

B. 1.

ARKANSAS.

Extracts from the message of his excellency E. N. Conway, governor of Arkansas, November 3, 1858.

Notwithstanding the payments on the debt of the State, up to the 1st day of October, 1858, amounted to \$2,146,484 36, namely: \$932,790 03 on account of bonds issued to and sold by "The Bank of the State of Arkansas," and \$1,213,694 33, on account of bonds issued to and sold by "The Real Estate Bank of the State of Arkansas," there still remained, on the 1st day of October, 1858, a liability of the State, on account of bonds sold by the Real Estate Bank, amounting, with the unpaid interest on them, to \$1,815,307 77; and also a liability on account of the Bank of the State of Arkansas, for bonds and unpaid interest on them, amounting to \$1,239,526 82.

The assets of the Real Estate Bank and the lands mortgaged by stockholders, if honestly and prudently managed and applied, will be more than sufficient to pay the liability of the State on account of the Real Estate Bank. It is therefore recommended that no legislation whatever be had, whereby these mortgaged lands might, by any possibility, be released, or the security to the State and bond holders in any manner jeopardized.

The only debt of the State without adequate means to pay it is that of the State Bank, which, after deducting assets which will probably be collected, amounted on the 1st day of October, 1858, to about one million one hundred thousand dollars. This debt is composed of \$616,000 of principal *not due*, and the interest *due and unpaid*. Elsewhere in this communication the affairs of the banks are referred to more in detail. * * * * *

In the year 1836 "The Bank of the State of Arkansas" was created.

One thousand six per cent. and one hundred and sixty-nine five per cent. bonds of this State, each for \$1,000; were issued to and sold by "The Bank of the State of Arkansas," to obtain banking capital. By the report of the auditor you will see that the whole number of these bonds redeemed, cancelled, and filed with the State treasurer, up to the 1st day of October, 1858, was five hundred and fifty-three, and that the interest on the bonds, when redeemed, amounted in the aggregate to \$372,174 35; and to this should be added \$7,615 68 for interest paid at the United States treasury, out of funds of the State, on bonds issued to and sold by this bank, and then the interest paid will be shown to be \$379,790 03, making, with the principal of the five hundred and fifty-three redeemed bonds, \$932,790 03, paid on the debt of the State on account of the Bank of the State of Arkansas. But there are still outstanding and unredeemed 616 of the bonds sold by this bank. Of these, 591 are six per cent. bonds, which will not be due until the 1st day of January, 1868, and 25 are five per cent. bonds, which will not be due until the 1st day of January, 1887.

On the 1st day on these 616 bonds twenty-eight of them by "The Bank of Arkansas," and cent. bonds issued of Arkansas," and

The whole amount sales of the public under the compact 1st day of January \$79,125 75. But lution of Congress time to time, as it and \$71,864 08 of towards the payment to and sold by "T and the residue, \$ 128 bonds issued to tariff act of August proceeds of the sale 1841, was modified several States suspended September 4, 1841, Arkansas, and, under United States treasury of the United States issued to the Real interest on the 128 Therefore, from the State of Arkansas applied at the United on bonds issued to amount of interest standing bonds issued The principal, *not* will show that the value of the State of Arkansas tober, 1858.

To the report of the Arkansas you are referred his official transactions amended so as to authorize and that two years later State bank.

The land attorney to the bank; but as requires his presence in attention in another, bank which is necessary. By the report of the that he has been engaged State.

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On the 1st day of October, 1858, the interest unpaid by the bank, on these 616 bonds, amounted to \$631,142 50. One hundred and twenty-eight of the unredeemed six per cent. bonds issued to and sold by "The Bank of the State of Arkansas," and five hundred six per cent. bonds issued to and sold by "The Real Estate Bank of the State of Arkansas," are held by the United States.

The whole amount of the five per cent. of the net proceeds of the sales of the public lands, which accrued to the State of Arkansas, under the compact between the United States and this State, from the 1st day of January, 1841, to the 1st day of January, 1857, was \$79,125 75. But, in accordance with requirements of the joint resolution of Congress, approved March 3, 1845, this money was, from time to time, as it accrued, retained at the United States treasury, and \$71,864 08 of it applied by the authorities of the United States towards the payment of interest on the 500 bonds of this State, issued to and sold by "The Real Estate Bank of the State of Arkansas," and the residue, \$7,261 67, towards the payment of interest on the 128 bonds issued to "The Bank of the State of Arkansas." By the tariff act of August 30, 1842, the act of Congress to appropriate the proceeds of the sales of the public lands, approved September 4, 1841, was modified, and the distribution of the land fund to the several States suspended. But before the modification of the act of September 4, 1841, the sum of \$5,012 16 had accrued to the State of Arkansas, and, under section four of this act, was retained at the United States treasury, and \$4,658 15 of it applied by the authorities of the United States towards the payment of interest on the 500 bonds issued to the Real Estate Bank, and the balance, \$354 01, towards interest on the 128 bonds issued to the Bank of the State of Arkansas. Therefore, from the \$631,142 50, interest, unpaid by the Bank of the State of Arkansas on the 1st October, 1858, the sum of \$7,615 68, applied at the United States treasury toward the payment of interest on bonds issued to this bank, should be deducted, and then the whole amount of interest which remained due and unpaid on the 616 outstanding bonds issued to this bank will be shown to be \$623,526 82. The principal, *not due*, was \$616,000, which, added to the interest, will show that the whole amount of the debt on account of the Bank of the State of Arkansas was \$1,239,526 82, on the 1st day of October, 1858.

To the report of the financial receiver of the Bank of the State of Arkansas you are respectfully referred for intelligence in regard to his official transactions. It is recommended that the existing law be amended so as to authorize the receiver to employ special attorneys, and that two years longer be allowed for winding up the affairs of the State bank.

The land attorney and State collector has rendered considerable aid to the bank; but as the other regular business of his office often requires his presence in one direction, and the business of the bank needs attention in another, he cannot, at all times, render that service to the bank which is necessary.

By the report of the land attorney and State collector, you will see that he has been energetic and successful in collecting funds of the State.

Conway, governor of

of the State, up to 46,484 36, namely: sold by "The Bank on account of bonds of the State of Ar- of October, 1858, a by the Real Estate n, to \$1,815,307 77; State of Arkansas, g to \$1,239,526 82. lands mortgaged by d and applied, will State on account of ended that no legis- ed lands might, by he State and bond

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William M. Gouge and Archibald H. Rutherford, the State accountants, under the act of January 15, 1857, after a long, tedious, and laborious investigation of the confused affairs of "The Bank of the State of Arkansas," have made a very elaborate and able report, to which you are respectfully referred as a source of much information concerning the past history and present insolvent condition of this bank.

After deducting all of the assets which will probably be collected, the executive estimates that the debt of the State, on account of the State bank, amounted to about one million and one hundred thousand dollars on the 1st day of October, 1858.

"The Bank of the State of Arkansas" and "The Real Estate Bank of the State of Arkansas" were created in the year 1836. These are the only banks that ever had existence in Arkansas.

The State bank belonged wholly to the State, and no other stockholder has ever had an interest in it. The general assembly elected its chief officers, and they appointed their subordinates. After lingering through a lapse of nearly a quarter of a century, the State bank is about to pass away, but the State accountants have recorded much of its history. This will remain to perpetuate its memory, and to warn the people of Arkansas against the establishment of such institutions in future.

It is recommended that a law be passed to effectively prevent the circulation in this State of any bank note of less denomination than fifty dollars. Such a policy would cause gold and silver to flow into our State, and would afford substantial benefits to the people.

For information relative to the business of the Real Estate Bank you are respectfully referred to the report of the receiver in chancery. This valuable report shows that the policy established for winding up the bank works well, and if strictly adhered to and faithfully carried out, will protect the State from any loss whatever on account of the Real Estate Bank.

The report contains a complete list of the lands which the receiver is authorized to sell.

By the report of the auditor you will see that 584 bonds of this State, issued to and sold by the Real Estate Bank, and also many coupons for interest, had been redeemed, canceled, and filed with the State treasurer before the 1st day of October, 1858, amounting together to \$1,137,172 10, and that on the 1st day of October, 1858, 946 of the bonds issued to and sold by this bank remained unredeemed, and upon them the interest due and unpaid by the bank was \$845,830; making for principal and interest \$1,891,830; but from this should be deducted \$76,522 23, the amount of money of the State retained and applied by the authorities of the United States, as required by the joint resolution of Congress of March 3, 1845, towards interest on the 500 bonds of this estate, issued to and sold by the Real Estate Bank, which are held by the United States as trust funds, and then the whole amount for principal and interest will be shown to be \$1,815,307 77.

You are respectfully referred to the report of the solicitor general of the State of Arkansas for information concerning the suit of the State against the late trustees and officers of the Real Estate Bank,

and also relative to matters intended in behalf of the

After the State commenced a suit against the Real Estate Bank to have the assets of the bank applied to the payment of its debts, certain suits were instituted against the State upon bonds issued in 1854, these suits were entertained that they would be forced sales and the sale of the banks, the break up of the banks, and finally in due time the banks were appropriated on account of bonds issued by the State which was using efforts to make

In the suits only copies of the interests of the State, and all others concerned in this State, and approved in every case in which the court enforces the collection of interest thereon, before the bonds should be produced and not withdrawn until full and full payment of the bonds then be withdrawn, can be in order of the court but in every case in which a writ be instituted, the court may proceed by original or cross bill, and if the suit is not produced and filed; and if the suit, proceeding, or cross

You will see by the report that many suits were dismissed under the authority of the plaintiffs to file the bond with the supreme court of Arkansas and decrees of dismissal; that the Supreme Court of the United States and the governor of this State in the Supreme Court of the United States decided in favor of the State and the suit was sustained. There is but one suit pending on the bonds, and in that case a judgment was given by the court before the passage of the act but, upon appeal to the supreme court, the suit was reversed, and the solicitor general of this case will have to be decided by the circuit court.

The solicitor general has been attending to suits of the State

and also relative to many other important suits to which he has attended in behalf of the State.

After the State commenced suit against the trustees and officers of the Real Estate Bank to have them removed and held to account, so that the assets of the bank might be collected and applied to the payment of its debts, certain suits for large amounts were commenced against the State upon bonds of the State issued to the banks. In December, 1854, these suits were pending, and there were serious apprehensions entertained that they would result in judgments, and, under these, forced sales and the sacrifice of all the lands and other available assets of the banks, the breaking up of the stockholders of the Real Estate Bank, and finally in driving the State to repudiation. The assets of the banks were appropriated for the payment of the debt of the State on account of bonds issued to and sold by the banks, and the State was using efforts to make the assets available for that purpose.

In the suits only copies of the bonds were filed; and to protect the interests of the State, and of the stockholders of the Real Estate Bank, and all others concerned, an act was passed by the general assembly of this State, and approved December 7, 1854, which provided "that in every case in which suits or any proceedings had been instituted to enforce the collection of any bond or bonds issued by the State, or the interest thereon, before any judgment or decree should be rendered, the bonds should be produced and filed in the office of the clerk, and not withdrawn until final determination of the suit or proceedings, and full payment of the bonds and all interest thereon, and might then be withdrawn, canceled, and filed with the State treasurer, by order of the court but not otherwise." This act also provided that in every case in which any such suit or proceeding had been or might be instituted, the court should, at the first term after the commencement of the suit or proceeding, whether at law or in equity, or whether by original or cross bill, require the original bond or bonds to be produced and filed; and if that were not done, and the bonds filed and left to remain filed, the court should, on the same day, dismiss the suit, proceeding, or cross bill.

You will see by the report of the solicitor general that five suits were dismissed under this act of December 7, 1854, for failure of the plaintiffs to file the bonds; that in all the cases appeals were taken to the supreme court of Arkansas, which affirmed all the judgments and decrees of dismissal; that the plaintiffs then removed the cases to the Supreme Court of the United States; that, under an arrangement with the governor of this State, the solicitor general attended to these cases in the Supreme Court of the United States, and that all of them were decided in favor of the State, and the law of December 7, 1854, fully sustained. There is but one other suit pending against the State on bonds, and in that case a judgment had been obtained in Pulaski circuit court before the passage of the act of December 7, 1854, for \$52,513 06; but, upon appeal to the supreme court of Arkansas, the judgment was reversed, and the solicitor general states that under the existing law this case will have to be dismissed at the present term of the Pulaski circuit court.

The solicitor general has manifested much zeal and ability in attending to suits of the State.

R 2.

Report of the accountants of the State Bank of Arkansas, made to the Governor in pursuance of law.

HIS Excellency ELIAS N. CONWAY,
Governor of the State of Arkansas :

SIR: That you might carry into effect the intentions of the legislature, as expressed in the act of January 15, 1857, "to aid in ascertaining and recovering assets of the Bank of the State of Arkansas," you directed us to make the necessary investigations and report to you at the earliest day possible.

As soon as might be we entered on this duty, but a very little time served to show that it was not one easily performed. Mr. John H. Crease, who was more intimately acquainted with the concerns of the bank than any other man living, having been cashier of the principal office during the whole of its business existence, and financial receiver for the first two years after the act of liquidation was passed, was, in the autumn of 1856, requested by you "to examine the books of the State Bank and its branches with a view to their final adjustment, and for the more immediate purpose of exhibiting to the legislature, (at the session to commence on the 3d of November then ensuing,) a statement of the assets to be collected." He reported to you, under date of October 21, that he found everything in confusion, and that the performance of such a duty as had been assigned to him must necessarily be "a work of time."

A very little investigation confirmed the correctness of this statement. We found the accounts of the bank and its branches, extending through a period of twenty years, scattered through more than a hundred volumes, about eighty of which were folios; in addition to which there was about a cart load of papers, many of which were unsorted and unarranged.

At first glance it might seem that a certain number of clerks might, if due time were allowed them, go through the labor; but further inquiry served to show that even with such aid it would be impossible to bring the accounts into exact book-keeping order. Voluminous though the records be, they are in many respects defective. After the act of liquidation went into effect, as is stated by Mr. J. M. Ross, no regular books were kept up at the branches. In 1850-'51, Governor Roane, speaking of some of the officers, said: "The evidence of their incompetence would appear (among other things) from their inability so to keep their books as to exhibit the transactions of the bank." Mr. G. Washington Patrick, who was, in 1848, appointed to examine the bank and its several branches, said that he found "the affairs of the branch at the Post of Arkansas in such a peculiar state, that he was almost deterred from pursuing his examinations any further, the books and papers being kept in such a state that they were not only obscure but wholly inexplicable."

Nor was this all. In one instance the records were purposely defaced and destroyed. This appears from a letter of October 28, 1841,

I had in contemplation would certainly require not less than six months, and would be a very arduous job."

A preliminary investigation showing sufficiently the state of the accounts, our efforts were, in conjunction with those of Mr. Wilson, the financial receiver, and Mr. McConnaughey, the land attorney and State collector, directed, in the first place, to see what could be saved for the State. Through the measures that have been taken and that will be taken, something will be realized from assets that would otherwise have been entirely lost, but to what amount cannot now be told.

Mr. McConnaughey addressed a circular to the clerks of the circuit courts in the different counties, requesting them to state the exact condition of the suits in which the Bank of the State was a party. Some of them have given the desired information; others have not. One of them, the clerk of the Pulaski circuit court, found the investigation so tedious that it took him nearly a year to complete it.

The previous labors of Mr. Crease afforded great aid in adjusting the accounts of the three late financial receivers, John M. Ross, esq., Peter T. Crutchfield, esq., and James F. Fagan, esq. The aggregate of the collections made by these gentlemen from the debtors to the bank was between four and five hundred thousand dollars; but this embraced but a part of their transactions. Their exchanges of coupons for bonds, and the Real Estate Bank bonds for State Bank bonds, together with their statements of bonds and coupons surrendered to the treasurer, and of bank notes cancelled and burned, swelled the total of their accounts to eight millions. All these had to be carefully examined, as in each of these transactions there was a liability to error. It is a satisfaction to state that none of any moment was discovered.

We also prepared accounts current of the different attorneys: M. W. Dorris, T. N. Byers, W. C. Bevans, Jonas M. Tebetts, F. A. James, M. L. Bell, and D. W. Carroll, esqs. The returns of the amounts collected by them from different debtors to the bank, many of which Mr. Crease could not find on record, were found on file; thus affording the means of adjusting the accounts both of the attorneys and of the individuals from whom they made their collections.

After all that can be done the State will be found involved in debt to the amount of a million or more, on account of bonds and coupons issued for the benefit of the Bank of the State; and it is proper that the people should know how the debt has been incurred.

In the years 1835 and 1836 a bank mania pervaded the Union, and the adoption of a State government by Arkansas appears to have been hastened that an opportunity might thereby be afforded for establishing banks for issue. One article of the constitution was, literally:

"The general assembly may incorporate one State Bank, with such amount of capital as may be deemed necessary, and such number of branches as may be required for the public convenience, which shall become the repository of the funds belonging to or under the control of the State; and shall be required to loan them out throughout the State, and in each county in proportion to representation. And they shall further have power to incorporate one other banking institution, calculated to aid and promote the great agricultural interests of the country; and the faith and credit of the State may be pledged to raise

the funds necessary to carry into operation the two banks herein specified: *Provided* such security can be given by the individual stockholders as will guarantee the State against loss or injury."

On the 12th of September, 1836, the first general assembly commenced its session at Little Rock, and on the 14th, on the motion of Mr. Ringgold, a resolution was adopted, "that a joint committee, consisting of three on the part of the senate, to act in conjunction with six on the part of the house of representatives, be appointed to take into consideration all matter in connexion with banking, and report by bill or otherwise."

Equally prompt was the action in the house. On the same day Mr. Caldwell gave notice that he would, on the following day, ask leave to introduce a bill, to be entitled "An act to establish the State Bank of Arkansas."

On the 15th the House concurred in the resolution of the Senate. Messrs. Ringgold, Ferguson, and McCamy, were appointed members of the committee on the part of the senate, and Messrs. Davies, Caldwell, Dickinson, Smith, Lasater, and Drennen, on the part of the house.

On the 4th of October, Mr. Ringgold, as chairman of the committee, made a report in which he recommended the establishment of both the Bank of the State and the Real Estate Bank. As the foundation of a policy which involved the State and the people in inextricable embarrassments, this report must be given at length.

"The joint committee, to whom was referred the subject of banking, beg leave to submit to the legislature a few brief considerations on the subject of banking, in support of the charters as reported by the committee.

"The committee having estimated the beneficial effects of the desired institutions upon the great interests of agriculture, manufactures, and commerce, and, in fact, upon the common prosperity of all classes of the community, urge the policy of passing the charters as reported, being every way conducive to the prosperity of our new State.

"South Carolina, Georgia, and Alabama, have created banks upon their faith and public funds, for the supply of revenue, and success has attended these institutions through a long course of years; and they have realized the great advantages anticipated, and largely contributed to their prosperity. Why not Arkansas improve her effective means and productive prerogative, for the common benefit and accommodation?

"The privilege of banking is certainly of *infinite value*, and it is doubtless susceptible of vast improvement, as well in regard to revenue as to the convenience of the people. As regards the expediency of the measure, it might be successfully contended that with the means derived from the general government, by the distribution of the surplus revenue from the several States, the five per centum on the sales of public lands, the funds which will arise from the sales of the seminary lands, and other resources, with a limited portion of the public credit, an amount of income might be derived to meet the *whole expenditures of government* in a few years, without resorting to other financial

operations, but for such objects of internal improvement as the State might think best or deem necessary.

"The charter of the State Bank pledges the faith of the State for one million dollars; and it has been the policy of other States to procure means from foreign capitalists; and little doubt remains but the present time is esteemed to be the most auspicious for such a purpose, as it is believed that the State could borrow any desirable amount of capital at an annual charge of five per centum, if not upon better terms. The capital being loaned at eight per centum per annum, being three per centum in favor of the State, added to a banking privilege of issuing three for one on the actual capital so vested, will produce an accumulation sufficient to redeem the whole in less than twenty years.

"As a correct test of an adequate supply of circulating medium, properly proportionate to the demand of industry and commerce in every civilized society, we may assume it as a principle applicable to all stages of society, that the active capital of a country should bear a fair and reasonable proportion to that which is fixed and permanent; and whenever real estate is converted into active capital at a fair valuation, and money can be obtained readily, at a reasonable rate of interest, on secure mortgages of real estate, that country is making rapid advances in a commercial and agricultural point of view; and without banking facilities such cannot be the case. And Arkansas, should we not charter the banks asked for, will be at least twenty-five years behind where she would be if a liberal policy is extended by the present legislature. The productive classes of the community are the ones engaged in agriculture. Afford them no means by loans secured by mortgages on real estate, and the operations of productive industry are thus impeded by withholding that capital which would contribute to their prosperity. Such institutions would infuse new vigor into the industry of our State, animate the drooping energies of those who are engaged in the cultivation, [of the soil,] and open a large field for the profitable employment of the capital of the country.

"The institutions proposed by the committee, if passed into a law, would give a new direction as well as a new impulse to industry, and prove the means of augmenting the State revenue by opening and improving lands which would otherwise remain idle for years.

"There is no class who would not be benefitted, either directly or indirectly, by the introduction and discreet extension of banking institutions, as reported by the committee. All writers on political economy strongly support the position that, where a scarcity of circulating medium prevails industry cannot be carried on; for those who have solid property find it difficult to turn any commodity into money, and all energy and improvement ceases; for want of means to stimulate the man he is content to live only, not improve.

"There is no view of the subject, as regards the State Bank charter, but what is the result of infinite value to the State. It will, in the first place, control our circulating medium, and give par value to our scrip in a short time; it will add great facilities to the community at large, and make a safe depository for all the resources of the State,

and give us credit abroad; it will yield to the State, when in full operation, a sum not less than fifty thousand dollars per annum.

"All these things properly considered will, in the opinion of the committee, do away all these idle prejudices so commonly entertained against banking institutions, without any assignable reasons, other than those founded on want of sufficient information as regards their beneficial effects."

This argumentation, specious as it was in the eyes of its authors, and in the eyes of many of those to whom it was addressed, proceeded throughout on wrong principles.

1. The authors of the report committed the common error of confounding want of capital with want of currency. The people of Arkansas were then in great want of capital, as they are now, and as they will continue to be till the resources of the State are fully developed; but then, as now, they required but little circulating medium, because then, as now, they had but few things to circulate. If three millions in gold and silver coin had been thrown into circulation among them it would all, but the small portion necessary for current use, have left the State in exchange for articles the people wanted more than gold and silver. The like result would have followed if three millions in the notes of the best banks in the country had been thrown into circulation among them. Where, owing to the fewness of the commodities to be circulated, the permanent demand for circulating medium is small, the permanent supply will be small also, provided the circulating medium be of sound character.

2. It is desirable that "the active capital of a country should bear a fair proportion to that which is fixed and permanent," but circulating medium, when it exists in the form of promises to pay, is not circulating capital, but *circulating debt*. Through the agency of banks, such circulating medium can be easily created, and to any extent desired. But circulating capital can be created only by industry and economy. It cannot be suddenly spoken into existence by the fiat of assembly.

3. Real estate becomes "active capital" the moment that it yields an income in form of either rent or produce. But wild lands which yield no income are a poor foundation for bank stock. And only the *net* revenue of improved estates can be applied to the payment of debts due to banks, and consequently to the support of their current credits.

4. Even on the supposition that paper money banking is theoretically correct, there is no room for such banks except where the people have money to deposit, or commercial notes of short dates to offer for discount. In order to keep at the par notes they issue, banks have to redeem the whole amount once in sixty or ninety days, on an average, either by receiving them in payment of notes discounted, or by giving par funds for them. The daily current that flows into a bank must be equal to the daily current that flows out, in order that it may preserve its credit. All the operations of a bank, or at least all that exceed the amount of its *bona fide* capital actually paid in, must be confined to notes based on real transactions, and having but a few months to run. Loans for such short terms are of little or no use in an agricultural community. If a farmer or planter wishes to borrow, he wishes

to borrow for at least a year. The like is true of most merchants in newly settled countries. According to Adam Smith, the credits which English merchants used to grant to American merchants, previous to the revolutionary war, were usually from two to three years.

5. If a bank make long loans, as all it can then lend will be but little more than its real capital actually paid in, all it receives in the way of discount will not be equal to the common interest of money and the expenses of management.

6. So far from issuing "three to one," the banks of the United States do not, on an average, issue one to three on the amount of capital paid in.

7. If, by "the banking privilege of issuing three to one," the committee did not mean notes for circulation, but the aggregate of investments supposed to yield income, here too they erred. The aggregate of such investments, taking the banks throughout the Union, is but little more than two for one in the paid up capital.

8. So far from issuing notes in the proportion of three to one on the capital paid in, prudent bankers do not think it fit to issue more than three to one of the specie actually on hand. The laws of Louisiana require the banks of that State to have at all times on hand an amount of specie equal to one-third of both their circulation and deposits.

9. The committee erred grossly in supposing that without banks there can be no lending on bond and mortgage. Long before banks were established in any part of the country, this was the favorite mode of lending. And, even to this day, but a small portion of the loans on bond and mortgage are made through the instrumentality of the banks.

10. Of all kinds of banks those operating exclusively in government funds are the worst. It is the interest of the managers of such institutions to get as much out of them as they can for themselves and their favorites. Preventing losses to the State is a secondary concern. Two of the banks that the committee set forth as examples, the State Bank of Alabama and the State Bank of Georgia, have gone to destruction. The true condition of the third, the Bank of the State of South Carolina, cannot be known till the time comes for winding it up.

The principles laid down by the committee were, however, received without examination, and in accordance therewith a bill was brought in to establish a bank with a capital of one million of dollars, to be raised by a sale of the bonds of the State, to which million should be added the State's share of the surplus revenue of the United States, the five per centum derived from the sale of the public land, the seminary and saline fund, and all the other funds of the State.

At this very time the general assembly had before it a report from Charles P. Bertrand, the treasurer, stating that the seminary fund amounted to \$1,965 11, of which the amount of \$1,807 22 had been lent. But that, "finding it impossible in most cases to collect even the interest," he had deemed it expedient to renew the notes for both *principal* and *interest*, making them payable in twelve months, and

bearing interest from date. With this fact staring them in the face, the general assembly resolved to lend not only all the money the State then possessed, or might thereafter possess, but all the money it might be able to borrow.

