XI. That the more perfect the freedom in the employment of capital, the less will be its tendency to accumulate in the form of gold and silver, or in that of deposits yielding no return to the owner, and the greater will be the tendency to increase in the number of rail roads, canals, and other aids to labour.

XII. That freedom of employment tends therefore to increase the amount of production, and to decrease the quantity of currency, and consequently to diminish the ratio of currency to production.

XIII. That there is therefore with the increase of confidence, and increase in the freedom of employing capital, a tendency to diminution in the proportion which the currency bears to the

amount of production, and consequently to the amount of exchanges to be performed.

XIV. That with the increase of confidence, there is a constant tendency to the substitution of bank notes, checks, and drafts for the precious metals, thus diminishing the quantity of *capital* required to be used as currency.

XV. That such substitution is attended with an increased facility of improving the machinery by which labour is aided, and consequently by an increase in the productiveness of labour.

XVI. That while with every increase in the productiveness of labour there is a tendency to reduction in *the proportion which the currency bears to production*, there is likewise a tendency to reduction in *the proportion which the precious metals bear to the currency*.

XVII. That the *increase* of confidence manifested by the substitution of bank notes, checks, and drafts for gold and silver, tends therefore to *diminish* the proportion of capital required for the performance of exchanges, and to *increase the productiveness of labour*.

XVIII. That, on the other hand, *decrease* of confidence *increases* the quantity of the precious metals required, and *diminishes the productiveness of labour*.

XIX. That every measure tending to diminish confidence, and to cause the substitution of the precious metals for bank notes, checks, or drafts, tends to diminish the productiveness of labour.

XX. That diminution in the proportion of the currency to the exchanges, is attended with increased *sensitiveness* to change, and consequently with increased steadiness of action.

XXI. That perfect security and perfect freedom produce that confidence which tends to diminish the proportion which the currency bears to the exchanges.

XXII. That security and freedom tend therefore to produce steadiness of action.

XXIII. That in comparing the several parts of the United States, one with another, we find that in Massachusetts and Rhode Island credit is greater—labour is more productive—the proportion of the currency to the exchanges is smaller—the pro-

portion of precious metals required therefor is smaller—and the currency is more sensitive to change, and more perfectly within control than in any other part of the Union.

XXIV. That this is to be attributed to the greater freedom of action existing in those States.

XXV. That the same improvement which is found in passing from the newer States to those of dense population, should be found in passing from the latter to England.

XXVI. That, on the contrary, we find that credit is less universal—that labour is less productive—that the proportion of the currency to the exchanges is greater—that the proportion of the precious metals required therefor is greater—and that it is less sensitive to change.

XXVII. That want of confidence, generated by restraints upon the employment of capital in England, tends to cause large quantities thereof to remain in the hands of its owners unproductive, and frequently compels its owner to send it abroad in search of employment. That labour consequently is less productive. That credit is therefore less universal.

XXVIII. That the capital thus rendered unproductive remains with its owners in gold, or is placed in bank on deposit until they can find the means of investing it. Being loaned by the bankers it is employed by those who borrow it, while the real owners are desiring also to employ it. It produces therefore a double demand for commodities, real estate, or stocks, while thus unproductive.

XXIX. That while labour is thus rendered unproductive, the proportion of the currency to production, and to the quantity of commodities to be exchanged, is increased.

XXX. That restrictions upon the substitution of paper for the precious metals tend to increase still more the amount of capital rendered unproductive, and thus to prevent improvement in the quality of labour.

XXXI. That thus the proportion of the currency to the exchanges, and of the precious metals to the currency, is increased—the currency is rendered less sensitive, and less under control.

XXXII. That the remedy would consist in the adoption of measures that would give entire freedom of action, and freedom in the employment of capital.

XXXIII. That the more perfect the freedom, the more completely would the trade in money be brought under the control of the *laws* of trade, and the less would it be under the control of *men*.

XXXIV. That the more numerous the restraints, the more completely will it be under the control of *men*, and the less will it be subject to the control of *laws*.

