THE HISTORY OF BANKING IN AMERICA:

WITH

AN INQUIRY HOW FAR THE BANKING INSTITUTIONS OF AMERICA ARE ADAPTED TO THIS COUNTRY;

AND

A REVIEW OF THE CAUSES OF THE RECENT PRESSURE ON THE MONEY MARKET.

BY

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PREFACE.

The "History of Banking in America" was not written for Americans, nor for persons well acquainted with American Banking, but for those who know but little about it, and who have not time to read lengthy publications on the subject. To give an outline of the progress of Banking in America—to point out the principal features in which it differs from English Banking—to present a summary of the condition of the Banks in the respective States—and to notice the opinions with reference to Banking of some of the leading men in America, is all that has been attempted in this portion of the work.

The inquiry how far the Banking Institutions of America are adapted to this country, will point out more forcibly to the general reader the difference between the two systems of Banking; while it will suggest some matters for consideration to those who feel an interest in the improvement of our Banking Institutions.

Here this work was intended to close, but the publication of Mr. Horsley Palmer's Pamphlet upon the "Causes and Consequences of the Pressure on the Money Market," and the discussions it occasioned, induced me to write two additional Sections. My chief object in doing this has been to repel the charges brought against the Joint Stock Banks. In noticing the other causes to which the recent pressure has been assigned, I have contented myself with transcribing the sentiments of other writers.

As the publication of Mr. Horsley Palmer has been "looked upon as a sort of official document, embodying the views and opinions of the directors generally," it may be proper to inform the reader, that the work now before him conveys only the individual opinions of the author.

J. W. G.

38, Throgmorton Street,
May 1, 1837.

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WORKS

PUBLISHED BY THE SAME AUTHOR.

1. The History and Principles of Banking.

Third Edition.

" A work likely to be extensively useful at this period has just appeared, entitled, " The History and Principles of Banking." By *James William Gilbart.* The author's object has not been to advance any new theories of his own, but to make the reader acquainted with the facts and principles of the question, as deduced from the existing practice. In this, his long experience must make him a very competent guide. The numerous claims on our crowded columns prevent our giving a full notice of the work: the recommendation of which may be summed up in his own phrase—that it is a " Grammar of banking."—*Times, Feb.* 20, 1834.

" This work may be advantageously consulted for a practical knowledge of banking in all shapes from the Bank of England down to loan banks, and the new law to facilitate the purchase of small annuities. It should also be added, that a variety of tables are contained in the volume, not mere transcripts from official documents, but intelligible recasts by a man of business. So far as we are able to judge by inspection, they seem to have the rare merit of containing what is wanted, and nothing more."—*Spectator. Feb.* 15, 1834.

"Combining a clear appreciation of the science of banking, with the best practical knowledge of his business, we have seen no work on this subject which better deserves to be consulted and studied than Mr. Gilbart's volume."—*Literary Gazette*, *Feb.* 22, 1834.

"Mr. Gilbart claims for his book that it contains both features (theory and practice), and is a scientific work written by a practical man. His claims appear to be fully borne out by the perspicuity of his views, and the analytical spirit with which he treats the subject. He is fully master of the details, and ascends with equal ease to the examination of the elementary principles. His account of the nature of joint stock banks, of branch banks, of deposit, remittance, circulation, and discount, of cash credit, loan and savings banks, will be found by men of business to be of considerable value for reference." —*Atlas*, *Feb.* 24, 1834.

"We have been highly pleased with its agreeable and instructive character, and we think that no man connected with trade should be without this book."—*Monthly Review*, *May*, 1834.

"As the author most truly says in his preface, the aim of this book is to impart useful knowledge. Those who are ignorant of the art, or rather science of banking, (for banking may be considered as a science in political economy) will here obtain a knowledge of facts and principles which will sufficiently enlighten their minds on the subject, and they will have the good fortune of not having principles instilled which may lead them into error. The question of currency, cash payments, &c. which have been such a source of labyrinthic litigation are not mooted. It is a clear and well written work, and must have been written by a person endowed with a lucid head and an impartial mind."—*Metropolitan Magazine*, *August*, 1834.