On the 18th of October this bill, so fraught with woe to the State and to the people, was passed in the senate by a vote of 13 to 3. The yeas were Messrs. Ball, Clark, Ferguson, Hill, Izard, McCamy, McKean, McLain, Ringgold, Smith, Saunders, Thornton, and Williamson. The nays were Messrs. Brown, Kuykendall, and S. C. Roane. In the house it was passed on the 20th of the same month without a formal division.

On November the second the bill was approved by the governor, and on the same day Jacob Brown was elected president of the principal bank at Little Rock, and Messrs. Samuel M. Rutherford, Edward Cross, Wood Tucker, John McLain, William B. Wait, James DeBaun, David G. Eller, David Fulton, William Field, Richard C. Byrd, Elijah A. Moore, and Chester Ashley were chosen directors.

David W. Lowe was elected president of the branch at Batesville, and Daniel J. Chapman, John Miller, William More, Charles H. Pelham, John Robinson, J. Anthony, Robert Smith, Lawson Henderson, and Joseph Eger were made directors.

James McKissick was elected president of the branch at Fayetteville, and William T. Larrimore, Lodowick Brodie, James Byrnside, William Skelton, Alfred Wallace, Maurice Wright, John Henry, Alfred Henderson, and Philemon Williamson were chosen directors.

When this general assembly commenced its session the debt of the State was less than nine thousand dollars, (\$8,694 96 $\frac{1}{2}$.) Before it adjourned it passed acts to involve the State and the people in debt to the amount of three million and forty thousand dollars, namely: One million to establish the State Bank, two millions for the benefit of the Real Estate Bank, and forty thousand dollars to pay the current expenses of the State government.

On the 10th of November, 1836, the directors at Little Rock held their first meeting, and resolved to request the governor to have the bonds dated January 1, 1837. On the same day they appointed a committee of correspondence to open a negotiation with foreign capitalists for the disposal of the bonds; and requested the president to ascertain from the Secretary of the Treasury of the United States on what conditions the deposits of the public money could be obtained for the bank.

On the 12th of January, 1837, instructions were given to R. C. Byrd to contract for the engraving of suitable bank note plates.

Every effort was thus made to bring the bank into operation at the earliest day possible. But, owing to the state of the times, it was found impracticable to negotiate any large amount of bonds bearing only five per cent. interest. In the spring of the year an arrangement was entered into with the War Department for the sale of bonds to the amount of \$300,000, but before it could be fully carried into effect the banks throughout the Union suspended specie payment, and \$100,000 was all that was realized during the year from that source.

This was not the only disappointment the directors were doomed to

suffer. The first installment of the United States revenue was due on the first day of January. Early in February the treasurer of the State (Mr. Woodruff) received two transfer drafts from the Secretary of the Treasury of the United States, one for \$45,583 83 on the Planter's Bank of Mississippi, and the other for \$50,000 on the Agricultural Bank of the same State. The first mentioned draft he exchanged with the United States receiver at Little Rock for an equal amount of specie. The latter, as he had no safe place in which to deposit the money, and as there was no probability of the bank's going into operation for several months, he deferred collecting until the second installment should fall due. On the 1st of April he received two other drafts for the like amount on the same banks, and in about two weeks afterwards he started for Natchez for the purpose of receiving payment of these drafts, and also of the \$50,000 due on the first installment.

He arrived at Natchez on the 23d of April, "just at the commencement of the run on the banks of Mississippi and Louisiana, when their counters were constantly crowded during business hours with throngs of traders and others, all clamorous for specie in exchange for the large roll of notes which they eagerly presented."

Both the banks made very fair promises, but Mr. Woodruff found that if he made a peremptory demand for specie for the whole amount of the drafts he would probably get nothing. He therefore deemed it advisable to accept from the Planter's Bank bills of exchange on New Orleans for \$45,583 83, and to take from the Agricultural Bank her guaranty to deliver at Little Rock on the 1st of July \$100,000 in specie, free of risk and expense.

Proceeding to New Orleans, Mr. Woodruff presented the drafts which he had obtained from the Planter's Bank and received specie for them, which specie he brought with him to Little Rock.

In a few days after his return the news came of the suspension of specie payment by both the Planter's Bank and the Agricultural Bank. This induced Mr. Woodruff to pay a second visit to Natchez. The cashier of the Agricultural Bank promised to do the best he could, but the promises were of so indefinite a nature that Mr. W. could not confide in them. He therefore extended his journey to Washington City, and the Secretary of the Treasury, as the best he could do, gave him drafts on banks in Cincinnati, Louisville and New Orleans, in exchange for the drafts on the Agricultural Bank of Mississippi.

The third instalment of the surplus revenue was due on the 1st of July, and drafts were received for it on the Planter's Bank for \$50,000, and on the Agricultural Bank for \$45,583 83. Negotiations were entered into with these institutions in hopes of prevailing on them to pay at least a part of these drafts in specie or in New Orleans paper; but they both steadily refused to pay in anything but their own notes; and such payment the Bank of the State of Arkansas was finally obliged to accept.

As there was no longer an apparent surplus, but a real deficit in the United States Treasury, Congress, by a special act, relieved the Secretary of the Treasury from the obligation of making a deposit of the fourth instalment with the States.

When the act was passed to establish the bank, it was confidently expected that one million dollars would easily be raised by the sale of bonds, and that \$382,333 32 would be realized in specie or its equivalent from the State's share of the surplus revenue of the United States. Instead of a million, only one hundred thousand dollars were obtained in exchange for bonds, and instead of \$382,333 32 from the United States surplus revenue, only \$286,757 47. Of this last amount only \$91,167 67 was in specie. The residue was in the notes of the non-specie paying banks of Ohio, Kentucky, Louisiana and Mississippi.

The directors at Little Rock were not the men to be daunted by difficulties. On the 8th of August, 1837, they commenced discounting.

At that time all the funds actually on hand were \$90,000 in gold and silver, and \$66,000 in Ohio and Kentucky bank notes. But they enlarged their ability to lend by the issue of post-notes payable twelve months after date, and the treasurer, by agreeing to receive such notes for all public dues, made them the official money of the State.

This was an unfortunate proceeding. By it the bank stamped itself at the very beginning as a non-specie paying institution, and thereby prevented itself from acquiring credit abroad. As a consequence, even in the short period in which it actually paid specie, its notes were never at a less discount than 8 or 10 per cent. in New Orleans, and had not so much as the honor of a quotation in the prices current of New York and Philadelphia. It is true that if the bank had confined itself to issues of notes payable on demand, it could not have made loans and discounts beyond the amount of capital paid in. But as we shall see hereafter, even the contrivance of issuing inconvertible paper did not, after the bank was brought into full operation, enable it to extend its loans and discounts much beyond the amount of its capital. It failed to add sound credit to its capital, and thereby was much restricted in its operations.

In October and November exchange on the east could not be procured at less than 8 to 10 per cent. premium, and specie bore a premium of 8 to 10 per cent. in "current paper." As this current paper, consisting chiefly of Arkansas bank post-notes, was the official money of the State, specie could not circulate concurrently with it. This led to the issue of "shinplasters" by individuals and municipal corporations.

A special session of the general assembly commenced at Little Rock on the 5th of November, 1837. On the 7th there was laid before the Senate a report from Major Jacob Brown, the president of the State Bank, accompanied by sundry documents, showing the difficulties the directors had encountered, and the extent of their operations. From these it appeared that the amount of capital paid in, up to November 6, 1837, was \$413,106 29, and that it had been derived from the following sources:

Sale of State bonds.....	\$100,000 00
United States surplus revenue.....	286,156 49
Five per cent. fund.....	26,725 00
Seminary fund.....	96 30
Saline or salt spring fund.....	127 50

Of the total, \$216,725 consisted of specie and United States treasury drafts, and \$196,381 29 of the paper of non-specie paying banks in Ohio, Kentucky, Louisiana and Mississippi. As was observed by the committee on banks, in their report to the legislature in 1857: "One of the objects professedly in view in establishing this bank was that of supplying the State with a sound circulating medium, and it commenced operations by circulating the notes of distant and non-specie paying banks, some of which proved to be ultimately worthless, and by issue of its own, which, as they increased the mass of notes not redeemable in specie, served still further to depreciate the currency and increase the difficulty of resuming specie payments."

So rapidly did the bank proceed in lending, that it had on hand on the 6th of November only \$916 in the inconvertible paper of other banks, and it had added to the inconvertible currency then in circulation \$91,255 in its own paper, that being the amount of its post-notes then in circulation, payable twelve months after date. Of notes of its own payable on demand it had issued only \$8,310.

The money received from the Secretary of War, (\$100,000,) having been set apart to establish the branches at Fayetteville and Batesville, there remained for capital of the principal bank, \$313,105 29, on which it had made loans and discounts to the amount of \$322,141 98.

The amount of specie and United States treasury warrants on hand was considerable, being \$180,033 14, independently of \$31,000 due to the branch at Batesville, and \$150,000 specially deposited by one of the disbursing officers of the United States.

On the 18th of November the joint committee on banks made a report, through their chairman, Mr. Ferguson, in which they bestowed the highest commendation on the directors, and declared that the bank had done great good to the people:

"The directors, in all their proceedings, have had an eye single to the safety of the institution and the welfare of the State; basing all their operations on such rules of prudence as would hazard neither its safety nor its credit, and, at the same time, extend its means to the use and relief of the people. Commencing operations at a time when other institutions were trembling on the verge of dissolution, when, from one end of the Union to the other, banks which had stood the shocks and revolutions of trade for more than a quarter of a century, were compelled to suspend payment; and when all parts of the country were watching with an eye of vigilance and suspicion the movements of all banking institutions, it was a responsible as well as an arduous duty for them to perform. To commence the business of a new institution in a manner that would sustain its credit and inspire confidence in its operations would have been a duty difficult for practiced financiers—it was more so to men just commencing their practical experience where the system of finance has had but few operations and is necessarily but little understood. It has been performed, however, and your committee are proud to say the experiment has been successful beyond the most sanguine expectations of its friends. A large portion of the people of the State, and particularly in those sections most oppressed by the recent change in the monetary affairs of the country, have been relieved; a currency of our own has

been provided in lieu of that furnished by other States, much of which was greatly depreciated; and this without extending the circulation of the bank to a point beyond half the amount of gold and silver on hand; leaving the institution at this time prepared and ready to carry out any course of policy which the general assembly may deem it advisable to pursue."

The committee then proceeded "to recommend the passage of an act authorizing the governor to sign the bonds of the State to the amount of one million dollars, including those now on hand and unsold by the bank, and to appoint an agent to proceed without delay to some one of our eastern cities and effect a sale of them for eastern credits. The time is believed to be favorable for negotiating such securities, and the condition of the country and the best interests of the State, in the opinion of your committee, demand such a measure. In a country like ours, where all the elements of wealth lie scattered in profusion around us, and where it is in the power of the State to bring them into employment by the introduction of foreign capital, which alone is wanted to start the springs of enterprise, it is the duty of the legislature to extend every facility in its power to effect it. Though it may be considered by the over-cautious a hazard to infuse into great masses of the people that active spring which has made the United States a powerful nation in the same time that other communities have attained to the beginning of a name, yet experience has proven all the best means of mankind are promoted by it. Wealth, happiness, the comforts and blessings of life, intelligence, confidence at home and respect abroad, are the consequences of its irresistible impulses, and with us it requires but a system of liberal legislation to start it into action. The policy pursued by several of our young sister States fully sustains the truth of this assertion, and their example the people of this State, it is hoped, will be emulous to follow."

As the banks of the Atlantic States were then all in a state of suspension, the recommendation of the committee was substantially that the bonds of the State of Arkansas should be exchanged for the paper of non-specie paying banks. Bringing foreign capital into the State would have been well, if it had not been connected with such a "system of liberal legislation" as to multiply debt to many times the amount of that capital.

In accordance with the recommendation of the committee, an act was passed (December 18) authorizing the issue of bonds to an amount not exceeding one million dollars, at a rate of interest not exceeding six per cent. As this act did not repeal that provision of the act for establishing the bank which authorized the issue of bonds to the amount of one million at a rate of interest not exceeding five per cent., the two acts taken together authorized those concerned in the institution to dispose of State bonds to the amount of two millions.

On the same day a resolution was passed authorizing the directors at Little Rock to issue two hundred thousand dollars in post notes, payable in twelve months after date, and the directors of each branch to issue post notes, payable in twelve months after date, not exceeding two dollars for one of capital paid into each branch. Previous to this,

the issuing of post-notes was entirely unauthorized by if not in direct contravention of law.

By another act, passed December 15, the legislature attempted to extend still further the supposed advantages of the system by authorizing the establishment of a branch at the Post of Arkansas.

Before the close of the year, Major Jacob Brown resigned, because the position he held in the bank was incompatible with his duties as an officer of the United States, and Major William Field was elected President in his place.

On the 12th of January, 1838, the branch at Fayetteville commenced discounting. And on the same day Mr. Brodie submitted the following resolution, which was unanimously adopted :

"As the directors of this bank do not receive any compensation for their attentions, and as they necessarily expend much time, labor, and money in the management of said bank, it is therefore resolved, that the cashier be authorized, and he is hereby instructed, to loan to the said directors, or any one of them, at the usual rate of interest, on the presentation of a note, with two securities, *either* of which is supposed to possess ample means to meet the demand, payable twelve months after date, for any sum not exceeding the amount contemplated in the charter, to wit: the sum of *ten thousand dollars*, the loan to be made in the usual issues, that is to say, in post-notes payable twelve months after date, with a due proportion of such money as may be made payable on demand. And be it further resolved, that said directors, or either of them, after having drawn money as aforesaid, shall have the privilege of *renewing* their notes as they become due, *until* it shall be necessary for the bank to call in *all* its debts, and no one shall be permitted to borrow an *additional* sum after having drawn as aforesaid, until all the former demands shall have been satisfied; but nothing in the preceding resolution shall be so construed as to authorize the cashier to loan to any director an amount exceeding two thousand dollars, without the consent of the directory at a regular discount day."

When it is considered that up to January, 1839, (a year after the date of this resolution,) this branch was operating on a bare capital of \$110,000, the directors must be regarded as acting towards themselves with great liberality, inasmuch as they resolved to lend to themselves permanently the sum of \$90,000. They also acted liberally towards others, as it is shown by their books that they discounted nearly all the notes that were offered.

On the 5th of February, the branch at Batesville commenced discounting. Thus, in the early part of 1838, the mother bank and two of its branches were in operation, and all on a capital of little more than \$400,000, a great part of which capital consisted originally of the inconvertible paper of the banks of the neighboring States.

In June and July, the loans and discounts of the bank and its two branches amounted to \$689,264, the circulation payable on demand to \$7,785, and the post-notes, payable twelve months after date, to \$241,943. The specie on hand amounted to \$241,923.

The most of the notes discounted had eight months to run. Specie bore a premium as high, at times, as 10 to 15 per cent., when esti-

mated in the post-notes of the bank, which constituted the chief part of the currency.

Not long after this, (August 27, 1838, bonds to the amount of one million dollars were sold to the North American Trust and Banking Company at New York, on such terms as placed \$300,000 immediately at the command of the bank and its branches. The residue, with an allowance for interest, was payable in monthly installments, commencing with the first day of January, 1839, and ending with the first day of February, 1840.

According to a statement of November 5, 1838, the capital stock of the principal bank at Little Rock, and the branches at Fayetteville and Batesville, then paid up, amounted to \$1,363,105 29, the loans and discounts to \$763,737 22, the real estate to \$10,743 53, and the specie on hand to \$316,045 76. There was due from the North American Trust and Banking Company the sum of \$671,667 27, and from other banks, (including their notes on hand,) \$72,994 70.

On the other hand, there was due for notes in circulation \$461,775, and to depositors and other banks \$143,906 57.

Of the circulation, only \$83,840 was payable on demand. The residue, \$377,935, consisted of post-notes not yet arrived at maturity.

The condition of the institution at this time was one of great strength, and on the first day of January, 1839, the principal bank at Little Rock and the branches at Fayetteville and Batesville commenced paying specie on all the notes they had then in circulation, including post notes that were not due till twelve months after date. The branch at the Post of Arkansas, which commenced discounting on the 3d day of January, 1839, never issued post-notes.

At this session, the legislature, by an act passed December 18, 1838, made an effort to extend the supposed advantages of the system, by authorizing the establishment of an additional branch at the town of Washington, with a capital of \$300,000, to be raised by sale of new six per cent. bonds. They also directed such of the five per cent. bonds as remained undisposed of to be cancelled.

It is here to be observed, that though the bank and its three branches all professed to pay specie on demand, they resorted to such means as were in their power to make that demand as light as possible. The chief contrivance was that each branch (the branch at the Post perhaps excepted) should pay out not its own notes but the notes of some distant branch. "I have," says Mr. Ringgold, the cashier of the branch at Batesville, writing to Mr. Ball, the cashier of the branch at Fayetteville, under date of February 12, 1839, "received and paid out in your paper, since January 1, some \$10,000 or \$12,000, and the amount on hand at this time is small, (say \$3,000.) This gives your paper a circulation north and east, and I hope you will give ours a circulation west."

At first the mother bank appeared reluctant to adopt this policy, but afterwards entered into it so heartily that the circulating medium of Little Rock consisted chiefly of notes of the Fayetteville branch. They were receivable for bank debts, but were at a discount of two per cent. for specie. Thus while the bank and its branches all professed to pay specie on demand, they did not furnish a paper circula-

tion convertible into specie, for they took care to circulate their notes at such a distance from the place of issue that they could not readily be presented for payment.

If this to any one may seem an unworthy subterfuge, it is proper to state that it is a common practice where the branch bank system prevails. The great bank of the United States did not blush to adopt it. And if rumor is to be believed, the banks of Virginia, North Carolina, Tennessee, and some other States, still persist in it. For example, a branch in the mountains of Virginia will give circulation to the notes of a branch on the sea-board, while the branch on the sea-board will return the favor by giving circulation to the notes of the branch in the mountains. This is the reason why exchange at New York on Virginia and North Carolina is at a greater discount than exchange on South Carolina. The paper currencies of Virginia, North Carolina, and Tennessee are, even in the best of times, not convertible into specie, because the manufacturers of that currency continue to circulate it where it cannot be easily presented for payment.

As already mentioned, the branch at Arkansas Post commenced business on the 3d of January, 1839. On that day it discounted notes to the amount of \$60,950, all having twelve months to run. In granting loans for such a long date it acted on the principles of a loan office rather than of a bank; and thus the directors, by the first step they took, laid the foundation for future difficulties. Before the close of the month they added \$31,900 to these loans and discounts, none of which were for less than six months.

January 24 the president stated that "from the apparent difficulty of obtaining a circulation of our paper at the present time he felt it his duty to apprise the board that it would be necessary to restrict the loans to a shorter period. That the loans for twelve months should not exceed \$100,000, including those taken by directors," and that it would hereafter be necessary to discriminate between applicants as well as counties.

January 31 the President made a still longer exhortation to the board. In it he said, "You will see by the statement just made that our circulation is \$64,000. Could we reasonably calculate on this sum being in actual use, passing from hand to hand as a circulating medium, it would afford me pleasure to recommend a continuance of the liberal policy heretofore observed in respect to discounts. But the daily demand at our counter leads conclusively to the opinion that not more than \$15,000 or \$16,000 of that sum is in actual transit from hand to hand, the remainder being held up in large sums for the purpose of calling on the bank for specie or eastern exchange."

April 24. The president said, "the embarrassment in the south continues to increase daily. Most of the banks in Mississippi, which had resumed specie payments in January last, have again suspended, and others have come to the alternative of issuing post-notes. Also some of the banks in Louisiana, as I am credibly informed, are issuing post-notes to protect themselves from the great demand for specie. The banks in Arkansas have for some time back stopped discounting, and so far as I can learn the demands upon them have been such as considerably to diminish the specie fund, and greatly curtail the cir-

ulation. The statement of this bank, just read, shows to you that the specie continues gradually to diminish without anything that may be considered a run.

Notwithstanding this, the directors took immediate measures for the erection of a costly banking house.

May 30. The president said, "Here, and in every part of the State to which my information extends, there appears to be a great scarcity of money; I am, however, happy to inform you that the situation of the principal bank and branches is such as will enable them to meet any crisis or emergency that *may* or can possibly happen. * * * In consequence of the protest of bills of exchange belonging to this bank in New Orleans, our resources are not so great at this time as we had good reason to expect they would be. I am also afraid that the great scarcity of money will cause many of these persons who obtained discounts on notes payable at maturity to ask for a renewal or further extension of time to pay them."

October 31. The branch resolved to suspend specie payments.

Such is briefly the history of the only office of the bank of the State of Arkansas that commenced operations with a *bona fide* payment of specie. In less than 9 months it finished its course, because it, from the very beginning, proceeded on false principles.

The history of the mother bank of Little Rock and of the branches at Fayetteville and Batesville was very similar to that of the branch at the Post of Arkansas.

On the 27th of February it was ordered by the board at the principal bank that persons obtaining discounts should receive the notes of the branches, "and such other funds as we may have to spare."

February 23, we read that "the paper of the bank is at 8 to 10 per cent. discount at New Orleans." So bad a character had the bank got by commencing operations by the issue of post-notes, that the assumption of specie payments could not establish its credit.

May 17. "Our banks all pay specie, but it is at their own counters, and the expense of collecting from the Fayetteville branch, which supplies most of the circulation, is 2 per cent."

September 4. For the last six or eight months a run on the banks. "There is great distress in this part of the country."

When the bank at Little Rock assumed specie payments, January 1, 1839, its circulation amounted to \$214,900, and its specie to \$131,392. When it suspended specie payments, November 1, 1839, its circulation was reduced to \$43,420, and its specie to \$76,678 17.

At the time the bank and its branches suspended specie payments (November, 1839,) they had, on a capital paid in of \$1,501,088, outstanding loans and discounts of the amount of \$1,544,617. Thus the loans and discounts exceeded the capital in the sum of only \$43,529. This was very different from what the founders of the system had expected. They supposed that, "through the banking privilege of issuing three to one," a million of capital borrowed from abroad would perform at home the functions of three or four millions.

At this time the circulation of the bank and its branches amounted to \$301,310, and the specie in their vaults to \$264,100. As the notes in circulation exceeded the gold and silver on hand in the sum of only

\$37,210, there was no immediate necessity for suspending specie payment. There were, to be sure, on the books, "deposits" to the amount of \$162,717, but only a portion of these were payable on demand. They consisted chiefly of part payments by debtors of the bank. What was owing by banks in other States, (\$142,945,) and the notes of other banks on hand, (\$39,213,) were more than a counterpoise for what was demanded by depositors, and for the amount in which the notes in circulation exceeded the specie on hand. The immediate means of the bank and its branches amounted to \$469,949, while the immediate liabilities could hardly have amounted to \$400,000.

As in the case of the Real Estate Bank, so in the case of the State Bank, the suspension of specie payments was brought about, not by necessity, but by policy. The bank and its branches might all have continued to pay their notes on demand, but by so doing they would have put it out of their power to make new discounts, and perhaps have made it necessary to insist on prompt payment of "curtail and interest" on old discounts. This would have exposed even the directors themselves to great inconveniences. "The people wanted relief," and among the people none more than the directors themselves. They therefore determined to suspend specie payments.

December 5, 1839, the board at the Post of Arkansas "resolved, that the resolution of the 4th of April last, suspending discounts by this board, be and the same is hereby rescinded."

The latter part of 1839 and the beginning of 1840 were marked with new troubles. News was received that the North American Trust and Banking Company had dishonored the drafts of the branches at Fayetteville, Batesville, and the Post of Arkansas. The Trust Company wished a delay of twelve months on \$200,000, which it owed to the State Bank and branches, or, if this proposition should not be acceded to, it offered to return bonds of the State which it still held to the amount of \$200,000. Major Field went to New York as agent of the State Bank, and succeeded, though not without some difficulty, in making some arrangement with the Trust Company.

January 2, 1840, we read in the records of the Post branch, "our bills of exchange that we have purchased, payable at New Orleans, have nearly all come back under protest."

As the year advanced, trouble thickened. In September news was received that the funds of this branch in the Philadelphia bank, some four thousand dollars, had been attached by Riggs & Co., of that city. This caused Mr. Luther Chase, the cashier, to address to that house a letter, in which he said, "the suspension of the State Bank and branches in 1839 was not a measure of necessity on their part, but one of prudence. By suspending, they were enabled to render to our merchants and citizens generally, to a limited extent, the indulgence and facilities so much needed by them in consequence of the sudden fall in the price of our exports."

In November, news was received that the North American Trust and Banking Company had again dishonored the checks of the Post branch.

The mother bank had also its difficulties to contend with. Thus we read, under date of January 27, 1841, in reference to the collection

of debts, "In all undisputed cases judgment is obtained in six months, but by incurring heavy expenses and getting the co operation of the sheriff payment can be delayed twelve months."

Under date of February 12 we find it on record: "We do not pay out our own notes, which are consequently *specie*. But current Arkansas paper is abundant, and the character of all is estimated alike at New Orleans, where the quotation is 25 per cent. discount."

It is well worthy of remark that at the very time in which the banks of Arkansas were in this woful plight, the bonds of the State stood high in the London market. This appears from a letter of Frederick Huth & Co., of that city, under date of October 6, 1840, addressed to the treasurer of the State, viz:

"For the sake of regularity, we beg to inform you by the present, that Colonel James Murray, acting in behalf of the Arkansas banks, (or rather of Beers & Co.,) has made payable at our office the principal and interest of the following bonds of the State of Arkansas, to-wit: [Here follows a description of the bonds, amounting in all to \$656,000,] on which the half-yearly dividend amounts to \$19,800; which we have to pay here on the 1st of January and 1st of July of every year.

"The last dividend due on the 1st of July was punctually remitted by the banks, and we have no doubt that the next which will become due on the 1st of January, 1841, will also come forward in good time; but, at the suggestion of Colonel Murray, we have, nevertheless, thought it right to give you the above particulars, to serve for your government, as, with a view to further sales of Arkansas stock in this market, and to uphold the high character which it bears at present, you will be no less anxious than ourselves to co-operate, and to see that all intermediate parties co-operate toward the punctual fulfillment of all the obligations of the State in this country."

Like most others connected with the banks of Arkansas, Frederick Huth & Co. were doomed to disappointment. They hoped, as appears from letters of theirs, still on trust, that their agency in paying the interest on Arkansas bonds in London would cause numerous consignments of cotton to be made "to their house in Liverpool." For a time they furnished the bank with regular statements of the variations of the cotton market. The officers of the banks had every disposition to ship to Liverpool as much cotton as would pay the interest on the bonds due in London, but, unfortunately, had not the power.