XXXV. That if we look to FRANCE, we find restraints abounding, and the control of men complete—that in ENGLAND we find a state of affairs nearly similar—that in SCOTLAND we find a slight improvement. That the same improvement which is thus observed as restraints diminish, is likewise observed as we pass from the Southern States to MASSACHUSETTS and RHODE ISLAND, where freedom is most complete, *and where the laws of trade have the greatest, and where men have the least control.*

XXXVI. That the want of confidence generated by the measures of the administration of the United States, tended to the substitution of gold and silver for bank notes, checks, and drafts.

XXXVII. That as increase of confidence tends to diminish, so diminution of confidence tends to increase the quantity of currency, and the proportion of the precious metals required therefor.

XXXVIII. That it was a movement in opposition to the universal law of nature, that with increased capital and population there is increase of security—increased confidence of man in his fellow man—increased tendency to the use of credit, attended by diminution in the proportion of the currency to the exchanges—and diminution in the proportion of the precious metals to the currency.

XXXIX. That the remedy is to be found in the restoration of confidence, by which the existing currency may be rendered active.

XL. That increased activity would enable the banks to call in their loans, and thus diminish the currency.*

* For an illustration of this we will refer the reader to the present state of affairs. Capitalists have large deposits, and the banks have large liabilities. Individuals have abundant property which they cannot sell, because confidence does

XXI. That delay in its restoration tends to produce further importation of the precious metals—increase in the quantity of currency—increase in its cost—diminution in its steadiness and security—and in the productiveness of labour.

XXII. That every measure tending to delay the restoration of confidence should therefore be avoided.

XXIII. That restoration of confidence would tend to prevent a further importation of the precious metals, increase in the currency, and increase of its cost; would promote its re-establishment on a safe and steady footing—and would greatly increase the productiveness of labour.*

not exist. Its restoration would induce the owners of deposits to purchase the property of those who are indebted to the banks, and the property thus exchanged would cancel the deposits and diminish the currency. It is almost impossible to effect any material diminution when there is no confidence, because there is no circulation.

The banks of New York have reduced their circulation from 24 millions to 10 millions, yet their private deposits have been reduced only eight millions. So long as they continue a course that destroys confidence, the deposits will remain. They may break their debtors, but they will not thereby induce the owners of unemployed capital to part with it. Property falls in price, but there is a constant expectation that it will fall still lower. The unfortunate debtor is crushed as between the upper and the nether mill-stone. The slightest appearance of improvement sets the deposits in motion, and the banks are relieved of their liabilities, while the condition of their debtors is improved.

Were the war against banks and bank notes at an end, there would be an immediate exchange of deposits against the property of those who are indebted to the banks—the debts to the banks would be cancelled—their liabilities would be diminished—the currency would be diminished—and prices would rise. If there be a continued diminution of confidence, the import of coin will afford no relief, but will on the contrary tend to a constant diminution in the quality of labour—in the power of production—in the reward of both labourer and capitalist. If there be a restoration of confidence, the reverse will be the case. *Confidence cannot be restored under the present system.*

* Gold, to a considerable extent, has been imported, but it was not wanted, and its arrival has been productive of no advantage. *The currency was redundant, and if confidence had been re-established there would very soon have been an export of the coin that is now hoarded. Every dollar of gold imported from Europe takes the place of so much iron or other commodity by the use of which labour would have been rendered more productive, and its importation tends consequently to diminish the reward of labour. The exportation of coin in exchange for iron, tends, on the contrary, to increase production, giving a constant increase of both wages and profits.*

The substitution of coin for bank notes was a favourite object with the past Administration as it is with the present. The first enjoyed advantages of the ac-

XLIV. That the attempt to substitute government agents in lieu of the banks for the receipt and disbursement of the public revenue, tends to prevent the restoration of confidence.

XLV. That the attempt to compel the use of gold and silver for all sums under twenty dollars, and in all payments to the government, has a similar tendency.