"A more complete and accurate work, with less irrelevant matter, we never read."—*Gentleman's Magazine*, *October*, 1834.

"We have before us a most interesting work from the pen of Mr. Gilbart, entitled "The History and Principles of Banking." This subject, which is generally considered abstruse and recondite, has been, by the pen of Mr. Gilbart, rendered so plain, that the most ordinary capacity may easily comprehend it. It requires such a man as the manager of the London and Westminster Bank to produce this work. A speculative theorist, no matter how acute his intellect, must have failed in presenting us with those forcible details which belong only to the practical man, whilst to the mere man of business, that power of combination and mastery of language must have been wanting, which the literary abilities of Mr. Gilbart have enabled him to bring to bear upon the subject. The peculiar interest which it possesses, is owing, as the author truly states in his preface, to the circumstance of its being a scientific work, written by a practical man. The subject of banking, at all times of such importance to a mercantile country, possesses paramount claims to attention at the present moment, when two fresh bodies of *Argentarii* have come into the field to bear away whatever spoil may have escaped the hands of the vetéran campaigners. "The History and Principles of Banking" should be in the hands of every man, who wishes to be acquainted with the manner in which the money transactions of this great country are carried on."—*Waterford Chronicle*, *June* 9, 1836.

2. The History of Banking in Ireland.

"It affords a succinct view of the acts of parliament, through which the banking operations of Ireland were affected from the time of Henry VI. to the present day, shewing briefly the main features of the monetary system in that country."—*Atlas*, *June* 19, 1836.

"It is a valuable statistical work, and a desirable appendix to his "History and Principles of Banking."—*Gentleman's Magazine, July*, 1836.

"It gives a very clever and succinct account of the History of Banking in Ireland."—*Monthly Review, July*, 1835.

"It is a useful book for those who are anxious for practical information, touching the money matters of the sister kingdom; or who wish, by investigating her banking system, to track her slow and late progress in commerce and civilization."—*Spectator, July*, 1836.

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3. A Practical Treatise on Banking.

Fourth Edition.

"A valuable and useful little work."—*Mr. M'Culloch's Smith's Wealth of Nations.*"

THE

HISTORY OF BANKING IN AMERICA.

SECTION I.

THE RISE AND PROGRESS OF AMERICAN BANKING.

The first settlers in America had not a sufficient quantity of gold and silver to serve as a circulating medium. Hence other materials, such as tobacco or corn, were in some of the States occasionally employed as money. In the year 1618, Governor Argall, of Virginia,* ordered "that all goods should be sold at an advance of twenty-five per cent., and *tobacco taken in payment at three shillings per pound*, and not more or less, on the penalty of three years servitude to the Colony." In 1641, the General Court of Massachusetts "made orders about payment of debts, setting corn at the usual price, and making it payable for all debts which should arise after a time prefixed." In 1643, the same General Court ordered that Wampompeag (an article of traffic with the Indians) should pass current in the payment of debts to the amount of forty shillings, the white at eight a penny, the black at four a penny, except for county rates. In Virginia, the value of a wife even was estimated in tobacco. The following extract is taken from Holmes' American Annals:

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* See "A Short History of Paper Money and Banking in the United States," published by William M. Gouge, at Philadelphia, 1833.

"The enterprizing colonists being generally destitute of families, Sir Edward Sandys, the treasurer, proposed to the Virginia Company to send over a freight of young women to become wives for the planters. The proposal was applauded, and ninety girls, 'young and uncorrupt,' were sent over in the ships that arrived this year (1620,) and the year following, sixty more, handsome and well recommended to the company for their virtuous education and demeanor. The price of a wife at the first was *one hundred pounds of tobacco;* but as the number became scarce, the price was increased to *one hundred and fifty pounds;* the value of which in money was three shillings per pound. This debt for wives it was ordered should have the precedency of all other debts, and be first recoverable."

The Rev. Mr. Weems, a Virginian writer, intimates that it would have done a man's heart good to see the gallant young Virginians hastening to the water side, when a vessel arrived from London, each carrying a bundle of the best tobacco under his arm, and taking back with him a beautiful and virtuous young wife.