On the 1st of October, 1840, the principal bank at Little Rock returned specie payment. At that time its circulation amounted to \$32,340, and its specie \$69,117 75. The branches, so far from imitating this proceeding, denounced it as unwarrantable, affirming that, in a case like this, the bank and its branches should all act together, and that a resumption could with propriety be brought about only by an order of the general board.

In about a month afterward news was received that the North American Trust and Banking Company had again dishonored the drafts drawn upon it. This increased still more the embarrassment of the banks.

On the 2d of November, 1840, the general assembly commenced its

third session. Governor J. S. Conway made, in his farewell address, the following remarks :

“ The subject of the suspension of specie payment by our banks is one in which the people throughout this State have justly manifested much concern, and many of us have doubtless suffered considerable inconvenience in consequence of that suspension.

“ The resumption of specie payments by the parent bank of the State institution at this place, has contributed but little to relieve us from the inconvenience complained of, as but a very inconsiderable quantity of its paper is in circulation. For the good of the people and credit of our State I most ardently hope the time is at hand when each banking institution within our limits will be so conditioned as to be able to redeem with the hard dollars all its notes as they may be presented for payment. I am not in possession of any information relative to either institution which enables me to know at what probable period they will be thus happily conditioned. The general suspension of specie payments by the banks in the whole south and west seemed, to the conductors of ours, to create a necessity to follow that example, for the preservation of our more infant institutions.

“ The general assembly will doubtless give this subject a full, fair, and impartial investigation, and adopt such measures as will require the banks to resume at the earliest possible period, without endangering the interests of the State and usefulness of the institution; and to prevent a recurrence of the evil, measures commensurate with the importance of the subject will doubtless be adopted.”

In his inaugural address, (November 6, 1840,) Governor Yell gave his views fully and freely:

“ The banks of the country are stretching forth their countless arms to grasp all that may be worth preserving, and too often we find legislative interposition either tacitly approving or openly justifying their acts of usurpation—and still we submit to this most odious and unjust oppression without seeming to comprehend the heartless tyranny with which we are burdened.

“ Are we ready to see the price of all our staple products raised and depressed at the will and caprice of these corporations, with their paper depreciated from twenty to fifty per cent. discount, to suit the convenience of stockholders and debtors, and the avarice of brokers and speculators? Rightly to remedy the existing evils, as far as prudence and sound policy will dictate, should be your first object. Let the strong arm of lawful authority interpose to teach brokers and stockjobbers a salutary lesson, who would pawn the industry and property of the country. Let no political or personal consideration swerve you from a scrutinizing and fearless discharge of your duty, to enforce all proper means to bring back your depreciated State paper to a sound specie standard, or lay the axe at the root of the evil. Your firmness and decision in restoring them within their chartered limits may confer some of the blessings contemplated by their framers; and by a sacred preservation of this rule public confidence may again be restored, the price of property become more steady, and the laboring classes receive a just compensation as the reward of their industry. Even your public treasury has not escaped the rapacity of the times;

as your money has depreciated, the salaries of some of the officers of the banks have increased in an equal ratio. It is time to place checks upon your treasury that will in future prevent bank directors from even an indirect control of its funds. That power should be alone exercised by the representatives of the people. I submit the propriety of limiting by law the salaries of all the bank officers, and of prescribing their number and grade.

“The evils which have resulted to the great body of the community from the late suspension are great and almost insufferable. It is a very striking instance of the radical defects of the entire system in every government; and under every system we may look for revolutions in business, consternation and distress, notwithstanding the country may be otherwise in a growing and healthy condition. These revolutions are, in some degree, owing to our commercial regulations. Occasionally the balance of trade is against us; we then feel the effects of a foreign debt, following upon excessive importations, aggravated by the consequent reduction of the price of our exports in foreign markets, and its corresponding depreciation at home. Every few years this foreign balance has swept the country of specie, and of course deranged the currency, and at times paralyzed and frustrated business, bringing ruin upon thousands of our most enterprising and useful citizens. Such a crisis produced the suspension in 1839, and the misguided policy of many of our banks, by increasing their discounts to near half a million of depreciated paper, placed them beyond the possibility of an early resumption. Such a course of policy may be checked in future by the enactment of such laws as will make it not only a forfeiture of the charter, but *fine* and *imprisonment*, for the president and directors to issue or discount during their suspension, or for the issuing at any time of a certain amount of paper beyond the amount of specie in their vaults. So far as the currency of your own State is concerned, you have the power to correct the evil. I then respectfully submit the propriety of a thorough investigation into the condition of all the banks; and upon their report should mainly depend the character of your future action. If it is found that they have been managed with fidelity and prudence, it will tend to restore confidence, and remove the strong prejudice that now exists in the public mind. If, however, your apprehensions are not lessened by such investigation, your duty to your constituents and justice to the State will require that no further liabilities shall be incurred by the State, (for the present at least,) with such other conditions and restrictions as will best conduce to bring about a better state of things, or prevent a like suspension in future.

“Our experience for the last twenty years has demonstrated that the producing part of the community are not, in the end, benefitted by the ‘credit system.’ The delusions in the splendid mansions and springing up of towns, as if by magic, and the flooding of the country with goods from the Mississippi to the Indian boundary, win end too often in ruin to the proprietors and owners. Unfortunately for our State, all classes have participated in the delusion; and all, more or less, have suffered. When the day of reckoning came, the banks were unable or unwilling to meet the crisis, and the whole are now suffering:

not only from their own extravagance and overtrading, but are reaping the curses of a depreciated currency.' This should teach us that 'credit' is not wealth, and that the safest reliance is upon our own frugality and industrious habits."

It might be supposed, on reading these eloquent remarks, that Governor Yell was writing the history of a community numbering some one or two millions, among whom paper money banks had been in operation for at least half a century. But he was writing the history of a State whose whole population, according to the census of 1840, white and black, male and female, old and young, amounted to only 97,574, among whom paper money banks had been hardly three years in operation.

The governor's views were not acceptable to the general assembly; or at least to a part of them. In their opinion the fault was, not that there was too much, but that there was too little banking. One of their first proceedings was to institute an inquiry why the branch at Washington had not been put into operation. To this the reply was that the bonds intended to serve as capital for that branch, (\$300,000,) though duly issued, could not be sold; and with this reply they had to be satisfied.

Some extracts from a report signed by the Hon. W. D. Ferguson, and presented to the senate on the 4th of December, will show the spirit of the times:

"The committee on banks, to whom was referred that part of the governor's message that relates to banks, have had the same under consideration, and after a careful and mature investigation of the subject, from the best information within the control of the committee, they take pleasure in informing the general assembly and the citizens of Arkansas that the fears of the governor, expressed in his message, that 'the evils which have resulted to the great body of the community from the late suspension are great and almost insufferable,' are not chargeable to the banks of Arkansas; for, in the opinion of the committee, there was no alternative left for the banks of the State but to suspend specie payments at the time they did, or to act recreant to themselves, and ruinous to the citizens of the State, by continuing to pay the specie of the people out of their vaults to the 'avaricious brokers and speculators' of foreign States and cities, as it is a fact well known that the banks in Arkansas were the last to suspend specie payments. And why should your banks have continued specie payments after all the neighboring States with whom Arkansas had any intercourse of trade had suspended specie payment, and specie had ceased to be a circulating medium, but had become an article of trade, and that for exportation, unless they wished to gratify the 'avarice of brokers and speculators' to whom the citizens of Arkansas owe no gratitude?"

"In examining the principal bank of the State, the committee have had every facility afforded them by the officers of the bank, and have made a full examination of the condition of the bank, and report that they find the bank in a good condition, and all the statements in the report of the bank to the general assembly correct. As respects the reports of the branches of the bank, your committee have had no means

of comparing the reports with the state of the branches ; but from the high standing and ability of the gentlemen selected by the legislature as officers and directors of the several branches, your committee have no doubt of the correctness of the reports which show a safe and sound condition of the branches.

* * * * *

“ The committee, before closing this report, feel themselves called on to express to the general assembly their full and entire confidence in the solvency of the several banks of this State, and their full ability to make good all their liabilities. The confidence of the committee has been founded on the following facts, namely : The several banks and their branches are only liable for \$995,905 of circulation, with available means on hand of \$881,278, and having owing to them from the citizens of the State \$3,838,690, leaving a balance of \$3,724,068, out of which the banks owe depositors \$354,790, which will still leave \$3,269,278 in favor of the banks after paying all their present liabilities. From these statements of facts it must be obvious that *all the banks are perfectly solvent* and their paper good. But there is another fact which is necessary to be referred to, which is, that the taxable property in the State for the current year amounts to the sum of \$25,603,326; and the whole amount of the circulation of the banks is only \$995,905, which is but one dollar to represent \$25 60 worth of property, which shows conclusively that there is a scarcity of money in the country ; and the committee will give it as their opinion that the restoration of the currency to a healthy standard rests mainly with the people in establishing confidence among themselves in the solvency of the banks, and strenuously maintaining the credit of the paper among themselves in preference to the paper of the banks of other States in which they have no interest, and over which they have no control ; and the people of Arkansas, in honor to themselves and in defence of the high reputation that the State now maintains in the great commercial cities of the United States and Europe for the solvency and punctuality of their banks, which has placed the bonds of this State, in the markets of New York and London, in high standing. As evidence corroborating these facts, the committee have the assurance of the agents appointed to make the late negotiation of the bonds of the State for the Real Estate Bank, and the letter of Frederick Hath & Co., the holders of \$666,000 worth of Arkansas State bonds, dated London October 3, 1840, in which they say that the bonds of our State have a high standing in the London market. And while the banks are giving the State such a fair reputation abroad, and the banks themselves entirely solvent, the people, on a fair and correct showing of the facts, cannot be so reluctant to their own interests as to be regardless of the interest of this State, as to pursue any course that would tend to depreciate their bank paper, but will mutually sustain the credit of the currency by freely receiving the paper in all the intercourse and transactions of trade, and strenuously defending its solvency.

If the committee had taken the pains to reflect a little, they would have become convinced that as one dollar may be the instrument of several exchanges in one day and of many in the course of a year, a very small amount of circulating medium was all that was required

for the very small amount of commodities the people of Arkansas had then to circulate. Instead of there being a deficiency, there was a redundancy of currency, as was sufficiently proved by the fact that the notes of both the State Bank and the Real Estate Bank were many per cent. below par. But it is by fallacies of this kind that the paper money men are always deceiving themselves, and that they too frequently succeed in deceiving others.

The committee could find nothing wrong in the proceedings of the State Bank and its branches, excepting that the mother bank had not made a proper distribution of her loans among the different counties, and that the directors had taken too large a share of the loans to themselves. We mistake, they found one other thing wrong. They "considered the resumption of specie payments by the principal bank in advance of a general resumption by the banks in the adjoining States, and particularly of the banks of this State, as premature, and that it had not produced any good to the country."

Special committees were appointed to examine the affairs of the principal bank and of each branch, but none of these appear to have acted, except that on the principal bank. They reported on the 15th of December that they had performed the arduous duty assigned to them; "had examined diligently into the affairs of the principal bank, and had found it an institution *solvent and sound in every particular*, and one to which the public might extend confidence without danger of disappointment."

Before adjourning, the legislature passed "An act supplementary to the act incorporating the Bank of the State of Arkansas." This, after making considerable reductions in the salaries of the officers, provided that no president or director should be indebted to the institution, as principal, in a greater sum than \$3,000; nor as security, in a greater sum than \$5,000. It further provided that the governor should have authority to appoint one or more commissioners, not exceeding three, whose duty it should be to examine, from time to time, the condition of the bank and its branches.

The Bank of the State and the Real Estate Bank, with their superabundant issues, did not satisfy Mr. Ferguson, the chairman of the joint committee on banks. He therefore introduced a resolution "that our senators in Congress be instructed, and our representative be requested, to vote for a United States or national bank." This was rejected in the senate, December 17, by a vote of 14 to 5. A similar resolution that had been, on motion of Mr. Buckner, submitted to the house on the 1st of December, was rejected by a vote of 38 to 18.

In conformity with the provisions of the supplementary act, Governor Neil appointed commissioners to examine the condition of the branches.

Messrs. C. F. M. Noland and R. C. Byrd, the commissioners appointed to examine the branch at Batesville, made a report May 15, 1841, in which they spoke of the danger this branch was exposed to of being drained of its specie in order to pay its portion of the interest due on the State bonds. The indebtedness of some of the officers of the institution exceeded the limit allowed by law, but they expressed the opinion that early steps would be taken to correct this evil. They could not close their report "without expressing their firm belief that

the management of this bank (branch) has always had an eye single to the interests and prosperity of the institution; that favoritism or partiality has never crept into it, and that the bad debts (if any) are traceable to any other cause than mismanagement."

Mr. R. C. Byrd acted alone in examining the branch at the Post of Arkansas. In his report dated March 1, 1841, he says: "I found in use a banking-house, which, from the plan, locality, and workmanship, is one of the best buildings in the State;" but he also says that the debts due to the branch could not be collected; that it would take all her eastern funds to pay her quota of the interest due in 1841 on the bonds, and all her specie to pay the interest due in 1842. "It is clear to me as noonday that the banks of Arkansas cannot do anything in the way of a general banking business for the next five years to come. only to keep a strict watch over debts due to them, keep their bills receivable renewed, and the interest paid on our State bonds at maturity. If this is not done our credit is lost as a State, and we cannot recover it again in fifty years to come. It strikes me with great force that the only way to obtain this object is to call in the branches and concentrate all the business to some one point, under the management of a strict directory."

Messrs. David Walker and R. C. Byrd were the commissioners appointed to examine the branch at Fayetteville. In their report, dated June 20, 1841, they say:

"Having ascertained as far as practicable the amount of gold and silver, bills and notes of this and other banks, the notes and bills discounted and on hand, and other credits, the next and far most difficult part of our duty was to ascertain what amount of cash *should* have been in bank, the manner in which it has been conducted, its profits to the State, (if any,) and the several subjects of special instruction. We regret to inform you that our investigation of this branch of our trust has been rendered difficult and uncertain for want of the books, *alleged* to have been stolen from the bank a few days before our examination commenced; all of which have been found and are still legible, except that which contained the cash transactions of the bank, the exchanges, and other important entries. This book, when found, had all the pages containing entries cut out, and thereby precluded the possibility of an accurate investigation within the limits of service contemplated by our commission. For the purpose of obtaining as full information as practicable, we addressed the cashier, propounding to him such interrogatories as we conceived most important. We were particularly anxious to ascertain the amount of specie in bank, constituting the actual capital at the time of the suspension; the amount of deposits in specie at that time or since; the amount of exchange sold by the bank before, at, and after the suspension, and the terms upon which it was sold; and directed our inquiries on those points to the cashier, and regret that the means have not been furnished of reporting accurately on those subjects; the minutes of the directory do not furnish evidence, nor are we enabled to ascertain that any account of the cash, bills, or notes discounted, has ever been made from the organization of the bank until within the last ten days.

"The cashier, in his answer to a call made on him to explain the

cause of diminution of specie in the bank after suspension, says that at the time of the second report to the general board, and ever since that time, *he has reported a larger amount of specie than there was actually in the bank at the time, but did not state what should have been the true amount.* He alleged that he acted under the authority of the directors, and accompanied his reply with a letter from one of the directors for the purpose of sustaining his assertion. We called before us and examined four of the old directors, and received letters from two others, for the purpose of being fully informed on this subject, and the result of our investigation leads us to conclude that, inattentive as the directors appear to have been in scrutinizing the reports, and testing their correctness by comparing them with the cash and notes on hand, they never did sanction or authorize a report differing from the facts as they really existed.

"The statement made by the six directors will be found, upon an examination of the facts, well sustained. The cashier, in his second letter, states that he first misrepresented the amount of specie in bank in his report to the general board at the commencement of the session of the general assembly in the fall of 1838. The reason assigned for misrepresenting the true condition of the bank is, in substance, its straitened circumstances, owing to heavy drains for specie previously made, and to save the credit of the bank."

The exact amount of the specie deficit the commissioners could not ascertain. They, however, produced a certificate showing that of the blank impressions of notes intended for circulation \$35,350 had not been accounted for. The presumption was, that they had been surreptitiously issued by William McK. Ball, the cashier.

The reports of the commissioners appointed to examine the branch banks were published by Governor Yell in August, 1841. He accompanied the reports with an address to the people, in which he said :

"I am not aware, nor do I recognize any code either in morals or politics that would authorize the executive to withhold this information from the public. If it should be considered favorable, it is due alike to the bank and to the country that it should be given. On the other hand, if doubts and suspicion are created as to their condition and management, it is alike my duty, however painful, to lay the subject before the country, and leave the consequences to time and the intelligence of the people. And, however strong my prejudices may be against the whole system of banking, still, as the executive of the State, it is not my desire to indulge in invectives against the banks or their managers, but to present truly and faithfully their condition."

"The great and radical error is the 'system,' whether national or State banks; and the gradual unveiling mystery that surrounded the late Bank of the United States of Pennsylvania will disclose to the people the whole system of *swindling* that has been practiced by too many of our moneyed institutions to enrich a few individuals at the expense of the State and the people, and I fear, before their final termination, the States and the government are to be brought to the verge of bankruptcy."

"The present crisis requires firmness and decision and no small

degree of financial ability to sustain our institutions and the credit of the State.

"If the policy is continued for a few years longer (as shown from the reports of the commissioners) of selling their specie to pay their interest on State bonds their vaults will soon be drained, and the banks left without means to redeem their circulation.

"The very lucid reports of the commissioners, with their suggestions, have saved me the trouble of examining the subject more fully at this time. There are, however, some gross and inexcusable violations of the charter that I cannot, in justice to you, pass over without bringing them to your notice, and if they are not corrected, you have the power in your own hands at the ballot-box to correct the evil; and if I mistake not, the time will shortly come when our *politicians* and *statesmen* who are the champions of chartered corporations will learn they have been as blind to the interests of the country as they were deaf to the voice of fame.

"The policy pursued by all the banks, as you will learn from the reports, in the sale of eastern exchange since the suspension is one of the principal causes which has placed them in their present embarrassed condition, which evinces but little skill in *financiering*, or a system of *favoritism*, which is less excusable. The most of the sales since the suspension have been for Arkansas money, and at rates varying from *five to ten* per cent., while the specie was worth from *thirty to forty* per cent. premium. They should have used their eastern exchange, which would answer the same purpose as specie, and less risk, in the payment of interest on their State bonds; but instead of meeting the interest account with their bills of exchange, they have been compelled at Batesville and Fayetteville to ship specie or buy bills to pay their interest account. If this policy is continued, by the meeting of the legislature there will be but little specie remaining in their vaults. Should this unfortunately be the case, the noteholders will be left without the hope of redemption.

"The practice and policy of the respective branches making large loans for the accommodation of their officers and directors is, in my estimation, in every way unjust and highly censurable, and in disregard of the provisions of the charter. Very many have received on their own accommodation the full limits allowed under the charter, which was not to exceed ten thousand dollars, 'directly or indirectly,' and have become security varying from ten to twenty thousand dollars.

[Here the governor shows that the liabilities of the directors at the three branches, as principals and as securities, amounted to \$475,127.]

"I do not intend so much to doubt the security of the debt as to protest against such a policy, which is not only in violation of the charter, but alike opposed to the credit of the banks and the best interests of the people.

"The developments in the report of the commissioners who examined the Fayetteville branch (in whose capacity and integrity I have the fullest confidence) may render it necessary for me to appeal to the judicial tribunals to prevent further loss by the mismanagement of that institution. I have no other alternative to attain my object without a called session of the legislature, which I consider at this

time unnecessary and impolitic, thereby creating a large and enormous debt, which I desire to avoid; and, besides, I have no assurance that the legislature would carry out the only policy (a withdrawal of the branches) which can save the banks and the State from irretrievable loss.

"I was not sustained in my policy by the last legislature in relation to the banks, and I have no evidence that they have changed their opinions since; and it is but just to presume that they fairly represented the wishes of their constituents; at all events, until I am better convinced of a change in the opinions of the representatives of the public mind, I cannot reasonably contemplate a co-operation in carrying out such a policy as I consider indispensable to the security of the banks and the credit of the State."

The letter books and minute books of the different boards for the year 1841 reveal nothing but trouble. Mr. Bertrand, who was sent on a special mission by the principal bank, reported that sundry debtors in St. Francis county were preparing to remove their property from the State. February 26, it was resolved that, "in consideration of the present state of the bank, no new discounts *other than for directors* should be taken till further orders." March 25, the directors at the Post of Arkansas received news that all their funds in the Union Bank of Louisiana "had been attached to satisfy claims by persons holding notes of the branch." In July, it was resolved that Mr. Greenwood should proceed to New York to settle accounts with the North American Trust and Banking Company. In October, \$15,700 (in inconvertible paper) was set aside for the purchase of cotton, to provide, if possible, for the payment of the dividend on State stocks due January 1, 1842. This was after news had been received that Mr. Greenwood could not make any satisfactory agreement with the North North American Trust and Banking Company, and that only one of the sureties to the guarantee bond given by said company was worth anything.

The Batesville branch also made its appropriation of inconvertible bank notes for the purchase of cotton, that it might thereby be able to pay its portion of the dividends on the State bonds; but this process was found so ruinous that it had to be abandoned. Every new issue of notes of course diminished their value.

The directory at Batesville repelled with indignation the charges brought against them by Governor Yell. We "are of opinion that the alleged mismanagement and corruption of the Fayetteville branch have been made a pretext for directing a system of abuse and oppression against the bank at this place that is not justified either by the condition or the management of the institution; probably to promote some long-cherished prejudice against the banking system, to accomplish which at this time would be ruinous to the community, or for the purpose of giving aid to the favorite project of a few wire-workers at Little Rock to centralize and make tributary every other section of the State to that place." In this strain the directory proceeded through more than five closely written folio pages.

On the 27th of December, "in consequence of the great difficulty and endless delay in collecting debts due to the banks," and even in

prevailing on the debtors to renew their notes, "many of whom have suffered suit to be instituted, and which are defended and plead against in every possible shape, in order to evade the debt entirely, and delay the time as long as possible," the Batesville directory resolved "to appoint an agent to proceed to the different counties and make the best arrangement he could."

The first proceeding, in the year 1841, of the directory of Fayetteville, was, according to their "minute book," to resolve "to lend the citizens \$45,000," which resolution was carried into effect. On the 6th of May "the cashier (Mr. W. McK. Ball) reported to the board the robbery of the bank, and that the four principal books of the bank had been taken therefrom. And that, on the advice of Messrs. Dean and Murphy, he had offered a reward of five hundred dollars for the robber and the books lost, or one hundred dollars for each of the books lost. That two of the books—to wit—the ledger and bill-book, had been found, and for the latter he had paid one hundred dollars to the finder." "The board ordered a credit for the amount paid, approved of the cashier's course, and directed him to pay the reward offered on the return of the other books."

On the 4th of June it was "ordered to pay negro Jim five dollars for finding a mutilated book, supposed to be one of the books stolen from the bank." On the 2d July it was resolved that John Brodie "be allowed the sum of twenty-five dollars for finding the discount book which was purloined from the bank, the same having been returned, but materially injured by lying in the water."

An examination of the branch by commissioners appointed by the governor seems not to have been agreeable to the directors, as they, on the 4th of June, resolved "that the attorney for this bank be instructed to inquire by what authority David Walker and R. C. Byrd, members of the legislature of Arkansas, act as commissioners for the examination of this bank."

On the 27th of August it was resolved that "Mr. Boileau is at liberty to proceed, at any time that may be convenient to himself, in the execution of the trust reposed in him as commissioner."

As late as the 28th of August it was resolved that, "as the board had no evidence that any defalcation existed on the part of W. McK. Ball, all proceedings against him should be suspended till Mr. Boileau should make his report."

On the 4th of October the cash committee reported that the books of the bank were in such condition that the only way of arriving at a knowledge of its true state was by a laborious investigation, similar to that Mr. Boileau was then making."

On the same day it was resolved "that the president of the bank be requested to employ some competent person to bring up the books of this bank from the time of their first commencement of business up to the present period."

From other testimony it would appear that the condition of things was worse even than might be inferred from the records of the different boards. Thus the "Southern Patriot" says:

"About twenty men in Phillips county, Arkansas, recently ran off the judge, refusing him permission to do his duty, and resolving to hold

row themselves. Many executions being by law returnable the last May term of that court, and much property advertised to be sold; and, moreover, the Real Estate Bank at Helena, and the branch of the State Bank at the Post, having brought a great number of suits in that court, a long petition was got up, signed by some two hundred persons, praying the Hon. Isaac Baker, who was to hold the court, not to do so. The petition was borne to Columbia, and presented to the judge. Judge Baker proceeded, however, to Helena, for the purpose of holding the court. Finding that he could not be persuaded to decline doing the duty imposed on him by law and the obligations of his official oath, about twenty men armed themselves and took possession of the court-house, the door of which they barricaded, and refused to permit any person to enter. The sheriff attempted to obtain an entrance, and threatened to break down the door. The response was, that if he did he would be instantly killed. The sheriff accordingly desisted, and made a requisition upon the colonel of the county for fifty men to enable him to suppress the rebellion, but the affair terminated in the full triumph of the rebels, and Judge Baker returned home to Columbia."

These reminiscences may not be pleasant, but they may be profitable. They show to what desperation men may be driven by debt.

The bank and all its branches made an effort to meet the dividend due on the bonds in January, 1842, by purchase of cotton and resale of the same; but the effort did little good. With this object in view, \$58,810 were put into the hands of the president of the principal bank in September and November, 1841. With \$2,250 of this money he bought cotton in Arkansas at 11½ cents on the pound, and sold it at New Orleans for 8½ cents a pound. As all the funds realized in this way would go but a little way in meeting the interest on the State debt, the president, on his own authority, invested the proceeds (except \$291 71 consumed in expenses) in Arkansas bank notes at 27 or 30 per cent. discount. The sums of \$450 and \$1,500 put into other hands with a view of purchasing cotton appear never to have been accounted for. Every step the bank took involved it in additional losses.

The attempt to raise funds by the purchase and resale of cotton having failed, the principal bank, in the absence of other means of remittance, shipped specie to New Orleans wherewith to buy bills of exchange on New York. In this way the whole of the interest due on the State Bank bonds in July, 1841, \$33,650, was paid, and \$8,968 13 on account of the interest due on the 1st of January, 1842. This was the last payment of interest on State bonds ever made by the State Bank.