XLVI. That both tend, by thus preventing the restoration of

complishment of its object which the second wants. During the whole progress of the “experiments” upon the currency under General Jackson, the Bank of England rendered him essential service in furnishing gold without decreasing its loans. The consequence was a rapid increase of the currency—a rapid increase of prices—and great *apparent* prosperity. Both labourer and capitalist were content, and the experiments were permitted to proceed.

At present a different state of things exists. *The country is filled with gold, but confidence is wanting. The Bank of England can export the first, but it cannot send the second. If it could, the first would be instantly rejected. Gold may be imported until the people of the United States became as poor as those of France, yet the instant confidence shall be restored, it will be sent abroad to be exchanged for other commodities, and its export will be an evidence of improvement. An excess of the precious metals can be retained in no other way than by a diminution of confidence, attended by diminished production, diminished wages, and diminished profits. The popularity of General Jackson was due, in a great measure, to the Bank of England, by whose aid wages and profits, counted in gold, were increased. The unpopularity of his successor is due to the fact, that his measures tend to destroy confidence—to diminish production—and to diminish wages and profits. Every importation of gold under the first was an evidence of increased confidence of the people in the continuance of prosperity, and tended to increase his popularity. Every import of it under the second is an evidence of want of confidence of the people in the restoration of prosperity, and tends to increase still further his unpopularity. There is much rejoicing over the arrivals of gold, by his friends, but they should look upon them with regret. Whenever it shall begin to flow out there will be an improvement in the state of affairs—production will begin again to increase—wages and profits will both rise—and the Administration may begin to recover popularity.*

The stoppage of the banks in 1837, was owing in a great degree to its measures, and to a continuation of the same insane policy is now to be attributed the want of confidence that still exists. It wars upon credit and upon banks as if they were enemies of the people, not observing that *they are the creation of the people themselves*, as much as are rail roads and canals, and that *they aid production to as great an extent*. It appears to believe that it is possible to annihilate the system, but it would be as easy to annihilate the habit of eating and drinking, now that men have felt the advantages of it. The system will outlive the Administration, whose existence will be but brief, unless its course be changed. Its opponents have reason to rejoice at the blindness which induces a continuance in that course, and find in it strong evidence of the truth of the assertion,

QUEM DEUS VULT PERDERE, PRIUS DEMENTAT.

confidence, to diminish the productiveness of labour, to the injury of both labourer and capitalist.

XLVII. That the experience of individuals and of the government in their intercourse with banks has proved that the charges of management, as well as the risk of loss, are infinitely small when compared with the advantages derived therefrom.

XLVIII. That individuals, with a view to economy and security, prefer to employ banks, rather than individuals, as their agents.

XLIX. That a government will always consult its interest, by adopting those modes of action which individuals have proved to be most economical and safe.

L. That a departure from the course thus indicated, will be attended with increased expense of management, and increased risk of loss.

LI. That the substitution of individual agency for that of the bank, is in direct opposition to experience, which teaches that where business is transacted on a large scale, the agent takes a small commission, and is well paid, whereas when it is done on a small scale, he takes a large commission, and is ill paid—and that a higher degree of security is attained in the former case than in the latter. The experiment is therefore likely to prove dangerous and wasteful, causing an increase of taxation—diminution in the power to accumulate capital—and diminution in the productiveness of labour.

LII. That nothing is required to secure the trade in money from the violent changes to which it has been exposed, but perfect freedom in the employment of capital, and the abolition of regulations as to the mode in which men shall trade with their fellow men—leaving each to adopt such measures as he may judge most likely to enable him to improve his condition.

LIII. That the local abolition of restrictions will produce local improvement, and thus the change in New York will tend to produce improvement throughout the Union.

LIV. That to have a general improvement in the monetary system of the world, it is essential that that of England should be corrected, as steadiness there would tend to produce steadiness in every part of the world, while unsteadiness there must tend to produce unsteadiness, loss, and ruin in every part of the world, as has recently been the case.