So late as in the year 1732, an act was passed at Maryland, making tobacco a legal tender at one penny a pound, and Indian corn at twenty-pence a bushel.

Afterwards gold and silver became more plentiful. In 1652, a mint was established in New England, for coining shillings, sixpences, and three-penny pieces. In 1645, Virginia prohibited dealings by barter, and established the Spanish piece of eight, as six shillings, as the standard currency of that colony. In all the colonies the money of account was the same nominally as in England, but the coin was chiefly Spanish and Portugueze. But different colonies affixed various values to the dollar. In South Carolina, the dollar was estimated at 4*s.* 8*d.*—in Virginia and New England, at 6*s.*—in Pennsylvania, New Jersey, and Maryland, at 7*s.* 6*d.*—and in New York and North Carolina, at 8*s.*

Paper money was first issued by the State of Massachusetts in 1690. A public bank was established

in South Carolina in 1702, and issued £48,000 in bank bills, to be lent at interest, and sunk at the rate of £4,000 a year. Pennsylvania first issued paper money in 1723. The province of Virginia does not appear to have issued any paper money previous to the revolutionary war.

At the commencement of that war, paper money was issued upon the authority of Congress. This money was called continental money. The first issue was dated May 10, 1775, but the notes were not actually in circulation until the following August.

"The paper money issued by Congress during the war of the American independence, experienced no sensible depreciation before the year 1776, and so long as the amount did not exceed nine millions of dollars. A paper currency, equal in value to that sum in gold and silver, could therefore be sustained so long as confidence was preserved. The issues were gradually increased during the ensuing years, and in April, 1778, amounted to thirty millions. A depreciation was the natural consequence; but had the value of the paper depended solely on its amount, the whole quantity in circulation would have still been equal in value to nine millions, and the depreciation should not have been more than 3⅓ to 1; instead of which, it was then at the rate of six dollars in paper for one silver dollar, and the whole amount of the paper in circulation was worth only five millions in silver.

"It is obvious that the difference was due to lessened confidence. The capture of Burgoyne's army was followed by the alliance with France, and her becoming a party to the war against England. The result of the war was no longer considered as doubtful, and sanguine expectations were formed of its speedy termination. The paper accordingly rose in value; and in June, 1778, although the issues had been increased to more than forty-five millions, the depreciation was at the rate of only four to one. From the end of April of that year, to the month of February, 1779, although the issues had been increased from thirty-five to one hundred and fifteen millions, the average value in silver of the whole amount of paper in circulation exceeded ten millions, and it was at one time nearly thirteen millions, or considerably more than that which could be sustained at the outset of the hostilities. But when it was discovered that the war would be of longer continuance, confidence in the redemption of a paper money daily increasing in amount was again suddenly lessened.

"The depreciation was increased from the rate of six to that of thirty to one in nine months.

"The average value in silver of the whole amount of paper in circulation, from April to September, 1779, was about six millions, and it sunk below five during the end of the year. The total amount of the paper was at that time 200,000,000; and although no farther issues took place, and a portion was absorbed by the loan offices and by

annual returns of the amount of specie in their vaults for the following reasons. "It is well known, that institutions which heretofore have been required to make these exhibitions, have prepared, previous to the period of making them, to present as favourable statements as possible. If all the banks in the state are to do so, it will produce a semi-annual pressure for money. Paper, payable a short time previous to these periods, will be discounted freely, when a general curtailment will be made. The notes and bills payable out of the state, will obtain a preference, that thereby funds of specie, in Philadelphia, Boston, &c., may be made for a few days the property of banks in this state. In this and other contrivances, the officers will be employed to make a display of that which has no permanent existence."*

Most of the English deeds of settlement guard against any degree of publicity being given to the accounts of individuals. Their provisions in this respect form the best answer to those who assert that the transactions of individuals with joint stock banks are universally known.

"No principle seems to be more attended to or prominently put forward, than that of preserving secrecy as to the state of accounts of the customers of the banks. To this principle there does not appear to be an exception.