By his doings Mr. McK. Ball acquired, if not fame, considerable notoriety. His name was mentioned in nearly all the papers of the Union. The following extracts from the Philadelphia Journal of Banking may serve by way of example:

August 18, 1841.—"Wm. McK. Ball, cashier of the Branch Bank of the State of Arkansas, at Fayetteville, is stated, in the Baltimore Patriot, to have recently absconded to Texas, leaving the bank minus

some \$64,000. No doubt Mr. Ball is, as well as Mr. Town, of a very respectable family."

September 1, 1841.—"We stated in our last that no doubt Mr. Ball, the absconding cashier of the Fayetteville branch of the State Bank of Arkansas, was of a highly respectable family, as well as Mr. Town, the defaulting teller of the Jacksonville branch of the State Bank of Illinois."

"Our conjecture has been verified. The editor of a journal published at Westchester, Pennsylvania, states that Mr. Ball is a native of Newcastle county, Delaware. He studied law in the office of Mr. Darlington, in Westchester, and so excellent was his conduct and character while residing in that borough that the editor thinks there must be some mistake in what is related of his doings in Arkansas.

"There may be more than one man in the country bearing the name of Wm. McK. Ball; and all bearing that name may at one time have borne a good character, and been correct in principle. But as our American banking system is the most efficient of all systems in converting honest men into rogues, they may all have fallen victims to its demoralizing influence

"There is no mistake about the character of the doings in Arkansas, whoever was the author of them."

September 29, 1841.—"Mr. William McK. Ball, the cashier of the Branch Bank of the State of Arkansas, at Fayetteville, has returned from Texas. He pronounces the charge that he is a defaulter a barefaced falsehood, and declares his intention to ferret out the authors of the slander, and promises that, if successful, they shall be dealt with in proper style, let them be great or small.

"It would be quite possible for one bank officer to commit a default and then so arrange matters as to cast suspicion on another. The high regard entertained for Mr. Ball in his native State, Delaware, and in Westchester, Pennsylvania, where he completed his professional education, is certainly a strong presumption in favor of his innocence."

January 19, 1842.—"Some of the western papers say that Mr. W. McK. Ball, once cashier of one of the branches of the Arkansas State bank, and who was accused of being a defaulter, has 'run his slaves into Texas' "

March 30, 1842.—"From the statements in the western papers there seems to be no longer any doubt that Mr. William McK. Ball, late cashier of a branch of the State Bank of Arkansas, is a defaulter. He threatened, as our readers may recollect, to visit with signal punishment those who had brought this charge against him; but it appears that he has made his final escape to Texas."

Mr. Boileau was engaged from August 22, 1842, to April 29, 1842, in investigating the affairs of the branch at Fayetteville, and preparing a new set of books. He found that Mr. Ball was a defaulter in the sum of \$33,279 60, or, if the blank impressions of notes that were missing, \$12,920, be added, in the total amount of \$46,199 60. The default was less than Messrs. Byrd and Walker had, in making their researches, been led to believe.

Mr. Ball died in Texas.

About this time the directors at Fayetteville engaged in what they

regarded as a masterly movement, though no record was made of it on the books till July 15, 1842. We then read that "John A. Scott and Charles W. Dean, the agents who were appointed by a resolution of a board of directors of this bank to proceed to the city of New York with \$10,000 of the specie of this bank for the purpose of purchasing a portion of the bonds issued by the State of Arkansas to raise funds to put this branch in operation, made a report to the board, setting forth the manner in which they had proceeded as agents as aforesaid, which report was received by the board and ordered to be filed with the papers of the bank; said agents claimed no compensation over their actual expenses."

From another entry under the same date it appears that the resolution was adopted at a *private* conference of the board on the first Friday in April, but from prudential considerations not then put on the minutes. The cashier was not allowed to be present, and the strictest secrecy was enjoined on the agents. The bonds were at that time quoted at 13 to 17 cents in the dollar in the New York market; but the agents were empowered, if it were necessary, to give twenty cents in the dollar, or even a little more.

Finding it impossible to purchase the bonds on those terms, the agents returned to their homes, leaving in the hands of S. J. Silvester, esq., a broker of New York, the net sum in specie of \$9,934 36, with instructions to him to effect what they themselves had not been able to accomplish.

In September the directors appear to have become concerned about their money, for we read under date of the 4th of that month:

"Whereas no information has been received that the funds have been used agreeable to the designs of this board, it is therefore considered that the most effectual means should be used for the purpose of saving said funds and guarding them from *the grasp of speculators*. It is therefore considered that an agent should be employed forthwith to repair to New York."

A committee of four was appointed specially to attend to the subject, and it was enjoined on the said committee that "they should exercise great precaution."

It was further resolved, "That L. Brodie and M. T. Scott be appointed as agents of this bank; that they go on immediately to Van Buren, for the purpose of procuring the endorsement of James A. Scott on a certificate of deposit for nine thousand three hundred dollars of the specie of this bank, deposited by said Scott with S. J. Silvester, of the city of New York." Thus the business involved the expenses of journeys, not only to New York, but to Van Buren also. On one day, December 12, 1842, resolutions were passed ordering specie to be paid to N. L. Wilson, L. Brodie, and J. Brodie, for expenses incurred on journeys to Van Buren on business of the bank, and to W. L. Wilson for expenses on a similar journey to Little Rock, besides \$450 to C. W. Dean, in Arkansas money, "for going to New York and back again on the business of this bank, which journey he performed in the course of the last autumn." This was in addition to the journey in the spring, when Mr. Dean, in conjunction with Mr. Scott, deposited the \$9,934 36 in the hands of Silvester.

To cut a long story short, Silvester did not purchase the bonds, and the "extreme precaution" exercised by the board did not preserve the money "from the grasp of speculators." When Dean, on his second or third visit to New York, requested Silvester to refund the money, the latter replied that he had instructed his agent in London to make the purchase of the bonds if it could be effected on the terms prescribed, and for aught that he knew to the contrary, the purchase had been made. What Mr. Silvester's London agent did in the matter is not on record; but Mr. Dean judged it best to leave the business in the hands of Mr. Elijah A. Payne, a lawyer. This gentleman charged a liberal sum for his services, but could not prevail on Silvester to disgorge. Finally, Riggs & Co., of Philadelphia, who had a judgment against the bank, by some astute management, succeeded in making Silvester pay over to them a part or the whole of the funds with which he had been intrusted by the agents of the bank.

Thus ended this master stroke of financial policy. Instead of resulting in the purchase of bonds of the State to the value of \$50,000 or more, at from 13 to 20 cents in the dollar, as its projectors fondly hoped, it resulted in the loss of the 10,000 silver dollars they appropriated for the object, with perhaps half as much more in lawyer's fees and travelling expenses.

It was not till the year 1844 that the claim on Silvester was transferred to Riggs.

The minutes of the boards at Batesville and at the Post of Arkansas, for the year 1842, reveal nothing that here requires particular notice.

The board at Little Rock seem to have lost confidence in one of their own number, as they on the 4th of January, 1842, resolved—

"That a committee be appointed to inquire into the continued absence of John C. Johnson, a member of this board; also, whether the said Johnson has defrauded or attempted to defraud this bank, in running off negroes and selling them, when the said negroes were under mortgage to this bank; also, in assisting any debtor or debtors to this bank to abscond with his or their property beyond the jurisdiction of this State."

At the next meeting the committee made a report in which they, to a certain extent, sustained the charges brought against John C. Johnson, and he was forthwith expelled from the board.

In the Silvester case, the broker proved too much for the banker; but, in the following, as recorded under date of January 25, the banker appears to have got the advantage:

"The president (Mr. Field) reported (verbally) that, while on his way to New Orleans, in order to arrange for payment of interest on State bonds, he ascertained that a person was on board the boat, following him, for the purpose of laying an attachment on the \$8,000 specie, on a claim for that amount of branch bank notes, under which circumstances he had considered it most prudent to land the specie at the Columbia (Real Estate) branch bank, taking certificate of special deposit in favor of Ward, Moffit & Co., New Orleans,"—all which proceedings were approved by the board.

On the minutes of the general board is spread at length the report

of the president, Mr. Field, respecting the difficulties he had to encounter in his efforts to purchase cotton wherewith to pay the interest on the State bonds due in January and July, 1842. The whole result was the shipment of some 80 bales to Frederick Huth & Co., for the satisfaction of the European holders of the bonds. But it being deemed of special importance to pay the interest due on the 5 per cent. bonds held by the United States government, \$8,000 in specie were appropriated for that object.

These minutes also contain reference to the efforts made to compel the North American Trust and Banking Company to pay what it owed. The board made liberal provisions for the payment of lawyers, but the lawyers had no success.

The general assembly commenced its fourth session at Little Rock on the 7th of November, 1842. The auditor (E. N. Conway) reported, "that all the interest due from the Bank of the State had been paid in full to the 1st of July, 1841, inclusive; and that the further sum of \$8,986 13 had been paid on account of the interest due on 1st January, 1842. The total sum of interest due from the bank, on account of the State bonds, inclusive of exchange and brokerage, was \$58,331 87, of which the sum of \$24,681 87 was due on the 1st day of January, 1842, and \$33,650 on the 1st day of July, 1842. Of the interest due, the sum of \$30,000 is payable in London, and \$28,331 87 in New York.

Governor Yell, in his message to the general assembly, expressed himself with great force and clearness:

"To arrest the downward tendency of things, to restore the honor and credit of the State, unshackle her resources and energies, and to reinstate the somewhat unfashionable custom of honesty, promptness, and economy in financial matters, will be the momentous duty of this legislature; and if you are faithful, as I am sure you will be, in spite of the clamors of interested classes, you will achieve the lasting gratitude of your constituents and the whole country. But the crisis is full of difficulty and responsibility, and demands an honest and fearless devotion to the public welfare.

"We are in the midst of a great revolution on the subject of banking. The developments, glaring and startling, of the demoralizing and ruinous consequences of the present system, demands at your hands a radical reform. The great mammoth, or regulator, has fallen, and bank after bank has followed it to destruction; tumbling down in its course the prospects of millions, and devouring the hard earnings of the laboring classes. And is it possible the people are so infatuated with their chains as to submit, quietly, to such oppression and legalized swindling?—witnessing the proceeds of their industry committed to the use of the few who live upon credit and the facilities of the banks? Such a system tends to paralyze industry, prostrate trade and commerce, and subject the country to revolutions dangerous even to our liberties.

"To you, as their representatives, they have, with a generous confidence, entrusted a reformation of the present system; and to you they confidently look for redress, by the adoption of some measure that will restore a sound currency, and put an end to a system which is as dis-

astrous upon the prosperity of the country as it is corrupting and demoralizing in its tendency.

" We still find the banks clinging to the fragment of a wreck which they can never hope to refit and render useful. They will, ere long, find that some concession must be made to public opinion which has been roused to action by their mismanagement and fraud; and the subject has now reached a magnitude and importance that forces itself imperatively on the consideration of the appropriate departments of the government, if they would preserve our political institutions and the prosperity and happiness of the people.

" The examination of the condition of the branches of the State Bank, and the developments in relation to the ' hypothecation ' by the Real Estate Bank of half a million of State bonds, have fully demonstrated that all the exhibitions of figures, setting forth the condition of the banks, by their reports, give no reliable information of their true circumstances, but are too often calculated to mislead and deceive. The condition of the Fayetteville branch fully confirms this impression. And the report of the Real Estate Bank to the last legislature is conclusive, where they report that the five hundred State bonds are on ' hand and unsold,' whereas subsequent facts have demonstrated that they had been hypothecated to the North American Trust and Banking Company nearly three months previous for the nominal sum of \$250,000; receiving only the sum of about \$125,000, without sanction of law, and in express violation of the charter.

" It would be criminal on my part to disguise the deplorable condition of our banking institutions and the fearful prospect of loss by their mismanagement which is likely, ultimately, to fall upon the people. To sustain the credit of the State, resort must be had to further and oppressive taxation if the present extravagant and ruinous system is longer continued.

" By reference to the reports of the condition of the banks at the date of their suspension, in October, 1839, compared with their present condition, (independent of the interest due on their bonds, amounting to about the sum of \$149,501, due in specie or par funds,) it will be seen that the sum of \$80,000 or \$100,000 in specie has been abstracted from the vaults by embezzlement, and by the short-sighted policy of taking the specie to pay the interest on the bonds, whilst they refused to redeem their circulation, which kept it at the ruinous discount of from 25 to 60 per cent., thereby giving a preference to their foreign creditors, without the most remote possibility of being able to resume. This system of financiering has been pursued until their specie is nearly exhausted; they are at last unable to pay their interest. Our bonds are now under protest, and the price of our stock reduced to a point but little better than the stock of the late Bank of the United States.

" Is not their condition of itself sufficient to require at your hands an act putting the whole in a course of *liquidation*, giving such time as justice to the State will warrant, with as little pressure upon the community as possible, so as to be able, with the means and assets of the bank, to take up their circulation, and to pay their interest punctually, and finally the bonds themselves?

" However reluctant to acknowledge the fact, it is nevertheless true

that our treasury is not in a condition, nor will it be, to pay the interest on the State bonds which is now or will become due for the next few years.

"Our citizens are already oppressed by taxation to meet the expenses of the State government. I am not prepared, therefore, to recommend an increased taxation for the purpose of meeting the interest on the State bonds; but prompt and energetic measures should be adopted, with the means and assets of the bank, to effect such objects upon all such bonds as have been sold in good faith and in strict accordance with the bank charters.

"However much the people of Arkansas may be disposed (and none are more so) to sustain her faith and credit in the payment of all just and legal claims, she would nevertheless be unworthy of the character of a sovereign State if she tolerated for a moment the idea of paying for bonds illegally and fraudulently disposed of. * * * * *

"We are not without hopes, by a prudent and judicious but prompt exercise of a corrective power upon our banking privileges, that we may yet enjoy better times. Industry and economy have again made their appearance, and if they continue will insure plenty, prosperity, and contentment. Our troubles are not without their advantages; they give us the wisdom of sore experience, and stand as beacon lights to guide us in future. Upon close examination, we find our misfortunes have been produced by blunder and follies in which we have too long acquiesced. Then let us not despair. The industry of our hardy population and the ample resources of our young State bid us be of good cheer, and look to the fertile fields of our own rich valleys and beautiful prairies as a sure indemnity against all the evils which have swept like 'a deadly sirocco' over this once prosperous and flourishing people. I have full confidence that, if this mode is carried out, we shall have money sufficient to meet all the legitimate wants of the country without encouraging 'the credit system,' which is certain to end in loss, and often in ruin, to States as well as individuals. There is a portion of the community which will not be satisfied with such a policy. I have no doubt if the whole wealth of the country was applied to their use it would be inadequate to their wants.

"The main object, however, will be accomplished if you can give the country a sound and constitutional currency, and secure the note-holders against loss and imposition, with the means at our command, and the exports of the country. We shall then, in a few years, attain to a sound and healthy condition.

"The advocates of a sound and constitutional currency have, heretofore, been struggling in a bare minority against associated wealth, composed of bankers, brokers, speculators, and stockjobbers, whose course of policy has well nigh ruined the country with a depreciated currency, and a consequent diminution in the price of property and the products of the soil.

"The standard of a sound and constitutional currency has been unfurled, and beneath its ample folds thousands of our laboring classes have taken their stand, and if they are faithful to the cause they will ultimately drive the money-changers from the temple they have polluted."

Sentiments such as these ought to commend themselves to the people of Arkansas, both now and ever hereafter; and not the people of Arkansas only, but to those of the whole Union.

Governor Yell found the general assembly of 1842-'43 much more disposed to co-operate with him than was the general assembly of 1840-'41. They instituted searching inquiries into the manner in which the bonds of the State had been disposed of, and made as minute inquiries into the condition of both the Real Estate Bank and the Bank of the State as circumstances would permit.

A part of the result of their labors was the passage of an act to place the Bank of the State in liquidation.

By this it was provided that the legislature should elect a financial receiver, an executive receiver, and an attorney, for the principal bank and each branch, which officers should hold their situations for two years, and have, subject to the various provisions of the act, the sole control of the affairs of the institution.

They were forbidden to make new loans, and required to collect from the debtors of the bank what was due from them in instalments, so that the whole should be collected in ten years.

The notes of the bank and its branches were, in the first place, to be received in payment of debts due the bank, and after these notes should all be redeemed then any bond, script, or obligation of State, for the payment of money, whether due or not. Thus the debtors were not only allowed ten years to pay what they owed, but were allowed to make payment in paper which was depreciated many per cent. below par.

Under the provisions of this act all the assets of the bank at Little Rock were, on the 9th of June, 1843, transferred to S. H. Rutherford, as executive receiver, and John H. Crease, as financial receiver.

At Batesville, the transfer was made on the 1st of July to Thomas S. Drew, financial receiver, and J. Chapman, executive receiver.

At Fayetteville, the transfer was made on the 21st of July, to David G. Harris, executive receiver, and James McKinnick, financial receiver.

At the Post of Arkansas, the transfer was made on the 15th of June to Samuel Mitchell, executive receiver, and William A. Doherty, financial receiver.

The attorneys elected were: at the principal bank, S. H. Hempstead; at Batesville, Lewis B. Tully; at Fayetteville, A. B. Greenwood; and at the Post of Arkansas, M. W. Dorris.

By another act passed during this session the State Bank was directed to reimburse to the State \$15,000 in specie, of the surplus revenue received from the United States. This was vetoed by the governor, but became a law by a constitutional majority of both Houses. This specie was applied to the payment of the wages of the members of the legislature.

Judge Baker presented a memorial praying that provision might be made for the payment of his salary in the constitutional currency of the United States. But the Committee on the Judiciary in the Senate reported:

"That the memorialist occupied the office of judge at a time when
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the revenue of the State was payable and collected in depreciated bank paper, and that the fact was known to the memorialist at the time of his acceptance of his office as judge. It was a fact susceptible of clear demonstration at the time, without any great skill in financiering, that all the functionaries of the State would receive their pay in such currency as was receivable in payment of taxes due the State, and the acceptance of an office, with a full knowledge of these facts, amounted to a tacit agreement, at least, that the officers would be satisfied to receive the money which constituted the revenue of the State in satisfaction of their claims."

At this time "Arkansas money" was at the rate of from two and a half to three for one in "good money," so that a judge with a nominal salary of \$1,500 received the equivalent of only from \$500 to \$600 in specie.

As, after November, 1839, not one dollar in specie was paid into the State treasury, the payment of postage on the letters addressed to them gave no little embarrassment to the public functionaries at Little Rock. This difficulty was at length overcome by the ingenuity of the joint committee on the auditor's and treasurer's books. In their report of December 23, 1842, they said:

"Your committee would further suggest that there has been, at different times, very considerable sums applied to the payment of postage for the different departments of government, and as it has to be settled with Arkansas money, the State not unfrequently pays inordinately large sums to procure specie to liquidate sums in themselves inconsiderable.

"The only remedy the committee are able to propose is, that the State Bank, or those who hold its funds, after it is put into liquidation, shall be required to place under the control of the State treasurer a sum in specie sufficient to cover the expenses of postage."

So long as the Bank of the State and the Real Estate Bank had power to lend the financial affairs of the State of Arkansas proceeded smoothly enough. But as soon as the ability to lend ceased on the part of the banks fiscal embarrassments began.

The following statement of the condition of the bank and its branches, at the time its affairs passed into the hands of receivers, is the result of a careful collation of various documents.

	RESOURCES.				Total.
	Little Rock.	Fayetteville.	Batesville.	Post of Arkansas.	
Loans and discounts	\$605,197 75	\$338,329 63	\$240,361 90	\$224,614 60	\$1,410,563 18
Bank interest	53,194 50	17,528 61	20,379 94	33,954 59	124,414 34
Due by individuals	9,510 04	9,614 91	3,477 66	1,940 79	6,894 70
Loans to State of Arkansas, with interest to June 1, 1842.	161,774 17				161,774 17
Five per cent. bonds redeemed from Real Estate Bank	32,665 66				32,665 66
Specie	92 44	19,449 42	26,097 70	7,379 37	62,949 33
Specie in hands of Silvester, New York		9,934 96			9,934 96
Due by North American Trust and Banking Company	504 72	1,274 99	10,940 59	10,164 84	22,524 54
Due by Real Estate Bank and branches	1,021 00	1,044 60		5,999 31	7,931 51
Due by banks in other States	33 91	177 94		191 85	382 10
Notes of Real Estate Bank and branches on hand	13,000 00	41,900 00	16,350 00	4,775 00	76,025 00
Notes of banks in other States on hand	665 00	119 00		175 00	1,159 00
Corporation tickets on hand	47 25	1,767 35	30 75	78 37	1,817 39
Due by State treasurer	1,376 35	300 00			1,676 35
Real estate, (banking houses)	97,795 02	7,536 37	15,906 16	15,761 99	66,939 76
Total	901,444 01	439,934 26	349,764 72	306,911 11	1,991,174 12

The accounts of the principal bank at Little Rock are dated June 9, 1843; those of the Fayetteville branch July 21, 1843; those of the Batesville branch July 21, 1843; and those of the branch at the Post of Arkansas June 15, 1843.

The "back interest" due at Little Rock has been computed, no separate return of that item having been made by the officers.

The notes of banks in other States, and the "corporation tickets," proved to be utterly worthless.

The following statement of the condition of the bank and its branches, at the time its affairs passed into the hands of receivers, is the result of a careful collation of various documents.

	RESOURCES.				
	Little Rock.	Fayetteville.	Batesville.	Post of Arkansas.	Total.
Loans and discounts	\$605,197 75	\$336,369 63	\$240,361 90	\$938,614 60	\$1,410,563 18
Back interest	53,198 50	17,538 61	20,378 94	83,298 99	194,414 34
Due by individuals	2,516 04	2,614 21	3,477 65	1,280 79	4,888 70
Loans to State of Arkansas, with interest to June 1, 1842	161,774 17				161,774 17
Five per cent. bonds redeemed from Real Estate Bank	32,666 66				32,666 66
Specie	22 44	19,449 43	36,097 70	7,379 37	62,948 93
Specie in hands of Silvester, New York		9,834 26			9,834 26
Due by North American Trust and Banking Company	504 72	1,874 99	10,980 50	10,164 84	22,524 84
Due by Real Estate Bank and branches	1,624 60	1,044 60		5,262 31	7,931 51
Due by banks in other States	23 91	177 94		121 85	353 19
Notes of Real Estate Bank and branches on hand	13,900 00	41,200 00	16,350 00	4,775 00	76,225 00
Notes of banks in other States on hand	865 00	119 00		175 00	1,159 00
Corporation tickets on hand	47 85	1,760 35	30 75	78 37	1,917 32
Due by State treasurer	1,376 35	200 00			1,576 35
Real estate, (banking houses)	27,726 02	7,538 27	15,208 18	15,761 29	66,233 76
Total	\$901,444 01	\$439,934 28	\$392,884 73	\$306,911 11	\$1,991,174 13

The accounts of the principal bank at Little Rock are dated June 9, 1843; those of the Fayetteville branch July 21, 1843; those of the Batesville branch July 21, 1843; and those of the branch at the Post of Arkansas June 15, 1843.
 The "back interest" due at Little Rock has been computed, no separate return of that item having been made by the officers.
 The notes of banks in other States, and the "corporation tickets," proved to be utterly worthless.

LIABILITIES OF THE BANK AND ITS BRANCHES.

For the principal of 169 five per cent. bonds.....	\$169,000 00
For the principal of 1,000 six per cent. bonds.....	1,000,000 00
For arrears of interest to July 1, 1842.....	58,331 87
Interest on five per cent. bonds from July 1, 1842, to July 1, 1843.....	8,450 00
Interest on six per cent. bonds from July 1, 1842, to July 1, 1843.....	60,000 00
Total due on account of State bonds.....	<u>1,295,781 87</u>

DUE TO THE STATE.

Five per cent. fund.....	\$68,777 20
Seminary fund.....	2,188 41
Common school fund.....	1,515 84
Saline fund.....	151 37
Balance of United States surplus revenue..	268,045 89
	<u>340,678 71</u>

FOR NOTES IN CIRCULATION.

Little Rock.....	2,230 00
Fayetteville.....	164,350 00
Batesville.....	55,250 00
Post of Arkansas.....	56,020 00
	<u>277,850 00</u>
Deduct branch notes on hand.....	60,920 00
	<u>216,930 00</u>

DUE TO DEPOSITORS.

Little Rock.....	37,469 19
Batesville.....	7,341 68
Post of Arkansas.....	9,800 86
Due to Real Estate Bank and branches....	2,016 97
Due to banks in other States.....	4 65
	<u>56,633 35</u>
	<u>1,910,023 93</u>

The nominal assets exceeded the liabilities in the sum of \$81,150 19. Of the sum set down as due to depositors \$34,571 64, at Little Rock, were on account of partial payments on notes discounted by the bank, and as a large proportion of the deposits at Batesville and the Post of Arkansas were probably of the like description, they constituted no active demand against the bank.

Of the condition of the notes, bills, and bonds, which formed part of the assets of the bank, we have the following statements:

Notes not due April 1
Notes past due April 1
Bills of exchange past

Notes in hands of attor
Bills of exchange for s
N. Menefee, in hands

Notes running.....
Judgments.....
Notes in suit.....
Notes in constables' ha
Notes retained by attor

Bills and notes not in s
Bills, bonds, and notes
Bills under protest.....

Notes discounted.....
Domestic bills of exchan

Estimated amount of de
Estimated amount of de

The whole amount du
At Little Rock.....
At Fayetteville.....
At Batesville.....
At Post of Arkansas....

CONDITION OF THE BANKS.

213

AT LITTLE ROCK.

Notes not due April 1, 1843.....	\$152,106 00
Notes past due April 1, 1843.....	347,672 68
Bills of exchange past due.....	8,507 82
	<u>508,286 50</u>
Notes in hands of attorneys for suit and collection.....	\$54,770 00
Bills of exchange for suit and collection.....	17,272 08
N. Menefee, in hands of attorneys for allowance.....	2,150 00
	<u>74,192 08</u>

AT BATESVILLE.

Notes running.....	\$161,582 12
Judgments.....	32,648 47
Notes in suit.....	29,422 75
Notes in constables' hands.....	832 11
Notes retained by attorneys.....	15,875 75
	<u>240,361 20</u>

AT THE POST OF ARKANSAS.