"The directors are in general required to sign a declaration, pledging themselves to observe secrecy as to the transactions of the bank with their customers, and the state of accounts of the individuals. In some of the companies this declaration is also to be signed by all the clerks and officers. One banking company goes so far as to require an oath to this effect. If the proprietors are dissatisfied with the statement of accounts made by the directors, a power is generally reserved to appoint auditors or inspectors for the examination of the books; but these auditors or inspectors are required to sign a similar declaration of secrecy.

"No proprietor, not being a director, is entitled to inspect any of the books of the company.

"The directors are in general bound to exhibit to the general meeting of the shareholders a summary or balance-sheet of their affairs, and to make such further statement or report as the directors may deem expedient and conducive to the interests of the company. In the case of one of these banks, even this is not obligatory by terms of the deed, which leave it to the discretion of the directors whether they do or do not exhibit a balance-sheet. In a very extensive bank, the proprietors annually appoint auditors to examine the affairs of the company, and to report thereon.

"In some of the companies the principle of secrecy is carried still further; two of the directors, selected from the rest, are the exclusive

* Gouge's Short History of Paper Money and Banking in the United States.

depositors of the power of inspecting the private accounts of customers. These persons are sometimes called 'confidential directors.' This provision is stated to be made, 'in order that the credit and private transactions of individuals may be preserved inviolate.' Sometimes they are called 'managing directors,' sometimes 'special directors.' In other companies, though all the directors have the power of inspection of the accounts of customers, two of the directors are selected to inspect bills and notes, 'in order to prevent the exposure of such bills of exchange and promissory notes as may pass through the bank.' These two directors are called 'the bill committee.' In two of the companies, a single person, called 'the manager,' has the exclusive power of inspecting the notes."

"*Sec.* 30. Be it further enacted, that the president, directors, and company of any bank established by authority of this commonwealth, on application, within one year from the passage of this act, shall be authorized, with the assent of the legislature for the time being, to continue its operations as a banking company for the further period of twenty years from and after the first Monday in October, in the year of our Lord one thousand eight hundred and thirty-one, with all the powers and privileges, and subject to all the duties and requirements, of this act."

In our deeds of settlement the duration of a company is not usually limited to any number of years; its existence depends upon contingencies.

"The deeds of all these companies contain some provision for dissolution in certain contingencies. It is in general provided that a dissolution of the company shall take place by reason either of a certain amount of loss, or of a voluntary agreement. Dissolution by reason of loss in the great majority of the deeds is provided for in the following manner:—

"It is necessary to premise that the directors of each of these companies are bound to set aside a certain portion of the profits to form a fund to meet extraordinary demands, which fund is sometimes called the 'surplus fund,' sometimes the 'reserve fund,' but more usually the 'guarantee fund.' The ordinary provision for dissolution is to this effect:—That if the losses sustained shall at any time have absorbed the whole of this guarantee fund, and also one-fourth of the capital paid up, then any one shareholder may require the dissolution of the company, which shall take place accordingly, unless two-thirds in number and value of the shareholders shall be desirous of continuing the company, and shall purchase the shares of those proprietors who wish to withdraw. In one bank the dissolution of the company takes place upon a loss of one-fifth instead of one-fourth of the capital. In two other banks no mention is made of the guarantee fund.

"The provision of the great majority of deeds, as above stated, is, that in the event of a given amount of loss, any one shareholder may propose the dissolution. In some, three shareholders are required. In the Banking Company A. the requisition for dissolution must be made by ten shareholders holding 200 shares; in the Bank B. by one-fourth

method of limiting the value of the shares, the amount of the nominal capital, or the number or distance of the branches. I am inclined to think that these are matters which the legislature had better let alone.

We must always bear in mind that it is not the business of the legislature to lay down rules for the management of banks; but merely to establish such laws as shall have the effect of placing the banks under the guidance of persons who know how to manage them. Upon this subject I need only quote the speech delivered from the throne at the opening of the present session of parliament.

"The best security against mismanagement of banking affairs must ever be found in the capacity and integrity of those who are entrusted with the administration of them, and in the caution and prudence of the public; but no legislative regulation should be omitted which can increase and ensure the stability of establishments upon which commercial credit so much depends."