Bills and notes not in suit.....	\$152,886 25
Bills, bonds, and notes in the hands of attorneys.....	51,146 00
Bills under protest.....	24,582 35
	<u>\$228,614 60</u>

AT FAYETTEVILLE.

Notes discounted.....	333,069 94
Domestic bills of exchange.....	3,319 69
	<u>336,389 63</u>

Estimated amount of doubtful debts at Fayetteville.....	\$45,074 00
Estimated amount of desperate debts.....	25,500 00

The whole amount due by individuals was, including back interest—	
At Little Rock.....	\$626,340 65
At Fayetteville.....	356,542 45
At Batesville.....	264,542 90
At Post of Arkansas.....	263,193 68
	<u>1,510,619 68</u>

CHES.

.....	\$169,000 00
.....	1,000,000 00
.....	58,331 87
2, to	
.....	8,450 00
2, to	
.....	60,000 00
.....	<u>1,295,781 87</u>

20	
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84	
37	
89	
	<u>340,678 71</u>

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	<u>216,930 00</u>

19	
68	
86	
97	
65	
	<u>56,633 35</u>

1,910,023 93

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 l, at Little Rock,
 ted by the bank,
 e and the Post of
 y constituted no
 h formed part of
 ents:

On the notes and bills due to the bank the annual interest was upwards of \$100,000.

On the other hand, the interest on the bonds issued and sold for the benefit of the bank amounted to \$68,450 a year.

Such was the condition of the Bank of the State of Arkansas and its branches at the time their affairs passed into the hands of receivers.

As there were about \$36,000 in specie at Batesville, and upwards of \$19,000 at Fayetteville, it was an object of some moment to preserve this treasure from the grasp of the judgment creditors of the bank. This gave no little concern, if we may judge from a letter which the financial receiver at Little Rock, on the 19th of July, 1843, addressed to the financial and executive receivers at Batesville:

"You will, of course, use every precaution not to hazard an attachment of the specie, and I think it would be well that some general concert of action should be taken on that subject. The governor promised to elicit all the necessary legal information and advise with us. He is, however, still absent at Fayetteville. The small amount, \$5,379 37, transferred by the Post of Arkansas branch, was in gold, and easily brought up in the receiver's trunk, without suspicion, at the time it was removed. But a lot of silver cannot be so quietly managed. And my present impression is, that it will be best to sell the silver, deliverable as wanted, in Batesville. But this is a mere opinion. And the united judgment of yourselves and the executive will best decide on the right way."

At the principal bank at Little Rock no less than 306 bills and notes were, between the 21st of September and the 24th of October, 1843, put into the hands of attorneys for suit; and both there and at the branches such other measures were taken as it was thought would best secure the collection of the debts due to the bank. But so little success attended these efforts that the whole amount collected up to October, 1844, a period of 16 months, was only \$159,111 04.

The smallness of the amount was owing only in part to want of inclination in the debtors to make payment. It was owing in a great degree to want of ability. About this time there was one of the greatest bank revulsions ever known in this or any other country. The bank note circulation of the United States which was, according to the returns made to the Treasury Department, \$140,000,000 near the 1st of January, 1837, was by the 1st of January, 1843, reduced to about \$59,000,000. Such a reduction of currency no nation could sustain without the most disastrous consequences, especially as such reductions are always attended with a ruinous loss of confidence. The evil was felt most sensibly in September, 1842, when there was a terrible convulsion among the banks in New Orleans, the effects of which were experienced throughout the Union. As has been said, "we then touched bottom, and we remained at the bottom till May, 1843." After that there was a gradual improvement; in some of the States a comparatively rapid improvement; in others a slow one; but in few, if any, so slow as in Arkansas. Being the last to embark in paper money banking, it was natural that she should be the last to recover from its ill effects.

The general assembly commenced its fifth session on the 4th of

November, 1844. The first subject to which Governor Drew, in his message, called their attention was the Bank of the State.

He stated that but few of its notes were then to be met with in ordinary transactions, and recommended such an amendment of the liquidation act as would authorize the immediate receipt of State bonds in payment of debts due to the bank.

"You are aware," he continued, "that many of the debts are in a precarious condition. I have no doubt that a resort to harsh measures would, in a majority of instances, render collections still more difficult, if not impossible." In another place he speaks of "local combinations" having already been made "to interfere to some extent with the collection of debts due to the bank." And, again, in another place, of the "late floods of our rivers, which have proved so destructive to the crops as to forbid the hope that any considerable amount of bank debts will or can be paid during the current year, from the sales of cotton or other agricultural produce."

"Under these circumstances, I do not feel justified in advising any additional tax on the people, who are already very heavily burdened. And yet we are without the means in hand to pay the accumulated and still accruing interest upon our State bonds. This will not, I trust, and in justice should not, be attributed to a spirit of repudiation. Our escutcheon has, so far, been preserved free from the stain; and I sincerely hope and confidently believe it will be, in all time to come. Our failure to pay has resulted from inability, and not, I am sure, from indisposition to meet fully and promptly all our just liabilities. And I am equally sure, so soon as the requisite means shall be in our possession, none will have just cause of complaint of our delinquency.

"In view of our embarrassments it may be wise to consider of the causes which have produced them; for, if such a retrospect cannot remedy the evils of the past, it may serve as a salutary lesson in the future. And here we are met, at the very outset, with the now obvious imprudence on the part of our infant State of incurring such an enormous debt for the establishment of banks, which, without the ability to create real elements of prosperity, gave fictitious values to every species of property, repressed and retarded the development of the true resources of our soil and people, and at length exploding have left us the crippled victims of visionary speculation. The pursuits of our people, and the condition of our country, just emerging from the wilderness, did not then, and do not now, justify the use of banking facilities, if at all, to the extent provided; and of which we availed ourselves, as it seemed, in a spirit of emulation of the extravagance of other States, rather than in accordance with our real wants and substantial means. The highly inflated state of the currency in all parts of the Union, at the time our banks went into operation, with the other causes I have mentioned, all contributed to lessen the value of each man's accommodations, while, in the same ratio, it added to the debt contracted and to be paid now. Few, I apprehend, have ever been able to realize any profit from their so called accommodations, whilst almost every one has a loss to regret. In these I trace the present embarrassment of our State and people; and hence our inability to pay our debts. But while we cannot pay, we will neither

but we have no means of judging whether these changes have operated to the benefit or prejudice of the bank."

By an act passed at this session the office of executive receiver was abolished, and the duty of winding up the affairs of the bank was devolved on the financial receiver and an attorney at each office. By the same act it was provided that State bonds should be received in payment of debts due to the bank.

By the general appropriation act passed at this session an entire change was made in the fiscal system of the State. This provided that all par funds then in possession of the financial receiver of the State Bank, or that might thereafter come into his possession, should be immediately transferred to the State treasury. These were to be used first in paying the members and officers of the general assembly what was due to them, and then to discharge such other liabilities of the State as had been incurred during the first quarter of the fiscal year, commencing on the 1st day of October, 1844. After that, if there should not be a sufficiency of par funds in the treasury, the treasurer was required to issue his warrants, bearing no interest, for the amount due to the public claimants. These treasury warrants were made receivable in payment of taxes or revenue due to the State, and also in payment of debts due to the State Bank and its branches.

All legal liabilities of the State incurred before the 1st of October, 1844, were to be discharged in such funds as the treasurer had then in possession. Thus two fiscal mediums were established; bank notes for liabilities incurred before the 1st of October, 1844, and treasury warrants for those incurred subsequent to that date. At this time Arkansas bank notes were at 50 per cent. discount. As this act prohibited the receipt thereof in the payment of taxes, it had no tendency to enhance their value.

By another provision of this act it was declared that all funds in the State Bank in which the State had an interest should be regarded, not as heretofore, as part of the capital of the bank, but as a deposit in said bank to the credit of the State, to be drawn under appropriations made by this general assembly.

Governor Drew returned the bill with his objections. It made, as he conceived, invidious distinctions among public officers and public claimants. There were but \$33,732 18 in specie in the vaults of the bank, and every cent of this would be absorbed in paying the officers and members of the present general assembly, and those public creditors who had rendered services between the 1st of October and the 31st of December. To meet the residue of the appropriations, it would be necessary, previous to the next meeting of the legislature, to issue over \$80,000 in treasury notes or warrants. Under the provisions of the bill, not one dime in specie would find its way into the State treasury, and the treasury warrants must, of necessity, undergo a great depreciation.

Notwithstanding these objections of the Governor, the bill was passed by a constitutional majority of both houses and became a law on the 10th of January, 1845.

Another and still more important measure was adopted by this general assembly. It was taking the initiatory steps for such an amend-

ment to the constitution as would prevent hereafter the establishment of paper money banks within the bounds of the State. So far as can be gathered from the journals, the measure was unanimously adopted, or, at least, without a formal division on the main question in either the House or the Senate. The experience of seven years had convinced the people and their representatives that this kind of banking, instead of being productive of the benefits its projectors had promised, was fraught with the greatest evils to the community at large.

In the records of the different boards for the years 1845 and 1846, we find nothing that here requires especial notice, excepting the following in the Batesville minutes, under date of April 13, 1846:

"On this day William C. Bevens, as financial receiver of the branch of the Bank of the State of Arkansas at Batesville, and Isaac Baker, as attorney of said branch bank, met as a board for the purpose of transacting the business of said bank:

"And whereas it is believed by said board to be impossible by suit to collect debts due the bank, and that the institution of suits might tend to embarrass future action of the legislature in regard to this branch, and increase excitement and promote combination among debtors, it is therefore resolved that the attorney return to the bank all notes of the bank in his hands upon which suits have been brought, as well as all notes sued on and not filed in court."

This was the branch the directors of which had so indignantly repelled Governor Yell's charge of mismanagement. The greatest amount of bad debts that they would, in September, 1841, admit to be due to the branch was \$7,521, and of doubtful \$9,000. The events of the next two or three years sufficiently revealed the true character of the mass of the debts due at Batesville. All that was collected there in two years, from the 1st October, 1844, to 1st October, 1846, was \$9,155 04, and this was in paper depreciated many per cent. below par. The collections per annum hardly exceeded the interest that accrued in three months.

The general assembly commenced its fifth session on the 2d of November, 1846.

"The energies of the State government," said Governor Drew, "have already become palsied. With an empty treasury for years, with a ruined State credit, and an apathy on the part of all to move in even the attempt to retrieve our credit, it has become my duty to present fully, not only the present ruinous state of our finances, but to assume the responsibility of pointing to the only possible remedy.

"The financial history of the State exhibits a series of blunders.

"The first legislature under the constitution provided for the levy of one-fourth of one per cent. upon the sworn assessed valuation of such kinds of property as that body saw proper to subject to taxation, which, when the assessment was made, discovered to the executive the prospect of a large surplus, and induced that officer to issue his proclamation for a called session, with a view to its reduction.

"At the called session [that of 1837-'38] the committee upon banks appear to have conferred with that on revenue, and immediately an idea was entertained (and it must have prevailed pretty generally) that the establishment of a State bank, the property of the State,

afforded the means, and when once put into successful operation, would serve the purpose of freeing the people from taxation altogether! The levy was consequently fixed at one-eighth of one per cent., and until the bank should have declared a sufficient dividend for that purpose, the legislature authorized drafts to be drawn upon the surplus revenue of the general government then deposited with the State, and which, in the body of the charter of the State Bank, was placed as so much capital, and upon the faith of which as a basis, the directors were authorized to issue the usual amount of circulation.

"It appears to have been at least doubted at the time, whether one-eighth of one per cent. would be sufficient to meet the current expenses of the State government, as this provision for drawing on the surplus revenue affords abundant evidence. The legislature, by the unfortunate connexion of the bank with the revenue of the State, set out in the establishment of a system which contained the seeds of its own destruction.

"The almost entire absorption of that fund at or about the close of the last general assembly left the State no other means to meet the heavy appropriations then made for the current expenses of the government for 1845 and 1846 (and the payments out of which amount to the sum of \$107,221) than the limited means afforded by a levy of one-eighth of one per cent. on \$20,600,000 worth of taxable property, which produced a sum less than one-half the required amount. The attempt at the late session to improve the finances of the State by the issue of treasury notes, calling them par funds, and requiring the payment of all public dues to be made in gold and silver or par funds, in place of worthless bank paper, without providing the necessary means to meet such requirement, was as futile as it was ill-advised."

The receipts into the treasury for the two fiscal years ending October 1, 1846, were in all \$51,948, of which \$7,381 99 was in specie, \$20,392 19 in treasury warrants, and \$24,143 42 in Arkansas bank notes.

The governor dwelt at some length on the inconveniences of this currency. "If \$1,500 is a fair salary for a judge of the supreme court, and he receives that amount in scrip worth \$750, he feels himself at least disappointed when he recurs to that portion of the constitution of the State that provides that such salaries shall be neither raised nor diminished during his continuance in office. In the present state of our finances his salary is subject to variation every week, dependent upon jobbers in this species of paper, that rarely ranges in the market above one-half of its face."

"Should the legislature continue to pursue the ruinous policy of paying off that body, with its necessary expenses ranging from twenty to thirty thousand dollars, in these depreciated 'promises to pay,' without providing proper and present available means to sustain and give credit to this almost worthless paper, its further depreciation will be such as to sink the credit of the State beneath any stretch of calculation. For this purpose nothing is plainer than the absolute necessity of augmenting the levy and extending the range of taxable articles. Should the representatives of the people be unwilling to

assume this responsibility, they will doubtless feel the necessity of making the first move towards the abrogation of the State government, a government which, ten years of experience will have proven, is now, and would at the outset have been, impracticable but for the fortuitous circumstances of the distribution by the general government of the surplus revenue among the several States."

In conformity with the recommendation of the governor, an act was passed extending the list of articles subject to taxation, and increasing the levy to one-fourth of one per cent. of the assessed valuation. This measure, in conjunction with a resolution declaring that all treasury warrants, whether issued for special or general purposes, should be receivable for all State dues, and thus, for lands as well as for taxes, raised the warrants nearly to a par with silver. Their previous rate of depreciation was from 40 to 60 per cent. This resolution was, at the suggestion of Mr. A. H. Rutherford, brought before the House by Mr. Fletcher, of Mississippi county, at a late hour on the last day of the session, and was the last resolution adopted by that general assembly.

Mr. A. E. Thornton, the financial receiver at Little Rock, stated in his report that "when he came into office he found that every dollar of the *specie* means of the bank had been exhausted, in consequence of which he had no little difficulty in meeting the demands on the bank. In some instances the property of the bank had been sold under execution, at a sacrifice for want of funds to protect it, and in others the receiver had been compelled to resort to the sale of Real Estate Bank paper, at the current price in the market, to provide *specie* means with which to redeem the real estate of the bank, meet incidental expenses," &c.

The joint committee on banks reported that they had examined the report of the financial receiver at Little Rock, and found it a true representation of the condition of the principal bank.

Governor Drew had suggested the propriety of calling in the branches, or of disposing of the assets of the bank to the highest bidder, for part in prompt payment, and the balance in one, two, and three years. On these points the committee differed from him. In their judgment, "the assets of the bank could not be brought into market at this time without a serious sacrifice of the interests of the bank. The committee also believed that the branches could not be called in at this time without a heavy loss to the State and a great injustice to debtors of the branches."

The governor had in his message called attention to a correspondence between himself and the Hon. David Hume, a member of the British Parliament, and a holder of a portion of the bonds of the State of Arkansas. This part of the message was referred to the committee on ways and means, and Mr. Gaines, on behalf of that committee, made a report, which possesses no little interest, as it shows that, gloomy though the prospect then was, the doctrine of repudiation received no sanction from the people of Arkansas or their representatives.

"The bonds," said Mr. Gaines, "were issued for the benefit of the banks of this State, to whose management and means the legis-

lature which authorized their issue looked mainly for the payment of the interest as well as their final redemption. The failure of these institutions to answer the ends of their creation has been and still is a source of great regret and embarrassment to the State authorities, as well as to the whole people of the State, and although we now see and deeply lament the errors into which a former legislature went by authorizing their issue, yet the step has been taken by those to whom the people confided the legislation of the State, and the present is not the time to question the propriety of the measure; but the duty devolves upon us to remedy, if in our power, the evil already existing, and if possible to maintain the faith and ultimate credit of the State. In the first place it cannot be denied that the era at which the acts authorizing the issue of those bonds was passed was one memorable in the history of the commercial as well as the political world, for bank *manias* and speculative *stock-jobbing*, and it is not surprising that our predecessors, comparatively without experience in banking, should have been carried away by the fictitious appearance of things existing, while the most experienced and enlightened statesmen of the age were led into errors innumerable and irretrievable by the same bewildering influence. This unreal state of things, by which paper and bank credits were substituted for money, existed throughout the civil, political, and commercial world, and in no part to greater extent than in our own country. At that period confidence in the credit system prevailed to an extent which produced alike the downfall and ruin of private as well as public enterprise, and spread like a sweeping pestilence its disastrous effects throughout the length and breadth of our own beloved land. Arkansas, sparsely settled, destitute of wealth, except her native soil and hardy and industrious inhabitants, procured a credit in foreign markets to which her limited resources did not entitle her, and which proved alike embarrassing and injurious to her and to those who confided in her ability to meet her engagements. Her bonds were readily negotiated in the market, not for specie or money, but for what was then *termed* par funds, which meant bank credits, and which formed a part of the mushroom system then prevailing. These funds were placed to the credit of our banks in eastern cities, and soon merged into individual debts due to banks, and payable in their own issues. Soon after this a general reaction took place in the United States, and indeed in the whole commercial world, by which credit was destroyed and confidence lost, and our State having neither wealth nor commercial advantages to sustain her banking institutions, they went down and their paper ceased to answer the purposes of even an internal circulating medium, and in many instances depreciated in the hands of the holders, and would not answer the purpose of meeting the accruing interest on the State bonds. Hence, as soon as the banks exhausted the small amount of specie which they retained from the proceeds of the sale of the State bonds, in paying the accruing interest thereon, they became unable to comply with the provisions of their charters, which required them to meet the interest on the bonds, to which provision the State, as well as the bondholders, looked with confidence at the time the sales of the bonds were effected. It is clear from the reading of the charters, which were

before all the contracting parties, that the people did not anticipate a direct tax to pay the bonds. The State stood as collateral security for their ultimate redemption. The downfall of the bank left the people without a circulating medium, and generally much embarrassed, which embarrassment soon manifested itself also in the State treasury, which had been supplied by a tax collected from the people under the then existing laws, in the paper of those institutions, which paper was greatly under par. The legislature has finally been driven to the necessity of refusing the paper of either bank for taxes, and on account of the present embarrassment of the treasury, had to resort to a much higher levy to meet the current expenses of the State and arrears due, growing out of former expenses of the State government, which must operate oppressively on the people in their present embarrassed condition. The object of the correspondence on the part of the bondholders is understood to be to ascertain whether the legislature will deem it their duty, under existing circumstances, to levy a direct tax on the people to meet the interest accrued and accruing on the bonds, in answer to which your committee are of opinion, first, that neither the people nor the legislature which authorized the issue of the bonds in the bank charters ever contemplated a direct tax to pay either principal or interest, *until the assets and means of the banks were first all applied to that object*; secondly, that such a tax would, at the present time, be extremely unjust, onerous, and oppressive to the people, and would be more than they could well bear, and would tend greatly to retard the growth of the State, and thereby, perhaps, forever put it out of the power of the State authorities to redeem the bonds. If it is the desire of the holders of the bonds to know what course the legislature are disposed to take in regard to these institutions, we answer that both of them have been placed in liquidation with a view to wind up and secure their assets, which are to be applied to the payment of the State bonds issued for their benefit, and to no other purpose; and the officers of both institutions are authorized to take in payment of the debts due to the bank the bonds of the State, or to exchange property with the holders of the bonds at fair and equitable rates. The process of liquidation has not yet absorbed the circulation, which is being paid in on account of debts due to the bank. Therefore the banks have not realized any available funds which could be applied to the payment of either principal or interest of the State bonds; nor can we just now look forward to the day when we may anticipate better funds. We look to the payment of the bonds as the ultimatum of all that is desired by the acts placing the banks in liquidation, after the circulation shall be absorbed; therefore we deem them good in payments, but have not the present ability to redeem them from the holders, except in the way indicated. If it be charged that the State is acting in bad faith to the bondholders, we reply that we have tried to preserve inviolate the means and assets of the banks for the purpose of liquidating the claims against them, and the State bonds issued for their benefit; and it was to these means that all parties looked for the payment of the principal and interest at the time the bonds were negotiated. Candor compels us to admit that after all the means of the bank shall be exhausted, there will still

remain a considerable deficit, which must devolve on the State to provide for; but we leave the provisions for that object to be enacted by succeeding legislatures, who, it is to be hoped, may find the people of the State in a better condition to bear the burdens that may be imposed on them than the present condition of things would justify."

This report, which was unanimously adopted, places in a clear view the relations of the people, the State, the banks, and the bondholders, subjects in regard to which there has been much misconception. To raise by taxation the sum necessary to pay the interest on the bonds was impossible. But the people of Arkansas have the consolation to know that, even in the darkest times of their adversity, their representatives never gave any countenance to the doctrine of repudiation, but, on the contrary, did all in their power to give a value to the bonds in the market, by declaring that they should be received in payment of debts due to the bank.

The policy which the State adopted in the beginning of these difficulties, and which is so clearly set forth in the report, has been steadily persisted in to the present day, and will, it is confidently expected, be persisted in till the whole amount of both the principal and interest of the bonds shall be redeemed.

The most important measure of this general assembly was the completion of the amendment to the State constitution, declaring that

"No bank or banking institution shall be hereafter incorporated or established in this State."

In this measure the members of both houses united without distinction of party. The minutes read, "passed in the senate by yeas twenty, nays none. Ratified in the house of representatives by yeas seventy, nays none."

The general assembly commenced its seventh session on the 6th of November, 1848.

"The revenue law of last session," said Governor Drew, "has answered fully the public expectation. It has realized all the favorable results anticipated by its most sanguine friends."

While the revenue under the old law was only from \$25,000 to \$30,000 per annum, under the new law it was upwards of \$70,000. Less than one-third of this was, however, in specie, during the fiscal years ending October 1, 1847, and October 1, 1848.

"The report of the financial receiver of the State Bank, and of the secretary of the board of trustees of the Real Estate Bank, are referred to with more than ordinary satisfaction, as they each exhibit a more successful course in the accomplishment of the act of liquidation on the one part, and the assignment on the other, by the collection of a much larger amount than during the two years preceding their previous reports."

Captain G. Washington Patrick, who had been appointed by the governor an agent to examine the State Bank and its branches, began this duty in May, and continued it up to the time of the meeting of the general assembly. He visited each branch.

At Fayetteville he found that lands had been received in payment of debts to the amount of \$42,404 40; but as most of these lands had

afterwards been sold under executions to satisfy judgment creditors, the loss to the bank in this way alone amounted to nearly \$40,000.

The banking house and lot, which had cost some \$8,000, had been sold under execution for about \$800, and the bank officers dispossessed of the same.

At Batesville he found bills, bonds, and notes, amounting altogether to \$193,000; but on nearly half this amount, or on \$89,000, non-suits had been taken. The officers assured him "that the cases were dismissed at the cost of the bank by the presiding judge, on points of law ~~over~~ which the bank attorney had no control, and that it was not for want of skill, industry, and integrity on the part of the bank attorney that the bank was non-suited and prevented in the collection of her debts, and involved in heavy damages in the shape of clerk's and sheriff's fee bills."

"The whole amount paid by this branch for incidental expenses, from the 2d of February, 1847, to the 13th of July, 1848, as shown by statement marked B, including the accounts at law, is \$4,638 95. It is shown by said statement that only \$9,574 75 have been transmitted in cash assets to the principal bank. For the same time the bank has been at the expense of paying the salary of an attorney and financial receiver, at an annual sum of \$800 each; say both for seventeen months \$2,300, which has been paid by the principal bank, selling real estate paper at a discount of seventy-five per cent., or \$8,200 real estate paper. Add these two sums together and it will be seen that this branch has not collected enough to pay expenses of managing the same; and if carried on a few years at this rate, every solitary cent of the bank would be consumed, and still a debt be hanging over it for salaries to bank officers."

At the Post of Arkansas the books and papers of the late James M. Smith were found to be "wholly inexplicable," and his successor, Mark Mitchell, exhibited no books kept by him since he came into the office."

The whole amount due to the principal bank and the three branches on notes, bills, bonds, and other obligations, was set down at \$977,279 91, of which \$567,628 04 was reported good, \$176,569 02 doubtful, and \$233,082 88 bad. This was independent of back interest that had accumulated, and which was supposed to amount to upwards of \$250,000.

Mr. Trapnall, from the committee on banks, made report, that when the act of liquidation went into effect, in 1843, "the assets of the bank amounted to \$1,832,120 45, and were sufficient at that time to redeem the circulation and pay off the bonds. On the 6th of November, 1848, according to the reports, there was due for bonds \$1,486,847 50; the paper not yet redeemed is \$83,427; and according to the report of the agent the whole amount of available assets does not exceed seven hundred and fifty or eight hundred thousand dollars, leaving a deficit of at least \$600,000, which will have to be raised by taxation out of the pockets of the people.

"This is owing, first, to the withdrawal, by the legislature, of the funds in the bank in 1842 and 1844, to pay themselves and the ordinary expenses of the government, by which the bank was deprived of

a large amount of money, and of the only means of defending herself against the judgments rendered against her, and by which all her real estate has been sold and sacrificed for one-twentieth of its value."

"And, second, that the Real Estate Bank paper has been sold at the market price to raise means to pay the salaries of the bank officers and the expenses of the bank. In the last two years the expenses, salaries, &c., have been \$13,425 36, for which \$50,191 of bank paper has been sold.

"To raise the \$9,500 appropriated for the rebuilding of the penitentiary \$37,690 of the bank paper has been sold, without the authority of law known therefor to your committee, and to pay for the printing of the acts, &c., of the last general assembly, amounting to \$4,667 19 in good funds, \$18,149 36 of bank paper has been sold."

Whatever may be the value of the bank paper in the market, every dollar of it in the vaults of the bank is a dollar to the State, and to raise the amount of \$13,425 34, for bank officers and expenses, \$9,500 for the penitentiary, and \$4,667 19 for printing, the means of the bank and the State to the amount of \$106,030 36 have been used.

"Much of the loss is attributable to the cumbrous and inefficient system of liquidation, and the number of officers employed in it, and to the negligence and carelessness which is the natural result of such a system.

"To protect the State from imposition, to guard the interest of the bank, to provide land-marks which might facilitate an examination of the bank, and above all to furnish the proper officers of the State and legislature with the actual condition of the bank at stated intervals, various laws have been passed from time to time calculated and intended to effect that object. In requiring the notes of the bank to be burned when the sum of \$10,000 is on hand; in requiring the financial receiver to make a statement of the assets to the governor every four months, and fixing a severe penalty for its violation. On the 23d of December, 1846, requiring the financial receiver to make out a list of the individual indebtedness due the bank, setting out the sum of every debtor, and whether the same was good, doubtful, or bad, and have the same before the general assembly at its next meeting, and fixing a fine of not less than a thousand dollars for a failure so to do. And one of still more magnitude and importance, requiring the financial receiver, in cases of redeeming or receiving State bonds in exchange for bank notes, to cancel and file the same with the treasurer, and to file one of the treasurer's receipts with the auditor; and also that the financial receiver should take duplicate receipts from the person from whom any bonds are redeemed, showing the amount paid for interest on such bonds, one of which receipts he shall file with the auditor.

"The importance of complying with the laws must be obvious to all. The provisions of the first mentioned have not been regarded, as the financial receiver says the committee to burn bank notes did not meet. The provisions of the second were disregarded, because, as the financial receiver says, the governor did not make a requisition for the statement. But no valid excuse can be made for a failure to comply with the requisitions of the third and fourth last mentioned laws. And what

appears equally strange to your committee is, that although within the last two years the financial receiver has exchanged more than \$140,000 in bank notes for State bonds, yet no entry is made on the books of the bank of the time of the exchanges, with whom the same was made, or how much was allowed for interest on the bonds. If the only effect of the failure to make an entry on the books of the bank of the exchange of notes for bonds, and to comply with the plainest requirements of the law, was to cause in the minds of many a suspicion that the financial receiver had not dealt fairly with the bank, or executed faithfully the high trust reposed in him, your committee would not advert to the subject. But the whole transaction relative to the exchange of notes for bonds is a sealed book to your committee, and while they cannot say that the State is a loser by this violation of law and common usage, yet the financial receiver has cut off every means of detecting an error, to use no harsher term, and preventing the committee bestowing a compliment if he deserved it.

"It appears that the financial receiver exchanged notes, or, in other words, *traded with himself* for bonds in exchange for notes, and, as in other cases, no record of the transaction was kept on the books of the bank. It also appears that the financial receiver has been extensively engaged in a brokerage of notes and bonds, and while your committee would not presume to interfere with the private transactions of an individual, yet they think the interest of the State would be best subserved by an officer who abstained entirely from all dealings in funds, and particularly from trading with himself."

After a detail of particulars, which it is not necessary to introduce here, the committee concluded by stating that they are "satisfied that radical reform in the administration of the officers of banks is imperiously called for; and that their officers should be compelled to perform rigidly the duties imposed on them, and no omission should be tolerated, and especially that buying and selling, and every species of brokerage, should be emphatically interdicted."

This report was signed by J. Gould, chairman of the committee of the Senate, and by F. W. Trapnall, C. P. Bertrand, E. H. Fletcher, and A. W. Wilson, the committee of the House.

Though this report censured very severely Mr. A. E. Thornton, the financial receiver, yet three members of the Senate and twenty-four of the House declared in favor of re-electing him. On a second ballot, however, Mr. J. M. Ross received the votes of eleven members of the Senate and thirty-eight members of the House—a majority of the whole—and was thus duly chosen successor to Mr. Thornton.

At this session of the legislature, a memorial was received from sundry holders of Arkansas bonds, principally residents in New York, praying that measures might be taken for the punctual payment of the interest.

"These bonds," they said, "it is known to all parties interested therein, were expected to be provided for by the banks to which they were issued by your State. But it was the plighted faith of the State, and it only, that enabled the banks to realize, as they did, the full value of these pledges, and the full amount called for by them, and by the tenor of the bonds. The purchaser and the present holders of

those bonds have looked to the ability and to the honor of the State alone for the return at the appointed time of the capital thus lent, and for the proper and regular payment of the installments of interest; they have been disappointed in this by a failure in the payment of interest since about the year 1841. They are fully aware that causes of disappointment then existed of such a nature as to relieve the State from censure and reproach; though the effect was painful in the extreme, distressing to all, and ruinous to many of the holders of these bonds. But those days of darkness to the national industry have passed off, and have been succeeded by others of liberal reward to all branches of industry, rendering it, we respectfully but confidently suggest, imperative on the honor and moral integrity of each of our sovereign republics to accomplish their engagements, and to remunerate their creditors for the heavy burden that has been put upon them by suspension of payments, which several of them made during the gloomy pecuniary revulsion which is past.

"Your memorialists earnestly entreat that you will not fail at this session of your legislature to make ample provision for the prompt payment of the interest now and hereafter to become due, or if it is supposed inconvenient to pay the whole interest now due, that a law should be passed to fund the interest now due, and provide for the regular payment hereafter of the interest on it and on the principal."

It was impossible for the legislature to comply with the request. It appeared, from the report of the auditor, that the annual interest on the State bonds, then unredeemed, amounted to \$153,670. The aggregate of interest due and remaining unpaid was \$1,108,172 50. If this had been funded at 6 per cent. it would have made a net annual charge of \$66,490 35, which, added to the annual interest on the bonds, would have made a net yearly charge of \$220,160 25.

Under the new law the revenue of the State had, indeed, been increased from between \$25,000 and \$30,000 to upwards of \$70,000 a year; but this was but little more than was required to pay the ordinary expenses of the State government. And of this revenue only about \$23,000 was in specie. The rest was in Arkansas treasury warrants and other paper, which had little value beyond the bounds of the State.

The public creditors asked the legislature to raise by taxation, for their benefit, an annual revenue in specie about eight times as great as the people had been accustomed to pay in depreciated paper. As already stated, it was impossible for the legislature to comply with this request; but so far were they from repudiating, that the following resolution, which was introduced by Mr. Berry, was passed by the House without a dissenting vote:

"Whereas we are well assured that there is a settled determination on the part of the people of Arkansas not to stain the political and moral character of the State by repudiating her just public debts; and whereas, although the State is not now able to meet the demands of her creditors, yet the rapid increase of population, the springing up of her innumerable resources, and the advancing prospects of her agricultural interests, afford the pleasing assurance that the day is not

far distant when she will be able to make some provisions for the gradual liquidation of her debts ; therefore,

Resolved, That the committee of ways and means be instructed to report to this House the amount of the public debt, the annual interest thereon, and whether there are now any means accruing to the State that may be applied to the redemption of the bonds."

A joint select committee reported that they had canceled State Bank bonds and coupons to the amount of \$156,286 36, and the registered Real Estate Bank bonds and coupons to the amount of \$120,280. All these had been received in satisfaction of claims of the State Bank ; and thus may be said to have commenced the formal liquidation of the debt of the State. Governor Drew was anxious to hasten the good work by receiving the bonds and coupons in exchange for 500,000 acres of land which the United States government had granted to the State for the purposes of internal improvement. But a committee of the legislature, to whom the subject was referred, reported that the grant had been made for a definite object, and could not, with propriety, be applied to any other.

After this reduction of the State debt it would have required an annual tax of upwards of \$200,000 to pay the interest on what remained unredeemed, in the manner suggested by the holders of the State bonds. Of course, the legislature made no attempt to effect that which was evidently impracticable.

By an act approved January 9, 1849, it was provided that all the branches of the State Bank should be closed, and their books and assets concentrated at Little Rock, retaining, however, an attorney at each branch. It was further provided that in any suit instituted by the bank the bank should not be ruled to security for costs, but the State should be liable to pay costs rendered against said bank. Some measure of this kind was necessary, as the State Bank had in a multitude of cases been non-suited, simply because, owing to its pecuniary embarrassments, it could not give security to pay the costs of suit.

In April, 1849, Mr. Ross commenced the discharge of his duties as financial receiver at Little Rock. A part of the legislature were dissatisfied with the conduct of his predecessor, A. E. Thornton ; but so many continued to confide in his honesty that on the first ballot he received more votes than any other candidate, one only excepted.

Mr. Ross had not, however, been many months in office before he discovered that Mr. Thornton had received some nine or ten thousand dollars which he had failed to account for. These amounts Mr. Thornton, when called on, paid up.

Further investigations showed that there had been various crooked dealings in relation to bonds. A full statement of these was laid before Governor Roane on the 15th of October ; and on the 18th the governor communicated the particulars to John J. Clendenin, esq., the attorney general.

Some fourteen days afterwards Mr. Clendenin, in a letter to Mr. Ross, acknowledged having received, through Governor Roane, his "report in relation to the defalcation of Abner E. Thornton, late financial receiver, and also preferring charges against him for misdemeanor and fraud in office." Mr. Clendenin proceeded to say that

if civil proceedings were instituted they ought to be instituted by the bank, and that he had so informed Governor Roane and D. W. Carroll, esq., the attorney of the bank. "In relation to the criminal charges," continued Mr. Clendenin, "I deem sufficient has been shown by your report for me to submit the facts to the next grand jury of this county for their action. But it may probably be necessary that some steps should be taken before then to secure the attendance of Colonel Thornton, and I have to suggest, if you think proper to do so, that an affidavit should be made by you, (as being cognizant of the facts,) before an officer, setting forth the facts and requiring that Colonel Thornton should be held to bail for his appearance before our next circuit court to answer the charges against him."

To this letter, which he received on the 2d of November, Mr. Ross replied, on the same day: "As Colonel Thornton left this city early yesterday morning it is unnecessary that I should take any steps now to 'hold him to bail' to answer the criminal charges set forth in my report. Neither do I believe it my duty to do so."

About a year after this, on the 4th of November, 1850, the eighth session of the general assembly commenced.

"I have," said Governor Roane, "to congratulate you upon the prospect, under the present revenue laws, of our soon being relieved from that unfortunate system, forced upon us by necessity, of issuing treasury warrants; a system but little less unfortunate than the repudiated doctrine that banks are essential to the collection and safe keeping of the public revenue of the country.

"Should the revenue laws now in force be continued, we have the hope before us of once more seeing the revenue collected equal to all demands on the treasury; and our debts, except those contracted on account of our banks, extinguished. For the two years commencing with the 1st of October, 1848, and ending with September 30, 1850, the amount of revenue paid into the treasury was \$163,111 41; and the expenses of the State for the same period were \$135,761 46, leaving a balance of \$27,348 95, which was expended in redeeming outstanding treasury warrants, of which there still remain unredeemed \$16,259 38½, but which will be redeemed during the next two years.

"The time appointed by an act of the legislature within which the Bank of the State of Arkansas shall collect her debts and redeem her circulation, preparatory to making a final settlement of all her affairs, will expire in little more than two years. By information derived from the able and elaborate report of the present financial receiver of that institution, we are enabled to form a very correct conclusion as to the conduct of those who have had the control and management of her affairs in time past, and to determine in what condition she will be found upon a final adjustment of her accounts.

"Judging from the facts thus presented, it requires no extraordinary degree of mental acumen to determine that the history of this bank is but a catalogue of the grossest mismanagement and criminal negligence, (to use no harsher terms,) from the date of her charter until the present time, and that heavy loss to the State must be the consequence.

"To arrive at this conclusion we need go no further back than the

date of the act of liquidation, which, as I contend, was conceived in error and will result in misfortune. Among the numerous objections that might be urged against this law not the least prominent is the unnecessary extension of time granted to the debtors of the banks. It is a well attested fact that the longer a debt remains due the lighter we feel the obligation resting upon us to pay it. This has been clearly exemplified in the case of the State Bank; and in consequence of this very principle thousands, if not hundreds of thousands, of dollars have been lost to the State.

“Consequent upon, and rendered necessary by this mistaken lenity, was engrafted upon the law another principle but little less destructive to the interest of the banks; the employment and pay of so large a number of officers. Their salaries, though small, taken separately, (too small in some instances to command the most competent individuals,) yet, when taken in the aggregate, the doubt may be reasonably entertained whether their salaries did not amount to more than by their agency was recovered for the bank. In some instances, these officers have been incompetent; in others, criminally negligent; and, in one instance, that of Abner E. Thornton, absolutely dishonest.

“The evidence of their incompetency will appear on the records of our courts, where the bank has been not only defeated in the attempt to coerce payment, but left with a heavy bill of costs to pay; again it will appear from their inability to so keep the books as to exhibit the transactions of the bank. The gross negligence will be found to exist in permitting more than two hundred thousand dollars worth of the notes due the bank to remain in their hands till they were barred by the statute of limitations. The dishonesty of Abner Thornton is manifested throughout his whole official career, exhibiting but a series of embezzlements and forgeries.”

From the best accounts Governor Roane could collect, he arrived at the conclusion that the two banks would leave a debt of about two millions to be paid by the State. “It may be more; it can scarcely be less. There is not a citizen, I apprehend, in the State of Arkansas, who is not prepared to acknowledge its justness, and concur with me in saying that the State is bound, by every principle governing contracts, to use all the means in her power to pay it to the last cent. The spirit of repudiation can find no advocates in Arkansas—no resting place in the hearts of her citizens. But the disposition and ability to discharge our liabilities are two things; one we have—let us see what are our prospects for the other.”

The governor then took a view of the resources of the State. The taxes already levied “were oppressive upon the people, and submitted to only from the necessity of the case.” Such an additional rate as would be necessary to pay the interest on a debt of two million dollars and discharge the principal in twenty years, would be “a burden too enormous to be borne by any community, and one to which the people of Arkansas are, at this time, unprepared to submit.”

Mr. John M. Ross, the financial receiver, made an elaborate report, accompanied by tables, in which he gave the name of each man who was indebted to the bank or either of its branches, whether as prin-

cial or security, together with the amount due by him, and other interesting particulars

The committee on banks reported, that of the debts due to the State Bank, \$267,186 81 were reported to be good; \$241,404 52 to be doubtful, and \$572,968 84 to be lost.

"We may be assured that, of the \$1,081,560 70 now due the bank, the enormous amount of \$780,000 is irretrievably lost. That a portion of this has been owing to the deranged condition of the currency, and the consequent embarrassment of the country, the committee admit; and that a part has been lost by reckless legislation is beyond doubt; but that, in many cases, the great bulk of the loss is attributable to the criminal negligence and dishonesty of the officers of the bank, seems clear to the committee.

"By failing to sue in time, and by indulging favorites, the bank, as stated in the message of the governor, has lost the enormous amount of \$200,000 by the statute of limitation; and a large part of the residue of this amount (\$780,000) has been lost by a uniform failure to attend to the security of the debts due the bank, by changing and taking inferior security; and in many instances by relieving friends, and men of wealth and influence, and taking men of small means and doubtful responsibility in their stead; and by the failure to enforce collections with proper diligence and energy; and this your committee think is fully exemplified in the statement of the condition of the Fayetteville branch, where, of an outstanding debt of \$221,619 19, only \$35,243 68 is available, and the loss is \$186,375 51; five-sixths of the whole amount a total loss.

"The history of the bank exhibits the most astounding instance of long continued mismanagement and open abuse of trust that ever occurred in a country of laws. This state of things has been brought about to some extent by a narrow policy and a mistaken idea of economy in giving small salaries to officers in high trust, to great indifference as to qualification in selecting officers, but more than all, to a total failure to examine into the conduct of these officers, and holding them to strict account.

"The conduct of those who have the keeping and control of the public means and money and periodical accounting by them, which is suggested both by prudence and experience as necessary to their security, seems to have been forgotten, so far as the bank officers were concerned. In the possession of vast amounts, freed from all restraints, every obligation seems to have been released, and every law regulating their duty set at defiance.

"The law required that whenever the amount of \$10,000 of the bank paper should be on hand it should be registered and burned. The necessity of this law and the necessity of enforcing it is obvious; yet large amounts of this money accumulated in the hands of the bank officers, and for four years but little of it was registered and burned.

"The law required that each one of the financial receivers should make quarterly reports to the governor of the amount and character of the assets in their hands. The necessity of this law is obvious, too, to prevent the agents from using and speculating in these funds; yet

no regard whatever was paid to this most important law. An omission to do so subjected them to a penalty of not less than two hundred nor more than two thousand dollars.

"Another law required them, when they received a State bond, to take of the person from whom it was received a statement of the date of the receipt and the amount of interest computed, and to take the bond and statement at once to the treasurer and have it cancelled, and file his receipt for it with the auditor. The bonds were drawing six per cent. interest, and this law was passed to prevent the officers from receiving and holding the bonds, and defrauding the State out of the accruing interest; yet no regard was paid to this law, and a large number of the bonds of the State and Real Estate Bank came to their hands which were held, some of them three or four years, and the interest calculated upon them up to the time they were turned over. The State was an immense loser by this operation.

"Permitted to retain large amounts of money on hand for an indefinite time, having failed to make their quarterly statements with impartiality, no one seemed to notice or care about it, and seeing that a large sum could be made by getting and holding the bonds, and that in all probability they would never be called to account for it, untrammelled by sense of duty, obligation, or law, they gave full scope to their cupidity. The paper of the bank had depreciated and was fluctuating in value, and was generally in the hands of capitalists and speculators, and could not easily be obtained by the debtors of the bank. With the means of the bank they (the officers) would purchase the paper and bonds and sell them to the debtors at an advance.

"Thus they raised means out of the bank with which they took advantage of the necessities and speculated on the debtors, and whilst they on the one hand gained immense profits out of them, they on the other robbed the State out of the accruing interest on the bonds.

"And out of these double speculations, and taking all the other advantages which their position and means gave them, one of them (Thornton) in the course of four years accumulated a large fortune, and although he was notoriously guilty of every offence that could be committed in the bank against the State and the law, and although the most conclusive proof was furnished of the speculation and forgeries committed by him, yet he was permitted to remain unmolested for some time at the seat of government winding up his affairs, and at last permitted to leave the country openly, without hindrance from any quarter. There seems to have been no one who felt it his duty to attend to the interest of the State and have him arrested.

"All the safeguards thrown by law around this fund for the security of the State have been uniformly disregarded, and the consequence an enormous amount irretrievably lost to the State. Almost every one interested with the offices of the bank has felt himself at liberty, in open violation of the laws, to use and retain its means. The checks provided by law not having been observed, it is impossible for the committee to make estimates."

The report was signed by Thomas H. Bradley, chairman of the committee on banks in the house of representatives, and by Napoleon ... chairman of the committee on banks in the senate. Per-

haps it is too sweeping in some of its charges. Some of the officers were, no doubt, guilty of criminal negligence in not collecting what was due to the bank, and others rendered themselves obnoxious to censure by not paying over promptly what was collected by them. But we know of none, with the exception of William McK. Ball and Abner E. Thornton, that can be charged with downright dishonesty.

In a special message which Governor Roane sent to the house on the 18th of November, 1850, he said, referring to the charges made against Thornton:

"The day after these documents were delivered to the attorney general I left the State to attend a convention to be held at Memphis, to which I was a delegate. On my return, after an absence of two weeks, Abner E. Thornton had left the State. Learning that he had removed to the State of Louisiana, I made a demand upon the governor of that State for his delivery, and sent an agent to receive and bring him back. He could not be found, and is now, I am informed, in the republic of Mexico."

In a special report Mr. Ross stated that the receivers at the principal bank and branches had disposed of \$127,197 16 in Real Estate Bank notes, for \$36,324 31 in specie, being a small fraction over 28 cents on the dollar. These sales were made to obtain the means of rebuilding the penitentiary, pay for the public printing, and defray various expenses of the trust.

A communication was received from the governor enclosing a letter from James Holford, of London, one of the principal holders of Arkansas State bonds. In this letter, dated Little Rock, November 14, 1850, Mr. Holford says:

"On looking over the balance sheet of the State Bank, it is but too evident that there must be a very considerable deficit to meet the accruing interest and the final payment of the principal of the bonds loaned to it. Consequently, as the State must eventually pay all, and as the treasury is not now prepared for it, I would recommend that the wreck of the assets of this bank, which can be collected, should be used in the payment of the accruing interest for the coming ten or twelve years, by which time the taxable property of the State will have so materially increased that not only the interest but the trifling amount for a sinking fund may be raised without increasing the present taxation."

Some have cast reproach on Arkansas because she did not promptly satisfy the claims of the holders of the bonds. Mr. Holford, who visited the State, saw the true condition of things, and that nothing better could be done for "the coming ten or twelve years than to apply the wreck of the assets of the bank to the payment of the accruing interest on the bonds." It was impossible for the legislature to follow his advice to the letter. But they have followed it in substance by applying "the wreck of the assets of the bank, so far as they can be collected," to the payment partly of the principal, partly of the interest, of the State bonds.

By an act passed January 11, 1851, the office of bank attorney was abolished, and authority was given to the receiver at Little Rock to employ special attorneys as occasions might arise.

The ninth session of the general assembly began on the 1st of

November, 1852. In addressing that body, Governor Roane gave an interesting sketch of the early history of the State.

"Arkansas was admitted as a State into the Union in 1836, now sixteen years ago. Her territory was large, and her population, small in numbers, and indigent in circumstances, possessed but few capabilities for properly entering upon the task of self-government. Situated on the west of the great Mississippi, beyond which the tide of emigration had not then passed, and indeed there was a large tract of unsubdued forest intervening between her and the thickly settled States, to be settled up before she could naturally expect to arrest the attention of emigrants, and her soil become the resting place of that mighty tide of human beings which has ever been tending westward since the history of man was written; during which time she had to remain in a state of probation, anxiously awaiting the coming of the people before commencing the work of improvement. At this time she had but little over fifty thousand inhabitants, possessing but little enterprise, and less wealth; the latter making an aggregate of not more than fifteen million dollars.

"Thus illy prepared, Arkansas assumed the robes of sovereignty, and became a free and independent State, entitled to all the privileges, and assuming all the responsibilities devolving upon the oldest, most wealthy, and populous States in the Union

"To meet the expenses necessarily incident to a State government, onerous taxes were levied and collected from a people poorly prepared to meet the demand

"Just before or about this time the land excitement had seized upon the minds of the western people, and, indeed, pervaded the community everywhere. As a consequence of this, a very large portion of our most valuable lands fell into the hands of non-resident speculators, precluding their purchase by actual settlers, and retarding the settlement of the country, the element most desirable to a new State.

"At the same time two banks were chartered by the legislature, and in order to procure a capital fund upon which to base their operations, bonds to the amount of \$2,827,000 were sold, for the redemption of which the faith of the State was pledged. Thus a heavy debt, with accumulating interest, was fastened upon the State during the first year of her existence.

"The affairs of these institutions were entrusted to the management of inexperienced and unfaithful agents. Confusion, embarrassment, and disaster were the inevitable consequences, and suspension of their business resulted. And taking into consideration the history of the times, the fact that all the banking corporations of the south and west had, at the time or immediately thereafter, suspended specie payments and ceased to do business, it is very doubtful whether a widely different result were practicable even under the most faithful and skillful management. Then followed the act of the legislature, by which these banks were placed in liquidation; and there is little doubt that even then their business might have been wound up with but little actual loss to the State, had not the ruinous policy been adopted of extending the time of payment to those indebted, to the extraordinary period of ten years, thus allowing all who preferred emigration to the payment

of their just and honest debts time and opportunity to leave the State and carry off their property, the greater portion of which, in many instances, was purchased with the very money drawn from the banks.

"To this false step, and the continued false management of these banks, may be attributed most of our misfortunes. Public confidence was destroyed, emigrants were warned away from our borders by threatened taxation to pay a debt which they had no agency in creating. Our legislators caught the infection, became sectional in their views, would not be convinced that Arkansas could manage with wisdom any enterprise, while under the control of the State; and the doctrine obtained that it was the duty of each member to secure for his immediate constituents as great a portion of the public treasure as possible, upon the idea that there was no hope of ever extricating the State from her embarrassments.

"This is one side of the picture. Let us turn now to its other and brighter aspect. We have seen under what disadvantageous circumstances our State came into the Union, and by what errors and misfortunes, in the very morning of her existence, her energies were paralyzed, her enterprise fettered, and public confidence in her capabilities almost entirely destroyed. Yet such and so great were the natural resources and advantages I have ascribed to her, and which she really possesses, that emigrants from other States could not be turned away, and her population has increased in a ratio of almost unprecedented rapidity—that is from 50,000 in 1836, to 97,000 in 1840, to 210,000 in 1850, and to at least 230,000 at this time (1852,) an increase unequalled by that of any State of the same age. And her wealth too has increased in an equal ratio, that is, from fifteen millions to fifty millions, while her exports of the great southern staple have rapidly risen from five thousand to one hundred and fifty thousand bales."

In another part of his message Governor Roane stated that the bonds issued for the benefit of the State Bank, and the interest that had accrued thereon, amounted to \$1,500,195, and that the notes still in circulation amounted to \$47,197 50. The debts due to the banks, supposed to be good, and the other available assets, amounted to \$582,962. "Showing that when a final settlement shall be made, there will be a balance due from the State of \$1,022,855 50, which she is bound by every principle of honor as well as the law governing contracts, to pay."

The deficit of the Real Estate Bank would, the governor supposed, swell the public debt to two millions dollars, "with an accruing annual interest of about \$120,000."

"I have no doubt that this debt could be funded upon liberal terms; requiring the State to take up her now outstanding bonds, and in lieu thereof issue new bonds payable at some future day, at the same time giving some security for the payment of the accruing interest upon the new bonds, which can be done by appropriating the assets of the bank for that purpose. In this way the first step will be taken towards the extinguishment of our State debt. And by the time the new bonds reach maturity, by pursuing a liberal policy in developing the re-

sources of our State, we shall doubtless be able to pay the debt entailed upon us by our banks.

"By adopting this policy our reputation as a State may be shielded from the threatened taint of repudiation."

Mr. Ross, the financial receiver, said in his report of October 1, 1852:

"On 1st October, 1850, the notes and judgments due to the bank, with interest calculated up to that time, amounted to the sum of \$1,081,560 17. This was classed as follows:

Solvent.....	\$267,186 61
Doubtful.....	241,404 52
Insolvent.....	276,664 46
Lost.....	296,304 38

"The collections from 1st October, 1850, to 1st October, 1852, amount to the sum of \$178,628 75. This amount was collected almost entirely from debts classed as solvent. Not exceeding one-third of the debts classed as doubtful will be collected. Between \$5,000 and \$6,000 of debts classed as insolvent have been compromised, and a portion of that amount collected. The balance will be lost. Of the debts classed as lost \$417 01 have been collected.