This may be regarded as a truism, but it is a truism that is often forgotten, and hence it very properly found a place in the royal speech. It is useful to legislators to be reminded of the limits of legislation.

SECTION V.

A COMPARISON BETWEEN THE ENGLISH AND THE AMERICAN SYSTEMS OF BANKING, WITH REFERENCE TO THE CURRENCY AND TO THE FOREIGN EXCHANGES.

In 1810 two bank directors stated to the bullion committee, that in regulating the general amount of their loans and discounts, they did not "advert to the circumstance of the exchanges, it appearing upon a reference to the amount of the notes in circulation, and the course of the exchange, that they frequently have no connection."

Since that period the opinion of the directors of the Bank of England have undergone a change; and it is now admitted, that the amount of notes in circulation has a considerable effect upon the foreign exchanges. The mode in which this effect is produced is thus described in the History and Principles of Banking.

"The effect which the amount of notes in circulation has upon the foreign exchanges has been the subject of much discussion. One party contended, that as the amount of notes increases, the exchange must become unfavourable. Another party maintained, that the exchanges were not at all affected by the issue of notes, but by the state of foreign trade. The authors of the report of the bullion committee expressed the former opinion, some of the bank directors maintained the latter.

"It is obvious that the exchanges are regulated by the amount of gold that is required to be sent abroad, either to pay the balance of trade, or to pay our armies, or to subsidize foreign powers, or as rents to absentees, or for some other purpose. Now it is clear that an increased or diminished issue of notes will in no way diminish the amount of gold that is to be sent abroad, and therefore have no direct effect upon the exchanges; if we owe gold, we must pay it We may diminish our issue of notes, but that will not pay our debts. If, then, the issue of notes have any effect upon the exchanges, it must be in an *indirect* way.

"I have already stated that an increased issue of notes can have no effect upon the prices of commodities at home, but by influencing either the supply or the demand. If the increased quantity of money raises the demand for commodities beyond a certain point, it will advance the price; and if it increases the supply, it will lower the price; but in no way can the quantity of money in circulation affect the prices of commodities but through the channels of supply and command. Just so with the foreign exchanges; an unfavourable course of exchange arises generally from our owing a sum of money which we have to pay, in consequence of our imports having exceeded our exports. An increased quantity of money, therefore, to affect the exchanges, must diminish the amount of our foreign debt, and it can do this only by either increasing our exports or diminishing our imports. When money is abundant, our merchants can import more than formerly; this increases our debt. The importers are disposed to lay in stocks of goods, and the competition between the importers raises the prices they give to the foreigner; hence there are heavy sums to be sent abroad. It is true, that when money is abundant our manufacturers and exporters can also export more goods, but the competition among exporters diminishes the price to the foreigner, and hence we have a less proportionate sum to receive. The exporter, too, having abundance of money, gives the foreigner long credit, and hence the money is not received in England for a considerable time after the goods have been shipped; in the mean time the exchanges become unfavourable, and gold must be sent abroad. Now suppose in this state of

although during the former period the bullion in the bank was diminished from twelve millions to five millions, yet in the progress of this reduction, as there was no excitement, and no undue credit given by the banks in the interior of the country, the interest of money gradually rose from 2½ to 4 per cent. per annum for first-rate commercial paper; and then, without discredit or distrust of any kind, the bullion returned into the coffers of the bank, and money nearly resumed its former value, the rate of interest having gradually fallen from 4 to 2¾ per cent. in July, 1833.

"Adverting to the excess of the country issues, and looking to the race running with increased violence in Ireland as well as England, the bank was fully justified in attempting to arrest the evil which might attend a continuance of the export of bullion from the redundancy of money, by making an advance in the rate of interest in London and at the branch banks. In fact, the only question about which there can be any real difficulty is, whether she ought not to have taken this step somewhat earlier. To have acted, however, in anticipation of events likely to occur, would have been in direct violation of that principle upon which the bank professed to be guided, and which parliament had tacitly sanctioned. It would moreover have established a precedent and imposed future responsibilities upon the directors, which it is questionable whether they should ever incur, either upon their own account or that of the public. The bank acted precisely as any board of commissioners empowered solely to issue notes for bullion would have done, and can in no way be chargeable with the consequences.