"The amount that will yet be collected will not exceed \$200,000."

The committee on banks of the house of representatives reported that "they had consulted together as to the propriety of the legislature turning over into the hands of the State treasurer all the books, assets, evidences of debt, &c., of the bank, and that discretionary power be conferred on him to wind up the same, with a due regard to the best interests of the State. But upon reflection and deliberation, the committee are of opinion that such an act on the part of the legislature would be, in effect, a merger of said bank into the State, and thereby destroy its separate corporate existence, and consequently result in loss to the bank, and thereby to the State, of whatever good debts still remain unpaid. Or if such would not be the result, it would at least furnish new grounds of defence to the debtors, and thereby cause great delay in the collection of debts. Such being the opinion of the committee, they would beg leave respectfully to suggest to the general assembly the propriety of passing an act to extend the present law in relation to the liquidation and settlement of the bank to a period of two years longer, in order that the amount of \$200,000 of good notes and judgments, before mentioned, as remaining uncollected, may be secured to the State."

In conformity with this recommendation an act was passed, on the 12th of January, 1853, to extend for two years the act putting the State Bank in liquidation.

Before quitting the concerns of 1852-'53, it is proper to observe that the public records of this year contain the only indications that can be found of a disposition on the part of any of the citizens of Arkansas to return to paper money banking.

The earliest of these in point of date is to be found in the report of C. C. Danley, esq., the auditor of public accounts, October 1, 1852.

"The policy," he said, "of connecting State governments with banks is exploded, but it is thought that the subject of free or indi-

vidual banking as a separate branch of business would be eminently worthy the consideration of the legislature. In the language of an eminent financier: 'banks have lost their power, under the increase of private capital, and the immense accumulation of the precious metals, to raise and depress prices by the capacity of expansion and contraction. The days of banks are over as associated companies. They will exist as private establishments, and the change will be of incalculable advantage to the public.' Banking as a monopoly, and when it is confined by law to a privileged few, is obnoxious to objections, and repugnant to the genius and spirit of the age in which we live. But no reason can be shown why a citizen should be restrained by law from banking as a business, any more than that laws should be passed to restrict the business of selling merchandise, or raising corn or cotton."

If by banking be simply meant receiving money on deposit, discounting notes of hand, and dealing in bills of exchange, certainly "no reason, can be shown why a citizen should be restricted therein any more than in the business of selling merchandise or raising corn or cotton." But if with the business of banking, properly so called, be connected that of issuing promises to pay intended to pass as substitutes for metallic money, such banking must sooner or later be productive of great evils to the community. By every paper dollar it issues it drives a gold or silver dollar out of circulation. Nor is this all. For a natural system of credit it substitutes an artificial one, by which debts are multiplied to an extent much exceeding the advantage gained.

We have not the name of the eminent financier who said: "banks have lost their power to raise and depress prices by contraction and expansion." But recent events have shown that he is, to say the least, greatly mistaken. If other things be the same, and the power to issue small notes be retained by the banks, "widening the specie basis" only facilitates raising higher the paper superstructure. If, of late years, the expansions and contractions of the banks have been less frequent and less deleterious than formerly, it is owing wholly and solely to the operation of the constitutional treasury system of the United States. That, by checking the banks in their expansions, causes their subsequent contractions to be less injurious than they otherwise would be. But, unfortunately, it only checks the banks. It has not the power to control them.

Towards the close of his message Governor Roane entered somewhat at length on the consideration of the subject.

"We have no monetary institutions among us; yet our State is flooded with the paper currency of her sister States; thus subjecting ourselves to be imposed on by spurious and unsound banking institutions abroad, about which we know nothing, and in their management can have no hand, rather than trust ourselves and institutions of our own. It is susceptible of demonstration that the citizens of Arkansas pay, in the shape of discounts, exchange and interest upon foreign bank paper more than sufficient to discharge our entire State debt in a few years."

It is a matter beyond dispute that so long as the other States have

a false monetary system, Arkansas must suffer more or less from it; but it does not therefore follow that she will diminish her sufferings by establishing a false monetary system of her own. None of the citizens of Arkansas pay discount or interest to the banks of Louisiana, Tennessee, or any other State, unless they borrow from them, and if they borrow they ought to pay.

The chief danger to which we are exposed from the foreign bank notes in circulation among us is that they will depreciate in our hands, if not become entirely worthless. But we are less exposed to this danger than the people of any other State. In Texas, one of the States adjoining us on the south, there is but one bank, and that has a very limited circulation. Our other southern neighbor, Louisiana, has banks a plenty; but none of them issue notes of a less denomination than five dollars, and all such of their notes as reach us are soon carried back to New Orleans in the regular course of trade. On the west we have the Indian territory, where the United States government disburses large amounts of gold and silver, much of which must find its way into Arkansas. On the north we have Missouri, none of the banks of which State issue notes of a less denomination than five dollars. One of the States opposite to us on the east, Mississippi, had, in the year 1840, thirty-eight banks, with a circulation of \$15,171,639. Now, (the Northern Bank at Holly Springs having failed,) she has but one or two small banks of issue, the notes of which seldom, if ever, reach us.

The chief danger to which we are exposed is from the banks of Tennessee, many of which, if they be not now rickety concerns, are very different from what they used to be. Perhaps some of our citizens cannot conveniently avoid taking Tennessee and other bank notes from "movers" and other travellers passing through our State, or along our borders. But if the farmer or planter who receives such notes promptly pays them over to the merchant, and the merchant promptly sends them out of the State in payment of his purchases, these bank notes will, to that extent, become substitutes for private bills of exchange, and in this way do no evil. It is when they become substitutes for gold and silver coin, that would otherwise circulate, that bank notes are objectionable.

The notion some entertain that the people of Arkansas are paying interest on the whole mass of foreign bank notes in circulation among them is an erroneous one. If an Arkansas man sells his corn or his cotton, and gets in exchange for it Tennessee bank notes, and then retain those notes on hand for a year, he is not paying interest to the bank that issues the notes, but he is failing to receive the interest that would have been due to him, if he had obtained in exchange for his corn or his cotton the notes of hand of some private individual. By the contrivance of nominal convertibility, and by the additional contrivance of issuing their notes in such amounts as adapts them to circulation, the banks invert the natural operations of credit, and instead of paying, receive interest on the debts due by them. But this interest is not paid by the mass of the community. It is paid by those who borrow directly from the banks. The inconveniences the mass of the community suffer come in other and indirect ways.

For such evils as the people of Arkansas really suffer from the circulation of foreign bank notes among them they have the remedy in their own hands. It is simply to refuse to receive them, or, if that in all cases be not practicable, let it be a rule to send them out of the State as soon as possible. Establish "free banks" in Arkansas, and a large portion of those so called "free banks" will become little better than so many machines for circulating in our midst the notes of banks in distant States and Territories. It is by such subterfuges that "free banks" live.

"I am not," continued Governor Roane, "uninformed as to the extreme sensitiveness of our people upon the subject of all associations with banking privileges, and therefore approach the subject with great care. Perhaps, were I not so thoroughly convinced that the best interests of our people demand something of this kind, I would yield my own convictions to the opinions of not prejudices of others, and leave this subject to the consideration of my successors.

"I am utterly opposed to all banking institutions, whether of a national or State creation, dependent upon or in anywise associated with the State or federal government, as well as other chartered institutions operating upon a capital which remains within the exclusive control and management of the institution itself, and thereby confiding, without sufficient security, the interests of the community to their hands. This is not the case under the system of 'free banking' to which I now allude; nor can I see that the objections which have rendered banks of every description, under the old system, so justly odious, can obtain against the proposed system of 'free banking,' so eminently successful in answering all the objects claimed for them in other States. It would be well to bear in mind that the resemblance between the system of 'free banking' and those incorporated institutions with which we are more acquainted, and from which we have suffered, ceases with the name; the one being liable to all those objections so justly urged against irresponsible monopolies, while the other is purely an individual enterprise, claiming and possessing no privileges which may not be enjoyed by every member of the community, clothed with the power to do much good by granting accommodations to individual citizens, and affording facilities to the commerce of the country without the ability to involve the State to the amount of one dollar; for she will be in nowise connected with or responsible for the acts and doings of those institutions, and equally without the power to defraud the people, or inflict upon them an irredeemable and depreciated currency. To guard against these evils of the old system, and to protect the interests of the people against such abuses, ample security in the shape of undoubted stocks or other substantial means are required to be deposited with such individuals or State officers as the act may indicate, with power to sell without delay, whenever the bank shall fail to redeem her circulation or meet her liabilities. Thus it is manifest that every interest in the slightest degree involved is amply secured against loss; while a circulating medium, convenient in itself, safe in every respect, and current everywhere, can be furnished to our own people within our own State, the interest paid for accommodations kept at home; and Arkansas made the recipient of

those profits that are daily poured by her citizens into the coffers of other banks and other treasuries.

"In conclusion, without going into the discussion of this subject at length, I would recommend the encouragement of insurance companies in our principal cities and the passage of a law authorizing the establishment of the new banking system upon a secure and well guarded basis."

In justice to Governor Roane, it should be borne in mind, that when he wrote these remarks, the system of "free banking" had been very imperfectly tried. Experience has since shown that it is only the old paper money evil under a new phase. Considering the comparatively short period it has been in operation, the "free banking" system has been the instrument of as much fraud and as much wrong as the corporate system. The fundamental objection applies to both, that they substitute artificial for natural credit, and false money for true.

There was a constitutional obstacle to carrying into effect the measure recommended by Governor Roane. This Mr. Huey sought to remove by the following resolution, which he submitted to the senate:

"Resolved by the general assembly of the State of Arkansas, That the following amendment be proposed to the constitution, viz:

"The legislature of this State shall have power to pass laws allowing the exercise of free banking privileges."

In the house of representatives, a report having the same object in view was made by the committee on the judiciary.

The result was the passage of "An act to take the sense of the qualified voters of this State, for and against a call of a State convention to modify and reform the present constitution of this State," one of the proposed "reforms" being the authorization of "free banking." The people, however, refused to call the convention, and the provision "that no bank or banking institution shall be hereafter incorporated or established in this State" is still part of the constitution of Arkansas.

It is to be hoped that this provision of the constitution will long remain without change. The security "free banking" holds out is an illusion. At the very moment when the State stocks and bonds and mortgages which are pledged for "the ultimate redemption" of bank notes are most wanted, they prove least available.

The system has now been in operation in the State of New York for some twenty years, and the superintendent of the banking department of that commonwealth, in a report dated in 1855, bears the following testimony in relation to it:

"There has been no bank failed in this State, having a circulation secured wholly by public stock of this State [New York] and of the United States, the circulation of which has not been redeemed at the par value thereof, and in like manner without interruption, so that the notes lost nothing of their efficiency and value in circulation until actual redemption.

"On the other hand, during the existence of the system [commencing in 1838,] there has only been a single instance in which the circulation of a failing bank has been redeemed at par, when the circulation was secured by bonds and mortgages, and not any where it was secured by the stocks of other States. In such cases, also, the failure has been

invariably attended by at least a short space of time, during which redemptions were not made while awaiting the sale of the securities. The notes in the meantime, losing their value as a circulating medium, have been disposed of at *great loss* by the timid and necessitous."

Here we see that in New York, where the system began, "ultimate security" has been found only in New York State and United States stocks. No such security has been found in the stocks of other States, or in bonds and mortgages.

Equally striking is the testimony of the auditor of the State of Indiana, in his report of November 1, 1856, in which he refers to the "free banking" law of that State, of May 28, 1852:

"Within the first two years of its operation nearly one hundred banks were organized in this State, with an aggregate circulation of over nine and a half millions of dollars. A large portion of the capitalists who selected Indiana as the theatre of their transactions were citizens of other States, who detected in the loose meshes of the law the opportunities of speculation and the loop-holes of escape. Their sagacity was manifested in the selection of their points of business—points almost inaccessible to the broker, where neither commercial, mercantile, nor mechanical pursuits existed to require their assistance. To what extent the mania of free banking would have been carried, but for the bursting of the bubble in 1854, can only be imagined; but we may well suppose that, at the rate it progressed, Indiana could have furnished the commercial world with currency. The decline of the system was quite as rapid as its rise."

Other testimony in regard to the bad working of the "free-banking" system in other States might be given, but it is presumed not to be necessary. It may *modify* the evils of the old system. But it only modifies; it does not remove them.

It was on the 2d of November, 1852, that Governor Roane sent his last message to the general assembly. His successor, E. N. Conway, was installed on the 15th of the same month.

In his inaugural address (November 15,) and in his first message (November 27,) Governor Conway took the stand which he has ever since firmly and consistently maintained:

"That the burdens of taxation may fall lightly on the people, we should observe and enforce rigid economy and strict accountability in all agents and departments of the government. That we may establish the credit of the State on an elevated basis, we should avoid any new debts beyond our ability to pay them punctually and honestly. Such debts as the State now owes should be paid as early as she can command the means without oppressing the people.

"We should with great care and vigilance guard the money and lands of the State from being squandered, and should secure their faithful application to the objects for which they were intended, in such manner as will best promote the interests of the whole State."

Such was the language of the inaugural address. That of the message was like unto it:

"Since the State has not the means to pay, at present, even the interest on the bonds issued to the banks, it is fortunate that those issued to the Real Estate Bank of the State of Arkansas will not be

due until the 26th day of October, 1861, and that the six per cent. bonds issued to 'The Bank of the State of Arkansas will not be due until the 1st day of January, 1868, and that the five per cent. bonds issued to this bank will not be due until the 1st day of January, 1887.

"Each bank is bound, and its assets set apart, to pay the interest on the bonds issued to it, and also the bonds, when due.

"The assets of each bank should be guarded with vigilance, and those having them in charge held to strict accountability, so that every dollar may be sacredly applied towards extinguishing the debts.

"When the assets shall have become exhausted, we will then be enabled to count and know the deficit, and may then adopt such measures as will secure its payment without oppressing the people.

"It seems to me that past experience should warn us from the policy of staking the faith and credit of the State a second time on these miserably insolvent banks.

"I recommend that these institutions be thoroughly investigated, and, should abuses exist, that such legislative action be adopted as will correct them.

"It will require all the prudence and good management we can use to relieve the State from the embarrassed condition to which the banks have brought her. We must not only be economical in expenditures, but with sleepless care guard all the means we have."

The tenth session of the general assembly began November 6, 1854.

"The reports of the auditor and treasurer," said Governor Conway, "contain much valuable information relative to the fiscal affairs of the State, and also recommendations worthy of your consideration. By these reports it will be seen that the State debt for warrants issued by the treasurer to defray ordinary expenses of the State, and which amounted to \$175,751 74, was all paid during the last two fiscal years, except \$371 76; and that on the 1st day of October, 1854, there remained in the treasury, subject to be used for ordinary expenses, a balance in specie of \$29,514 29.

"With prudence and economy in all the departments of our government, the present revenue laws will bring into the treasury means amply sufficient, after the 15th day of May, 1855, to defray the ordinary expenses of the State in the constitutional currency of gold and silver."

This marked the commencement of a new era in the fiscal history of Arkansas. The governor regarded it with calm satisfaction; but the State treasurer, Mr. J. H. Crease, could not conceal his feelings of exultation.

"Before proceeding further, allow me to indulge a feeling of State pride, in pointing out the fact of a specie balance remaining in the treasury, after redeeming all the outstanding treasury warrants—a circumstance which has not occurred (to my recollection) for several years past, and it is devoutly to be hoped that a necessity for the State to issue any more 'promises to pay' may never again occur, at least to meet the ordinary expenses of the State government."

"By bad management of the banks," said the governor, "the faith and credit of the State have received a wound which has retarded her

prosperity; but by judicious administration of our affairs time will heal the wound again.

"The State of Arkansas will never repudiate her just debts. She will honestly pay them all whenever she can command the means. When the bonds of the State were issued to the Real Estate Bank of the State of Arkansas, it never was intended that the people should be taxed to pay the bonds, or the interest on them, but, on the contrary, as required by law, the stockholders (for security to the State and to the bondholders for the payment of the bonds and the interest on them) mortgaged to the State 187,810 acres of land, valued by commissioners, under oath, at \$3,380,772 38. These lands embraced many of the best and most valuable plantations in the State. The State has not yet resorted to these mortgaged lands to raise money to pay the interest due on the bonds; and it is deemed safe policy to let them remain undisturbed until the large amount of assets placed in the hands of the trustees, under the deed of assignment, shall have been accounted for, and every dollar which can be realized from the assets sacredly applied towards paying the debts of the banks. After the assets shall have been accounted for and so applied, the balance of the debt could be ascertained and proper measures adopted to secure the honest payment of every dollar of it without resorting to taxation for that purpose.

"The office of financial receiver of the Bank of the State of Arkansas became vacant on the 31st of August, 1854, by the death of John M. Ross. To fill this vacancy, the executive, on the 4th day of September, 1854, appointed Peter T. Crutchfield."

The net amount of the liabilities of the State Bank were estimated at \$1,180,911, "to meet which, the remaining assets of the bank, including lands and town lots, which have been taken by the bank in payment of debts, and the conveyances thereof taken to the State, are liable. It is impossible now to state how far the proceeds of the assets and of the lands and of the town lots will go towards extinguishing this debt. But after collecting and applying all that can by good management be derived from these sources, we can then ascertain the balance of the debt, and adopt suitable measures for paying every dollar of it without oppressing the people. It is believed that the assets of the Real Estate Bank, if properly accounted for, collected, and applied, together with the proceeds of the lands mortgaged by the stockholders to the State as security against loss, will, if prudently managed, extinguish every dollar of the State's liability on account of the Real Estate Bank. Then the only debt of the State, on account of the banks, which will remain without adequate means to pay it, will be the balance of the debt of the State Bank, which, it is believed, will be less than one million of dollars."

"Although by the bad management of the banks the faith and honor of the State of Arkansas have been tarnished, time, with a prudent administration of our government, will, in a short period, restore them to their original brightness and lustre. Then patriotic citizens will point to the past history of evils brought upon the State by the banks, and the people will be warned from a policy which

would again bring upon themselves loss, and upon the credit of the State dishonor."

Mr. Crutchfield, the financial receiver, in a report dated October 31, 1854, introduced the following remarks:

"There is still a large amount of good solvent debts yet due the bank, and out of that amount a large portion has fallen on securities, the most oppressive kind of debts. In view of these facts—in view of the general and disastrous failure of the crops this year, as well as the great stringency in the money market, I would respectfully recommend an extension of the liquidation act for two years, which expires on the 12th day of January next, in order to enable the debtors to this bank to purchase State bonds with which to pay their debts. As it has heretofore been considered a wise, good, and honest course for the State to take up her bonds, sold in good faith, by all fair means within her power, (for a different sentiment on this subject I believe no honest man has yet had the hardihood to avow,) a re-enactment of the law I have recommended would greatly foster that policy heretofore pursued by aiding the State to pay her indebtedness."

In conformity with this recommendation an act was passed extending for two years the time for winding up the State Bank.

The eleventh session of the general assembly began on the 3d of November, 1856.

"By the reports of the auditor and treasurer," said governor Conway, "you will see that there remained in the State treasury, on the 1st day of October, 1856, subject to be used for the ordinary expenses of the State, the sum of \$142,154 22 in *gold and silver*, and that all the Arkansas warrants ever issued had been redeemed except \$198 not presented for payment."

The internal improvement fund and the *saline and seminary funds* (both appropriated to the support of common schools) increased the specie in the treasury to \$176,129 54. In addition, there was, in Arkansas bank notes, the sum of \$16,490, which, said the Governor, "should be registered and burned; and hereafter, should notes of the Bank of the State of Arkansas be paid into the treasury, provision should be made by law for registering and burning them, so that we may get rid of them as speedily as possible, and have nothing in the treasury called money but the constitutional currency of gold and silver."

"You will," continued the governor, "see by the reports of the auditor and treasurer that during the two years ending with the 30th of September, 1856, there were cancelled and filed with the State treasurer 183 bonds of this State which had been issued to and sold by 'the Bank of the State of Arkansas,' amounting, with interest, to \$333,146 28; and that during the same period there were cancelled and filed with the State treasurer 370 bonds of this State and many coupons for interest on such bonds which had been issued to and sold by 'the Real Estate Bank of the State of Arkansas,' making, for the bonds and the interest, \$756,507 10; showing that \$1,688,653 39 of the debt of the State of Arkansas, on account of the two banks, was cancelled and filed with the State treasurer (as fully paid off) during the two years ending with the 30th of September, 1856."

Inasmuch as previous to September 31, 1854, two hundred and

thirty-seven State Bank bonds, amounting, with the interest on them, to \$328,166 61, had been cancelled and filed with the treasurer, the whole amount of both State Bank bonds and Real Estate Bank bonds, with the interest on them, thus cancelled and filed, amounted, on the 30th of September, 1856, to \$1,416,820.

"The Bank of the State of Arkansas belongs to the State, and there never were individual stockholders concerned in it. From the beginning to the present time it has been controlled and managed by officers elected by the general assembly of the State.

"By the sale of State bonds the capital of the bank was obtained. By the terms of the charter the bank was bound to pay the interest on the bonds sold, and also to pay the bonds when due. To meet these liabilities the assets of the bank were appropriated by law. No other fund was appropriated, for the State had none; but the faith and credit of the State were pledged for the payment of the interest and the bonds when due. To this extent the honor of the State was confided to the keeping of the Bank of the State of Arkansas. The bank soon failed and tarnished the honor of the State by leaving the interest due upon the bonds unpaid. In January, 1843, the general assembly passed an act to place the bank in liquidation. Since then more than thirteen years have elapsed, and it is represented that the affairs of the bank are now so complicated that they cannot be understood, and the whole of the assets ascertained without much labor and a thorough investigation.

"Deeming it essential to the interest of the State that the affairs of the bank should be thoroughly investigated, the executive, a short time since, caused John H. Crease to commence the work of examination. By a communication from him, dated October 1, 1856, it is believed, you will be fully impressed with the public necessity of having the true condition of the bank ascertained, and the interests of the State connected with it secured as far as possible. * * * * *

"The policy of the executive is, to have the assets collected as far as possible, and every dollar faithfully applied towards paying the debts of the bank. To accomplish this, the investigation of the bank is absolutely necessary, and he has directed that it be prosecuted until completed."

"Although the State has succeeded in establishing and acting upon the sound and commendable policy of receiving for revenue and paying out for expenditures nothing but the constitutional currency of gold and silver, she is still encumbered with a large part of the debt brought upon her by the bad management of the banks. But with prudence, skill, and economy in protecting the interests and in administering the affairs of the State, aided by increasing population and wealth, we shall be fully able, by the time our State bonds fall due, to pay every dollar of the debt without oppressing the people by taxation."

The joint committee on the auditor's and treasurer's books burned \$16,495 of "Arkansas money" that they found in the treasury; that is to say, this amount of Arkansas Bank notes. They also burned 2,656 copies of State Bank bonds and 980 of Real Estate Bank bonds, each for one thousand dollars. These were in various stages of preparation for sale, but none of them had been actually sold.

The financial receiver, Jas. F. Fagan, esq., reported, under date of October 1, 1856, that of the immense amount of debts due to the bank only \$35,000 would probably be collected. In addition, the financial receiver reported that he had on hand \$216,845 in Real Estate Bank bonds, coupons, and notes, and \$913 55 in specie, making a total of \$252,758 55 of assets. On the other hand, the liabilities of the bank for bonds outstanding, and the interest thereon, amounted to \$1,420,488 36, showing an excess of \$1,167,729 81 of liabilities over assets.

The legislature passed an act extending for two years the time for winding up the affairs of the bank; another conferring on the governor the power to appoint a financial receiver and making the land attorney the attorney for the bank; and another giving the accountants such powers as were necessary for a thorough investigation of the institution.

We have given the history of the Bank of the State of Arkansas in the words of its own managers, and of those who were the eye-witnesses of their proceedings. The bank itself must soon go out of existence, and all its records be committed to the moles and the bats; but its memory ought not to perish. It has cost the people of Arkansas dear, but the experience they have acquired will be cheaply purchased if it prevents hereafter the establishment within the bounds of the State of other systems of false money and fictitious credit.

But it is not in this point of view only that this history is important. Those who have purchased the bonds of the state, and who have been disappointed in not receiving the interest thereon punctually, may here see the causes of their disappointment. They are, primarily, mismanagement and misfortune on the part of the officers of the bank, and absolute inability on the part of the people of the State to comply literally with their engagements as expressed on the face of the bonds. Crushed to the earth by the paper money revulsion, it was with difficulty the people could defray the ordinary expenses of the State government. The revenue of the State was for years in succession collected, for the most part, in Arkansas bank notes and Arkansas treasury warrants, which had but little, if any, value beyond the bounds of the State, and an ever fluctuating value within its bounds. In this wretched paper medium, depreciated at times to 66 per cent., if not more, below par, the judges of the courts, and all the other officers of State, from the governor downwards, had to be content to receive their salaries. It required at times no little financiering to acquire specie enough to pay postages.

Yet it is worthy of remark, that even when the prospects of the State and the people were most gloomy the doctrine of repudiation never received any favor among them. This is a credit due to the people of Arkansas without distinction of party.

Another thing well worthy of observation is the steadiness of the policy that has been pursued in relation to the State debt. While the people and their constituted authorities have always acknowledged the obligation of this debt, they have from the beginning steadily maintained that, as the debt had been incurred solely for the benefit of the banks, the assets of the banks should, in the first place, be applied to the liquidation of the debt, so far as they will go, and, after

that, such further measures be taken as may be necessary to preserve the honor and credit of the State. If the present hard money system of the State be maintained, and if the plan for winding up the banks be persisted in, it is believed that the increase of population and of solid wealth under it will be so great that the State will, in due time, be relieved from all its embarrassments.

According to the table on page 211 the total assets of the bank and its branches amounted, at the time they were transferred to receivers, to \$1,991,174 12. Omitting for the present the loans and discounts, and other sums due from individuals, these assets may be said to have been disposed of as follows:

The loans to the State of Arkansas, the five per cent. bonds issued to the Real Estate Bank, for money loaned by it to the State and redeemed by the State Bank, and the sums due by the State treasurer, amounting in all to \$196,117 18, were used in adjusting accounts with the State.

The specie, \$62,948 93, was all expended in paying those creditors who obtained judgments against the bank, and in defraying the expenses of the bank and of the State.

The specie in the hands of Sylvester, New York, was used in satisfying a judgment against the bank in favor of Riggs & Co., of that city. This judgment was obtained on a certificate of deposit of Arkansas Bank notes, issued by the branch at Fayetteville to Alfred Wallace, a former director of that branch. Mr. Wallace, having found out that the silver was in the hands of Sylvester, appears to have made the deposit of paper for the express purpose of attaching the specie.

The sum due by the North American Trust and Banking Company remains unpaid.

The amount due by the Real Estate Bank and its branches, \$7,931 51, was used in adjusting accounts with that institution.

The notes of the Real Estate Bank and its branches (\$76,225) were used in making settlements with that bank and its branches, exchanged for State Bank bonds and State Bank notes, and disposed of in defraying the expenses of the bank and of the State.

The small amounts due by banks in other States, in all \$323 10, appear never to have been collected.

The notes of banks in other States, \$1,917 32, and the corporation tickets, \$1,676 35, amounted together to \$3,593. Of these, \$2,814 62½ remain on hand and are worthless.

The banking-houses were all sold under execution in favor of the judgment creditors, and under such circumstances as to yield but little towards satisfying those judgments.

The banking-house at Little Rock, which cost about \$28,000 in 1840, was sold in 1845 for about \$200. Every effort to recover it has resulted in nothing but costs and expense.

The banking-house at Batesville, which cost upwards of \$15,000, was sold in 1845 for one hundred dollars. The sum of \$500 in addition was afterwards paid to confirm the sale.

The banking-house at Fayetteville, which cost \$7,500, was sold under execution for \$800.

The banking-house at the Post Office, Arkansas, which cost nearly

\$16,000, was sold under execution and bought in for the sum of \$100 in specie. It still remains the property of the State, but is so situated as to be of no use either to the State or any of its citizens. At the time it was erected it was described as one of the best buildings in the State. Every effort has been made to sell it, but it has been found impossible to obtain for it an offer of even \$200.

The total liabilities of the bank and its branches amounted, at the time the assets were transferred to receivers, to \$1,910,023 92. Of these, \$216,930 consisted of State Bank notes in circulation, all of which, it is believed, except about \$6,930, have been redeemed, partly by receiving them for taxes, but chiefly by receiving them in payment of debts due to the bank. In the last two years the treasurer has received notes of the bank to the amount of \$640 from tax collectors.

The deposits, \$54,611 73, have been paid chiefly by giving the depositors credits on the notes due by them to the bank.

The sum due to the Real Estate Bank and branches (\$2,016 97) was liquidated in the settlements made with that institution.

At that time the principal and interest of 169 five per cent. and 1,000 six per cent. State Bank bonds, then outstanding, amounted to \$1,295,781 87. Of the five per cent. bonds 144, and of the six per cent. bonds 409, amounting in all, with the interest on them, to \$925,174 35, have been redeemed. This is a large sum; but as there are still 591 six per cent. bonds and 25 five per cent. bonds outstanding, on which no interest has been paid during the last seventeen years, the sum due on the 1st of October, 1858, on the State Bank debt was \$1,247,142 50, being only \$48,638 67 less than the sum due on that account on the 1st July, 1842.

On page 47 the sum due to the State is set down at \$340,678 71. This was the balance then due on the various funds advanced by the State to the bank as part of its capital, the sum of \$71,679 09 having, between the 31st of March and the 7th of June, 1843, been drawn from the bank for State purposes.

The original amount of these funds was as follows:

Five per cent. fund	\$61,065 18
Seminary fund	2,034 91
Common school fund	1,390 36
Saline or salt spring fund.....	127 50
United States surplus revenue	286,156 49
	<hr/>
	350,774 44

On these funds the following dividends were declared:

On the five per cent. fund	\$7,611 72
On the seminary fund.....	153 50
On the common school fund.....	128 48
On the saline fund.....	23 87
	<hr/>
	7,914 57
On the United States surplus revenue fund.....	53,568 49
	<hr/>
	412,257 50
	<hr/> <hr/>

On account of these funds the bank appears to have paid to the State the following amounts :

Surplus revenue fund.....	\$330,561 22
Five per cent. fund.....	8,549 76
Common school fund.....	1,515 14
Five per cent. bonds issued by the Real Estate Bank, for money lent by it to the State, and redeemed by the State Bank.....	32,666 66
	<hr/>
	373,292 78
	<hr/> <hr/>

From this it would appear that the bank discharged all claims the State had against it, except for the sum of \$38,974 72.

But it should be borne in mind that the State made most of its advances in specie, or what was the equivalent of specie, and received back a great part of the amount in paper depreciated many per cent. below par. If we add the various sums paid out of the State treasury for salaries of bank officers, for the payment of judgment creditors, and other objects connected with the bank, amounting in all to \$83,853 15, it will be found that the State has been greatly a loser by this unhallowed connexion, even if we do not take into consideration the outstanding bonds yet to be provided for.

The whole amount due by individuals at the time the assets of the bank were transferred to receivers was \$1,510,619 68, of which the sum of \$1,410,563 18 was in notes bearing interest. Through the delay of those who paid in making payments, and through the failure of many to pay at all, the increments of interest greatly swelled this amount.

Table A shows the present condition of the notes due at the Little Rock office, excluding such as were settled previous to October 1, 1850.

Table B C D show the condition of the notes of the branches.

Table E is a summary of tables A B C D.

Table F is a list of lands taken from bank debtors with statements of the final disposition of these lands, so far as could be ascertained.

Table G is a summary of the collections made from debtors to the bank (exclusive of collections in lands, from the time the act of liquidation took effect till the 1st of October, 1858.

Table H is a summary of the collections made in lands, and table I a summary of the collections made in both money and lands, in the above mentioned period.

Taken in their proper connexion with the notes accompanying them, these tables will, it is believed, be found to convey much useful information.

In the classification of the debts as solvent, doubtful, insolvent, and lost, we have adopted as our basis the reports made by Mr. Ross in 1850 and 1852. He had, through his intercourse with the attorneys of the bank and others, opportunities of acquiring a knowledge of the standing of individuals, so far as regards their ability to pay, which

we do not possess. Many of those whose names are on the list, and with whom he had a personal acquaintance, have since died or removed from the State.

Where we have had reason to believe that Mr. Ross erred, we have not hesitated to correct his classification, but we may have erred as well as he.

It has been our anxious desire to avoid doing injustice to any individual; but from the number of persons employed in making collections—sheriffs, attorneys, &c.—some of whom may have neglected to make proper returns, and from the manner in which the books have been kept, it may be that payments have been made for which credits have not been duly given.

By comparing table I with the statement given on page 213 of the amount due from individuals in 1843, it will be seen that at some of the offices the collections have been much better than at others.

At Little Rock, where the gross debt was \$626,340 65 in 1843, the collections have, in fifteen years, amounted to \$680,906 57.

At the Post of Arkansas, where the gross amount due was \$263,193 18, the collections have amounted to \$257,680 75.

At Little Rock the collections have been equal to the gross amount due at the time the act of liquidation took effect, and to \$54,565 72 on account of the interest that subsequently accrued.

At the Post of Arkansas the collections have amounted to very nearly the gross amount due in 1843.

This is, indeed, not much to boast of; but the contrast between these two offices and those at Fayetteville and Batesville is greatly to the disadvantage of the last two.

At Fayetteville, on a gross sum of \$356,542 65, only \$224,247 90 has been collected; and the collections at Batesville have been only \$97,743 45, on a gross amount of \$264,542 90.

From table J it appears that the total of collections in money and lands has been \$1,280,628 47. Add this to the assets on hand (exclusive of loans and discounts) in June, 1843, and we have an aggregate of \$1,729,049 45. To this should be added the interest that accrued on Real Estate Bank bonds between the times in which they were received and the times in which they were exchanged for State Bank bonds and coupons. Many of the Real Estate Bank bonds which were received by Thornton between 1845 and 1849 were not exchanged for State Bank bonds sooner than 1857 and 1858. During all this time interest was accruing on them. From the manner in which the books have been kept, it is impossible to tell the exact amount; but it may be set down in gross at \$100,000. Add this to the sum above mentioned, and we have \$1,829,049 50 as the total of assets that were realized by the receivers.

Seeing that the amount is so considerable, the inquiry may well be proposed, why so large a sum is still due on account of the State Bank debt?

We reply, briefly, that the assets may be said to have been applied in the following manner:

In redeeming State Bank notes that were in circulation	\$210,000 00
In paying deposits.....	54,611 73
In paying bank balances.....	2,016 97
In repayments to the State.	268,692 27
In redemption of State bonds and the interest thereon...	925,174 35
Total.....	<u>1,460,495 32</u>

Take this amount from \$1,829,049 54, and we have left \$368,554 22. Add to this the sum of \$83,853 15 paid out of the State treasury on account of the bank, and we have \$452,607 37 as the total of expenses and of losses through sacrifices of property from the time the act of liquidation took effect.

Large as the amount is, we believe it falls short of the reality. From the manner in which the books were kept it is impossible to give a regular expense and a regular profit and loss account; but the evidence that those expenses and those losses were enormous is too strong to be mistaken.

Take a few cases by way of illustration:

About the 3d of May, 1849, James M. Curran, esq., being then owner of State Bank notes to the amount of \$9,355, instituted *ninety-four* suits thereon against the bank, before a justice of the peace, in Little Rock, "and recovered against said bank for his debt and damages, together with his costs in each of said suits, amounting in the aggregate to the sum of \$9,355 for his debt, and \$5,314 25 for his damages, less a remitter for the sum of \$8." The case was carried up to the circuit court of Pulaski county, thence to the supreme court of Arkansas, and thence to the Supreme Court of the United States, where the decision was in favor of Mr. Curran.

Mr. Curran died October 6, 1854. Soon after his death, (November 15, 1851,) lands, lots, and houses, which had cost the bank \$60,730 66 were sold; but as they brought only \$8,300, they did not satisfy the judgment.

On the 27th of December ensuing, George C. Watkins, esq., the partner and the executor of the last will of Mr. Curran, had the judgment revived. Other lands, lots, and houses, which had cost the bank \$45,118 91, were then sold. But as they brought only \$8,717 31, neither did they suffice. Out of its remaining assets, the bank had to pay \$3,870 79 to Mr. Watkins, as the executor of the last will of Mr. Curran.

Thus a debt originally of \$9,355, and which, with damages and interest, amounted to only \$20,883 20, swallowed up \$109,720 50 of the assets of the bank.

Another of the judgment creditors of the bank was the late Mr. Alfred Wallace, a gentleman who, as a director of the branch at Fayetteville, had partaken largely in all the benefits the bank could confer. He was always on the lookout for the specie of the bank, or whatever else was tangible among its effects.

In a report dated December 30, 1848, a committee of the legislature made the following statement:

"It seems that in December, 1845, Mr. Wallace obtained judgment

against the bank in the Washington circuit court for over \$5,000, and in April 1847 he recovered judgment for over \$13,000.

"To make these judgments, Mr. Wallace has caused to be sold about 2,200 acres of land and several town lots belonging to the bank, and became the purchaser of the same at a ruinous sacrifice, leaving still unpaid the greater portion of the debt. Mr. Wallace has also levied on the *safe* of the Fayetteville branch, and, if the legislature does not interpose and relieve the bank, will *expose the same to sale*, and no doubt thereby procure a great sacrifice of said assets. He has also filed a bill in the chancery side of the Pulaski circuit court to subject the assets of the principal bank to the payment of his judgments, and will sue out an injunction to *restrain the business operations of the bank* until his bill is determined, which will retard the liquidation of the affairs of the bank and ultimate in an immense sacrifice of her assets. He is also garnisheeing the debtors of the bank, and levying upon real estate sold by the bank to private individuals since he obtained his judgments. By all these means the committee have no doubt but Mr. Wallace will succeed in collecting his judgments, but he will do it at a sacrifice of the bank, and indirectly to the State, which the general assembly should not permit."

To avert these direful consequences a bill was finally passed to satisfy the claim of Mr. Wallace out of the State treasury. The bank then recovered possession of its lands, but they ultimately produced little or nothing.

Under a judgment obtained by the United States on notes of the State Bank, amounting to some five or six thousand dollars that had been received at some of the land offices, a large amount of real estate was sold at a great sacrifice. But on representations being made of the ruin it was thereby causing the United States was induced to stay its hand.

The legal rights of Messrs. Curran and Wallace and of the United States were indisputable; but our report would be incomplete if we did not show the effect the enforcing of these legal rights had on the interests of the bank. A few more judgment creditors like these would have swallowed up all the effects of the Bank of the State of Arkansas.

The fee bills of the sheriffs and clerks of courts swelled to large amounts. We have one fee bill before us of H. Haralson, clerk of the circuit court of Pulaski county, subscribed March 13, 1844, and amounting to \$1,137 24, but he deducted \$237 24 for prompt payment in specie. In the same year he rendered two other bills, one for \$88, and the other for \$288 57. The first or large bill commences September, 1842.

So, at the branches, the fee bills were enormous as may well be supposed from the number of suits instituted and the manner in which they were contested. At Batesville, in some periods, the expenses appear to have exceeded the collections.

In some of its transactions with the North American Trust and Banking Company the Bank of the State of Arkansas has been very unfortunate. In April, 1844, the bank, through its president, Mr. Field, succeeded in making a settlement with the company. The balance due to the bank was admitted to be \$107,000, and seven New

York gentlemen, some of them men of distinction, and all then believed to be men of wealth, did jointly and severally guarantee the payment of the same.

The regular intercourse of the two institutions was then resumed. The principal bank and the branch at Batesville made additional remittances, amounting in all to \$26,660 28, and the Trust Company complied with its engagements till May 6, 1841, when it dishonored drafts of the bank and its branches, amounting in all to \$26,464 84.

After considerable delay, a suit was instituted against the guarantors; but by this time six of the seven were reported to be unable to pay, and the guaranty of the seventh amounted to nothing, as it was then discovered that "the law of New York did not recognize a scroll to be a seal." As the seven New York gentlemen were all men of business, it must be regarded as something remarkable that they did not know this when they signed the instrument.

Every effort to get the money for the Trust Company having failed, Mr. A. E. Thornton, who was then financial receiver, made an assignment of this claim on the 9th of April, 1848, to Wm. S. Paradise, esq., of Philadelphia, on condition that the said Paradise should (after deducting all expenses and satisfying all demands Elijah Paine, a lawyer of New York, had for fees, and also after satisfying all claims he, the said Paradise, had against the bank) pay over to the financial receiver, in notes of the Bank of Arkansas, any amount he might receive from the North American Trust and Banking Company.

This is the last trace of the claim we have been able to find on the books or among the papers of the bank. It is reported that Mr. Paradise is dead, but we have no direct information of his decease.

At our suggestion Mr. Wilson, the present financial receiver, addressed a letter to J. A. Palmer, esq., who was stated in the public papers to be the financial receiver of the North American Trust and Banking Company, requesting such information as he could give of the present state of the claim. B. W. Bonney, esq., who replied in behalf of Mr. Palmer, said:

"The North American Trust and Banking Company, while in active business, executed several trusts by assignment and transfer of portions of the property of the company to trustees to secure the payment of certain *specified* debts. After the company failed, David Leavitt was appointed receiver of the property of the company, and suits were instituted between him, as such receiver, and the trustees in the several trusts created by the company to test the validity of these trusts, which, by some of the *general creditors* of the company, were alleged to be void. In that litigation between the general receiver (Mr. Leavitt) and the said trustees, Mr. Palmer was appointed *special* receiver to hold and protect the property conveyed in trust until it should be decided whether that property belonged to the trustees, to whom it had been conveyed for the benefit of particular creditors, or to Mr. Leavitt, for the general benefit of *all the creditors*. Our court of last resort (court of appeals) has lately decided that two of these trusts are valid, and that the *special* creditors for whose security these trusts were created are entitled to the trust fund, and under that decision Mr. Palmer recently paid to these special creditors

more than one million dollars on account of their claims. And Mr. Palmer has still in his hands a large amount of property which, when converted into money, will be paid to these same creditors. As to one other trust, the court has not yet made a decision.

"With the general creditors, who are not secured by any of the trusts, Mr. Palmer has nothing to do. Mr. Leavitt administers to the *general assets* of the company not assigned to trustees, and all general creditors must present their accounts to him. It is, however, understood that he will have little or no property to pay such general creditors, as nearly all the valuable property of the company was assigned to trustees."

For further information Mr. Bonney referred to John Cleaveland, esq., "Mr. Leavitt's legal adviser in matters of the trusteeship." To him accordingly the financial receiver of the Bank of Arkansas addressed two letters, to the last of which he received the following reply:

"A claim for \$59,608 92 was exhibited against the North American Trust and Banking Company by Wm. Paradise, assignee of the State Bank of Arkansas. This claim was referred to referees in April, 1848, and is now pending before referees, undetermined. But the court of appeals having, in 1857 and in 1858, adjudged that the million trust, first half million trust, and second half million trust deeds, (embracing *all* the valuable assets of their company,) are valid deeds, *nothing* is left for the general creditors not preferred by these deeds."

From this it appears that, as the Bank of the State of Arkansas is a general creditor, there is no hope of its ever recovering any part of the sum due to it by the North American Trust and Banking Company.

In a condensed form, the present condition of the Bank of the State of Arkansas may be stated to be as follows:

	DR.
For 25 per cent. bonds outstanding.....	\$25,000 00
For interest on the same to October 1, 1858.....	22,037 50
For 591 six per cent. bonds outstanding.....	591,000 00
For interest on the same to October 1, 1858.....	609,005 00
For circulating notes yet unredeemed, say.....	6,930 00
	<u>1,254,072 50</u>
	CR.
By notes and bills yet due, with interest thereon to October 1, 1858, as per table E.....	\$1,091,204 75
Due by North American Trust and Banking Company, as per claim filed by Mr. Paradise.....	59,608 92
Banking-house at Post of Arkansas, at cost.....	15,761 25
Specie in the hands of the financial receiver.....	2,003 28
Notes of other banks and corporation tickets.....	2,814 62
	<u>1,171,392 86</u>

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	1,171,392 86

To which should be now be ascertained.

From this it would a nominal assets of the only \$82,680 34.

But to arrive at a kn to deduct the following
 Doubtful notes.....
 Insolvent do.....
 Lost do.....

The sum due by the N
 ing Company.....
 The banking-house at
 Uncurrent bank notes

This leaves for good
 The notes classed as so
 The specie in the hand

Total.....

Deduct this from the t
 there will remain...
 From this should be de
 issued for circulation
 been lost or destroyed
 them for taxes.....

There should also be de
 per cent. and distr
 January 1, 1857, ret
 wards paying the int
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 per cent. bonds held
 Institute.....

Whatever amount ha
 the State of Arkansas s
 An additional amou
 uary, 1858, to \$71,864
 and applied to the pay
 bonds held in trust fo
 Real Estate Bank owes
 tional amount may ha
 1857.

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to John Cleaveland, of the trusteeship. The Bank of Arkansas received the following

of the North American, assignee of the State to referees in April, determined. But the 58, adjudged that the second half million trust (ir company,) are valid not preferred by these

of the State of Arkansas is recovering any part of and Banking Company. of the Bank of the State

	DR.
.....	\$25,000 00
.....	22,037 50
.....	591,000 00
.....	609,005 00
.....	6,930 00
	1,254,072 50

	CR.
.....	\$1,091,204 75
.....	59,608 92
.....	15,761 29
.....	2,003 28
.....	2,814 62
	1,171,392 86

To which should be added some lands, the value of which cannot now be ascertained.

From this it would appear that (leaving the lands out of view) the nominal assets of the bank fall short of its liabilities in the sum of only \$82,680 34.

But to arrive at a knowledge of the true condition of affairs we have to deduct the following from the nominal assets as being unavailable:

Doubtful notes.....	\$177,756 65
Insolvent do.....	317,617 43
Lost do.....	525,544 00
	\$1,020,918 08

The sum due by the North American Trust and Banking Company.....	59,608 92
The banking-house at the Post of Arkansas.....	15,761 29
Uncurrent bank notes and corporation tickets on hand	2,814 62
	1,099,102 91

This leaves for good and available assets only the following:
 The notes classed as solvent..... \$70,286 67
 The specie in the hands of the financial receiver..... 2,003 28

Total.....	72,289 95
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Deduct this from the total liabilities of the bank, and there will remain..... 1,181,782 55

From this should be deducted the balance of the notes issued for circulation, as so many of them as have not been lost or destroyed will be redeemed by receiving them for taxes..... 6,930 00

	1,174,852 55
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There should also be deducted the amounts of the five per cent. and distribution funds that were, up to January 1, 1857, retained by the United States towards paying the interest on 90 six per cent. bonds held in trust for the Cherokee Indians, and 38 six per cent. bonds held in trust for the Smithsonian Institute..... 7,615 68

	1,167,236 87
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Whatever amount has since accrued on these funds to the credit of the State of Arkansas should also be deducted.

An additional amount of these funds, amounting, on the 1st of January, 1858, to \$71,864 08, has been retained by the United States, and applied to the payment of the interest on 500 Real Estate Bank bonds held in trust for the Smithsonian Institute. This sum the Real Estate Bank owes to the State, and it owes, also, whatever additional amount may have been thus applied since the 1st of January, 1857.

If the amount due by the Real Estate Bank be applied to the liquidation of the State Bank bond debt, it will leave unredeemed of the principal and interest of that debt something less than one million one hundred thousand dollars.

As the six per cent. bonds do not fall due for nine years, nor the five per cents. in less than twenty-eight years, there may seem to be no necessity for immediate action, but there is necessity for immediate thought.

"Interest is an eating moth." The longer the redemption of the debt is deferred the greater will be the amount ultimately to be paid. The interest on the State Bank bonds now outstanding is \$37,710 a year.

If the stockholders of the Real Estate Bank pay what they owe, and if the present rate of taxation be undiminished, it will be easy to provide for the residue of the State debt. If suitable means be promptly taken, it will be less in proportion to wealth and population than the debt of three-fourths of the States in the Union.

It is well that we can take so pleasing a view of the subject. If we do not pay what we owe, or make suitable provision to pay what we owe, we cannot borrow. If we cannot borrow, we cannot complete our railroads; and if we do not complete our railroads, the resources of our noble State will remain undeveloped.

Every man in the State has an interest in the proper discharge of the debts of the State, for thereby the value of every man's property and labor will be enhanced.

It is true that the construction of railroads has been intrusted to companies, but the credit of the State abroad affects the credit of those companies; and not only their credit, but to some extent the credit of every man in the State.

At the session of 1852-'53 it was suggested that the remaining assets of the bank should be transferred to the State treasurer, with discretionary power to wind up the institution. But a committee to whom the subject was referred reported that such an act would be a merger of the bank into the State, "thereby destroying its corporate existence, and consequently result in loss to the bank, and thereby to the State, of whatever good debts may still remain unpaid. Or, if such would not be the result, it would, at least, furnish new grounds of defence to the debtors, and thereby cause great delay in the collection of debts."

Even if such should not be the result, it will take the whole time of one man for two years to wind up the bank, and if that man does his duty his time will be fully employed.

Under this impression we would respectfully suggest the continuance of the present law, with such modifications as the case may require.

If authority should be given to the financial receiver to travel, with suitable provision for his travelling expenses, it is probable that many debts, or parts of debts, might be collected, which would otherwise be entirely lost. Waiting in person on debtors sometimes proves effective when all other means have failed. Not a few of the debtors to the State Bank seem not to be aware that fractional parts of State bonds

can be bought at Little Rock, will discharge a dollar personally, would probably pay all they owe, would discharge.

It would seem proper in special cases, to employ an executive, or under such proper to impose. One of the State Bank, scattered

The investigation in much more time than a serious one, as may well be the accounts. The various both those accompanying financial receiver, may be set of books.

In a pecuniary sense it is estimated which Mr. Wilson, the present financial

land attorney, and our collected. And we have already taken be suitable \$100,000, will be added

The chief advantage, light it throws on a subject more or less of the attention years to come. We have

We have given it in the views each success the assembly entertained of the public documents accessible to hardly any, these facts

We might devote another every day discover something that would thereby accretion would result in the and which might yet be said; enough to show how enough to show why so enough to show the immediate credit has brought

With these remarks, we obedient servants,

State Accountant
LITTLE ROCK, ARKANSAS,
H. Ex. Doc. 112—

can be bought at Little Rock at such rates that fifty cents in specie will discharge a dollar of bank debt. Many others, if waited on personally, would probably make compromises, and though not able to pay all they owe, would gladly pay a part in order to receive a full discharge.

It would seem proper that the financial receiver should have power, in special cases, to employ special attorneys, under the direction of the executive, or under such other checks and restrictions as it may be proper to impose. One lawyer cannot possibly attend to all the cases of the State Bank, scattered as they are all over the State.

The investigation in which we have been engaged has occupied much more time than was originally expected. It has been a laborious one, as may well be supposed from the number and intricacy of the accounts. The various documents we have prepared, including both those accompanying this report and those deposited with the financial receiver, may be said to form a new, though not a complete, set of books.

In a pecuniary sense the investigation has not been entirely in vain. In an estimate which Mr. Fagan, late financial receiver, submitted on the 1st of October, 1856, he set down \$35,000 as all that could be collected after that date. But through his efforts, those of Mr. Wilson, the present financial receiver, those of Mr. McConaughey, the land attorney, and our own, nearly \$38,000 have already been collected. And we have every reason to believe that if the measures already taken be suitably followed up at least \$70,000, perhaps \$100,000, will be added to this amount.

The chief advantage, however, resulting from this inquiry is the light it throws on a subject which must, in different forms, occupy more or less of the attention of the people and of the legislature for years to come. We have traced the history of the bank year by year. We have given it in the words of its own managers. We have given the views each successive governor and each successive general assembly entertained of the subject. Without similar research among public documents accessible to but few, and bank documents accessible to hardly any, these facts could not be brought together.

We might devote another year to the investigation, nay two, and every day discover something. But we know of no practical benefit that would thereby accrue. We do not believe that such an investigation would result in the discovery of more debts due to the bank, and which might yet be collected. On other points enough has been said; enough to show how this portion of the State debt was incurred; enough to show why so large a portion of it remains unpaid, and enough to show the immense evils this system of false money and factitious credit has brought on the people.

With these remarks, we subscribe ourselves, very respectfully, your obedient servants,

WM. M. GOUGE,
A. H. RUTHERFORD,

State Accountants under the act of January 15, 1857.

LITTLE ROCK, ARKANSAS, October 10, 1858.

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