"With reference to the past action of the bank there is no reason to doubt that the value of the currency would have been maintained without occasioning any severe pressure upon the money market had the countervailing issues by other bodies not occurred; still if there exist any well-founded reasons for supposing that the principle explained in the evidence of 1832, and acted upon by the bank, is not sound—or that the proportion of one-third of bullion with reference to the liabilities of the bank at the period of a full currency be not sufficient, it merely remains for parliament to express an opinion upon either of those points, and there can be no question but that the bank will immediately regulate its course accordingly. The principle referred to was never intended to apply under any extraordinary events that might arise. In such times it would become the duty of the bank to reduce their securities without delay, and thus to increase the relative proportion of bullion to their liabilities prior to the commencement of a demand, which in such altered state of circumstances might be expected to occur."

MR. SAMUEL JONES LOYD.

"The legislature, in ordeiing the publication of the accounts of the bank, had two objects in view: first, to enable the public to exercise some judgment upon the general course pursued by the bank directors, and thus to place their proceedings to a certain extent under the control of public opinion; and, secondly, by furnishing the public with a knowledge of the fluctuations which were taking place in the amount of bank notes in circulation or of specie in deposit, to enable them to foresee approaching pressure, and by timely precautions to diminish the intensity of its action and to mitigate its effects. Now, from the accounts as published, it appears that the bank has deviated from all the rules by which it professes to be guided, and which a regard to sound principle requires it to adhere to. By these accounts it appears that the amount of securities, so far from being kept at a fixed point, has fluctuated largely; it also appears that the circulation has in some instances increased whilst the specie has been diminishing; and from the same accounts it will be very difficult to make out that steady and continual contraction of the circulation month by month during the diminution of specie in store, upon which alone any plausible ground of censure upon the proceedings of the joint stock banks can be founded. But we are told in a pamphlet, explanatory of the action of the bank, and written by one of the most influential of the directors of that establishment, that, upon the data furnished by the accounts as published, no safe conclusions can be founded; that other explanatory circumstances and considerations, not officially laid before the public, must be taken into the account; and that, when due allowance has been made for these, conclusions will arise not only differing from, but diametrically the reverse of those to which every person must come upon the inspection merely of the published accounts.

"The principle upon which the bank professes to be guided in the regulation of the currency, is this; to meet its outstanding liabilities consisting of circulation and deposits, it holds at its disposal securities and specie; and its principle of action is, to keep the amount of its securities fixed, and to leave any variation in the amount of circulation and deposits to be balanced by a corresponding variation in the amount of specie. This principal was set forth by the bank directors in their evidence before the parliamentary committee previous to the last renewal of the charter, and was recommended principally upon the ground that the effect of it would be to render the bank a passive agent, and that all variations in the amount of specie would thus become the result not of any direct action on the part of the bank, but solely on that of the public. If they demanded specie, it could be obtained only by paying in notes or diminishing deposits; and if, on the other hand, the specie was increased, there must at the same time be a corresponding increase in the amount of circulation or deposits. Under this view of its probable action, the principle above stated met with a degree of acquiescence which a more close examination of the subject will hardly warrant.

"The bank, it must be observed, acts in two capacities; as a manager of the circulation, and as a body performing the ordinary functions of a banking concern. The duties of these two characters though very often united in the same party, are in themselves perfectly distinct. In the principle laid down by the bank for its own guidance, the separate and distinct nature of these two characters has not been sufficiently attended to. The rules applicable to its conduct as a manager of the currency are mixed with the rules applicable to its conduct as a simple banker, and the rule or principle under discussion is the result of this mixture. As a manager of the currency it is undoubtedly a sound rule by which to guide itself, that against the amount of notes out it shall hold at its disposal securities and specie; that the amount of securities shall be invariable, and that consequently all fluctuations in the amount of notes out shall be met by a corresponding fluctuation in the amount of specie in deposit; thus the public and not the bank will be made the regulators of the amount of the circulation, and that amount will by this principle be made to fluctuate precisely as it would have fluctuated had the currency been purely metallic.

"For the regulation of the conduct of the bank as a manager of the currency, this rule is perfectly unobjectionable, and rests indeed upon the soundest principles.

"But when the same rule is further applied to the regulation of its conduct as a banking concern, it is necessarily found to be wholly impracticable. It is in the nature of banking business that the amount of its deposits should vary with a variety of circumstances; and as its amount of deposits varies, the amount of that in which those deposits are invested (viz. the securities) must vary also. It is therefore quite absurd to talk of the bank, in its character of a banking concern, keeping the amount of its securities invariable. The reverse must necessarily be the case.

"The rule is, "that the securities being kept equal, any diminution in the amount of specie may be met by a corresponding decrease in the aggregate amount of circulation and deposits." The possible consequence is, that a large diminution of specie may take place, and be met not by a corresponding decrease of circulation, but solely by a decrease of deposits. Thus a heavy drain upon the treasure of the bank might take place under this rule without any contraction of the currency by which that drain is to be checked or the bank to be protected.

"If these views be correct, it follows that the rule now adopted by the bank is incorrect, and cannot be safely relied upon in the management of the currency. The rule ought to be, that the variations in the amount of circulation shall correspond to the variations in the amount of bullion, and the adherence of the bank to this rule ought to be obvious upon the face of the published accounts. By this means, and by this means only, can we obtain "a paper circulation varying in amount exactly as the circulation would have varied had it been metallic;" and in addition to the establishment of this only sound principle of currency, we shall obtain a simple and intelligible account, requiring no further explanations nor the production of any information not at the command of the public, to enable them to come to a correct understanding of it."

COLONEL TORRENS.

"It is universally admitted by persons acquainted with monetary science, that paper-money should be so regulated as to keep the medium of exchange, of which it may form a part, in the same state, with respect to amount and to value, in which the medium of exchange would exist, were the circulating portion of it purely metallic. Now

it is self-evident, that if the circulating currency were purely metallic, an adverse exchange, causing an exportation of the metals to any given amount, would occasion a contraction of the circulating currency to the same amount; and that a favourable exchange, causing an importation of the metals to any given amount, would cause an expansion of the circulating currency to the same amount. Therefore, when the directors of the Bank of England allow, not their circulation, but their deposits, to contract and expand under the influence of the foreign exchanges, they depart from the only sound principle upon which paper money can be regulated. If the circulating currency of the metropolis consisted of gold, an adverse exchange, causing an exportation of gold to the amount of £1,000,000 would withdraw from circulation one million of sovereigns; and therefore, as the circulating currency of the metropolis consists of Bank of England notes, an adverse exchange, causing one million in bullion to be withdrawn from the bank, would require to have £1,000,000 of bank notes withdrawn from circulation. As often as an adverse exchange abstracts any given amount of treasure from the bank, without a withdrawal to the same amount of Bank of England notes from circulation, so often do the directors of the Bank of England exhibit a practical proof of their incompetency to perform the important function of regulating our monetary system. To say that their rule is to keep their securities even, and to allow the exchanges to act upon their whole liabilities, is not a defence, it is an admission that they do not understand their business.

"When an excessive issue of bank paper has rendered our currency redundant, in relation to foreign currencies, the exchanges turn against us, and gold is demanded for exportation; and when, at the same time, the bank directors, disregarding the only sound principle upon which a paper circulation can be regulated, do not draw in their notes, as their treasure is withdrawn, the drain upon their coffers is continued until the bank is in danger of stopping payment. To avert this danger, the bank directors resort to a late and violent action on the circulation; they disregard the rule of keeping their securities even; they raise the rate of interest; they refuse bills of unquestionable character; they sell exchequer bills; and thus create alarm and distrust, until that credit currency, by means of which the far greater number of our commercial transactions are effected, begins to give way. The directors now find that danger approaches from another quarter. The banks throughout the kingdom, whether of deposit or of issue, feel more or less of pressure, and become desirous of contracting their liabilities, and of increasing their reserve of cash; in proportion as confidence is shaken, gold is preferred to paper, and sovereigns are held rather than the notes of the Bank of England; and a domestic drain, more sudden and more serious than the foreign, threatens to exhaust its coffers.

"These are the only circumstances under which it can be necessary that the bank should exercise its vaunted function of sustaining commercial credit. When the directors have neglected to any considerable extent, to draw in their notes as an adverse exchange draws out their

purchased on credit in New York, Philadelphia, &c., and invested the proceeds in the public lands, and thus deprived themselves of the means of paying their debts, although they might be perfectly solvent. These operations have been in progress for the last twelve or thirteen months. Their ultimate effect every thinking man ought to have anticipated. Under such circumstances, the money market became sorely pressed, and it was utterly impossible for the merchants to have continued their payments much longer, either at home or abroad, without some relief. That relief, for foreign purposes, could not be had in the form of metal, because the great bulk of it is in the interior of the country, and cannot be transported to the trading cities while the rivers are closed, but at great hazard, great expense, and a tedious journey. The relief could not be granted in the form of discounts, by the local or state banks, because the proceeds of such discounts, it was apprehended, would be drawn in specie for the payment of foreign debts. In such a crisis, what was to be done?

"A committee of merchants from this city, invited Mr. Biddle to New York. They submitted to him their case. He became satisfied that without relief they could not promptly meet their engagements. At the same time he was equally well satisfied, that the great body of them were not only solvent, but in many instances opulent, and that all they required was time to collect their debts. The Bank of the United States was in a condition to grant the requisite relief. Its board of directors had hoarded, with the caution of the miser, the credit of the institution. That credit is placed on a foundation so deep and so broad that it cannot be shaken. The bank has finally settled with the government for the seven millions of stock, which it owned in the late United States Bank. It had just received a decision of the Pennsylvania legislature, (a majority of which was elected as its opponents) by a vote of sixty-one to thirty-one, declaratory in substance that the state had no right to interfere with its charter. In short, in every point of view, in the language of a sailor, the bank was sailing before the wind with a free sheet.

"Under such circumstances, Mr. Biddle has agreed to exchange the credit of the bank for the credit of the American merchants. This evinces his confidence in their stability, and it affords them time for the collection of their Western and South-Western debts, which collection, in many instances, will be made in specie. This specie, if found necessary, will be shipped to England by the United States Bank, to meet the payment of its bonds, and thus the balance, if any be due by this country, will be liquidated, and trade flow in its accustomed channels.

"The scarcity of money is already operating, both upon the price of produce and real estate. It will continue thus to operate, until things have found their proper level. Every species of property is falling, and a strong disposition pervades the trading community to limit its business. The rage for speculation is at an end; and in the midst of all the present agitation and turmoil, to my view, the prospects are more cheering than they have been at any period for some months past. I do not mean to be understood that there will be no more failures—I wish I could think so. What I mean to say is, that the relief, in my opinion, which has now been granted, will not only facilitate remittances, and thus sustain the character and credit of many commercial houses, which, without it, must have suspended payment; but that it also made certain, during the present year, the exportation of sufficient specie to balance any debts or obligations due, or to become due, from American citizens; and this specie will be drawn from a section of the country where it is of no use, and shipped, without producing injury, or creating inconvenience to any other section of the country.

"I have extended my remarks on this subject, because I consider it of vital importance to both Great Britain and the United States, and because I have long apprehended and prognosticated the most disastrous consequences in the money market. I frankly confess, that I could not discover the source from whence the necessary relief was to be derived. But the Bank of the United States has generously, and I think wisely, stepped in, and done for the American merchants, what the British Government most providently does for the same class of men—loaned its credit. The British Government grants exchequer bills; Mr. Biddle in like manner has granted the bonds of the bank; and although he may, and probably will, sustain some loss by the transaction, yet he will have earned for the institution so much good will, and such kind feeling, that it must ultimately prove advantageous.

"Exchange from 11 to 12 per cent., say $11\frac{1}{4}$ or $11\frac{1}{2}$. Southern bills, endorsed in New York, from $9\frac{1}{2}$ to $10\frac{1}{2}$, according to the degree of confidence in the endorser.

"A GENEVESE TRAVELLER."