

IN ASSEMBLY,

January 25, 1831.

REPORT

Of the Bank Commissioners.

**TO THE HONOURABLE THE LEGISLATURE OF THE
STATE OF NEW-YORK.**

The Bank Commissioners, pursuant to the requirement of the
"Act to create a fund for the benefit of the creditors of certain mor-
ned corporations, and for other purposes,"

RESPECTFULLY REPORT :

That during the past year, they have performed the duties im-
posed upon them by law, in relation to the visitation and examination
of the affairs of the several banking institutions subject to such visi-
tation, and have received from the officers of those institutions, every
desirable facility in the execution of those duties.

The promptness and cheerfulness with which those facilities have
been uniformly afforded, have been highly gratifying to us, as it is
now to make the acknowledgment due for them.

Our practice at these examinations has been to take a general
statement of the affairs of the bank, verified by the oath of its offi-
cers, and by a further particular examination of the books, papers,
money, &c. to satisfy ourselves of the accuracy of such statements.

As the solvency of a bank employing its capital in loans and dis-
counts, always depends upon the safety of its debts, these have been
the subject of frequent and particular examination. And although
it cannot be expected that we should know the standing of most of

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the persons with whose names we meet, yet few large amounts are found against individuals of whom we have not some knowledge or information.

Of the general character of the debts, we judge from their magnitude—from their character as business or accommodation paper—from the number and distribution of indorsers—from the time they have been standing or continued by renewals—from the business or other connection of the parties with the principal officers or managers of the bank—and from the relation between the bank and those having the management of its concerns, as affording more or less security for a vigilant and faithful administration.

These and other circumstances, which will appear upon examination, with the information of the officers upon oath, and with what limited knowledge or information we may happen to possess of the pecuniary situation of individuals increasing as it will be by these examinations and other means, we apprehend will enable us ordinarily to form an opinion of the general character of the debts of the institutions subject to our visitations, sufficiently accurate to protect the fund, as well as the public, against losses arising from that source.

Banks in the country, having their capital actually paid in, it is believed, will very rarely have a sufficiency of paper which can be affected by a sudden commercial embarrassment or individual misfortune, to such an extent as to jeopardize their eventual solvency, although temporary embarrassment may often result from such causes.

But a series of such losses—consequent sacrifices to sustain credit—and a continuance of dividends to cover embarrassments and prevent a depreciation of their stocks in the market, are the more probable causes of failure. Against these, however, under the present law, we think there will be no great difficulty in guarding.

The prohibition against making dividends while the capital is impaired to any extent, is admirably calculated to prevent a lingering disease of this description, and personal examinations are perhaps the only mode of enforcing the prohibition. It is valuable also to the stockholders as affording them the assurance that while dividends are continued, their capital is entire, and that they are not receiving back their principal under the name of profits.

Since the first of February last, all the new banks which were incorporated at the two last sessions of the legislature, except those in the city of New-York, and one in the county of Washington, have gone into operation under favorable auspices. Their aggregate capital amounts to \$2,150,000, which has been paid in, agreeably to law. Before certifying to that fact and suffering them to commence operations, we have adopted the mode of satisfying ourselves by actual examination, in addition to the affidavits of the officers; and in cases which seemed to require it, have extended our inquiries so as to ascertain from what sources, and under what circumstances, the more considerable amounts of capital have been obtained.

It is believed that in every instance the conditions of the charter have been complied with, and that the nominal has also been a real increase of permanent bank capital.

There are now in operation, in the state, besides the three branches of the United States Bank, forty-nine banks. Their aggregate capital, as will be seen by the statement hereto annexed, amounts to \$21,323,460. Twenty-nine of these institutions (and those first named on the list) two of which have branches, are subject to the inspection of the commissioners. Their aggregate capital on the first of January, was \$6,294,600.

We report them all to be in a safe condition, and all of them have contributed to the bank fund the amount required by law.*

It seems to be the policy of the law under which we act, to have our examinations and the information acquired by them of a strictly confidential character, and we have not felt ourselves at liberty to contravene that policy even in cases where the communication of a fact relating to an institution would assist our investigations, or lead to desirable information.

With reference to the spirit of the law in this particular, we have had some doubt in determining what particulars it would be our duty to communicate to the Legislature under that provision, which requires us to give such abstracts from the reports made to us as we might deem useful. The reports made to us on the first instant, would enable us to give the situation of the institutions with much accuracy and particularity; but we have not thought that the infor-

* The Greenwich Bank in New-York has also gone into operation, but quite lately. It is not included in the above enumeration, nor in any of our statements.

mation would be particularly useful to the Legislature, and its publicity might be the cause of affecting the comparative reputation of some injuriously. At least it would seem to be giving an advantage to those which are not required to report. We have therefore given an aggregate statement of the banks required to report to us, and a statement of the circulation, and some other particulars of each one.

In the execution of our duties we have found but one institution whose operations we have thought it our duty to interfere with, by an application to the court of chancery. In that instance the effect of the restraint was to produce a material change in its affairs; upon completing which, it was permitted by the court to resume business, and is now believed to be in a safe condition.

The funds which all the institutions find it necessary to keep for the redemption of their notes, form a very considerable item in the statement of their affairs, and are often placed in a situation, of the security of which the commissioners have not the means of forming a satisfactory opinion.

The city of New-York being the great exchange for the monetary as well as mercantile operations of the country, both of which invariably flow in the same channel, it is there that the reservoir is kept upon which most of the banks draw for the redemption of their notes as the exigencies of business require. Others draw upon funds in the banks at Albany, who in their turn meet such calls by drafts upon New-York. So that in fact, although a system of exchange is constantly going on between the different banks, in the country, it is only for the purpose of ascertaining nett balances which are paid by drafts.

And the notes of the different banks may therefore be said to be redeemed thus indirectly in the city of New-York. And the difference between this indirect redemption and a direct one by an application of the funds provided for that purpose in the city, before the notes are sent home, causes the trifling depreciation of country paper in that market.

Drafts upon New-York being equivalent to the specie there, this mode of redemption is preferred by the banks to a direct redemption in the city, because it gives their notes a more extended circulation; and by the bill holder to a redemption in specie at the counter, because it saves him the expense of transportation. The sys-

tem of exchange is thus kept up between city and country, (as it is said to be between different parts of the Union,) at less expense than the cost of transporting specie.

The competition for these deposits in New-York between some of the banks and individual bankers, has induced offers of moderate rates of interest to the country banks for their funds while undrawn, and many of them have very considerable deposits upon those terms with individuals, whose extensive and multifarious business renders their general reputation for solvency and wealth, a very uncertain test.

Upon general principles, as interest includes a premium for the risque as well as compensation for the use of money, we should expect that those would pay the highest rate in whose hands it was least secure. And the danger to be apprehended is, that the depositors may be tempted by the rate of interest, to lose sight of that unquestionable safety which to the public is certainly more important.

We have no reason to suppose that any of the institutions are in danger of losses of this description, or that they have supposed themselves incurring any hazard in this respect. But we fear more danger from this source than any other, for they rely upon a credit of the solidity of which they have no adequate means of judging; a credit too which is the reliance of other banks, both in and out of the State, and of individuals, for amounts of which they can know nothing except the probability of their being immense.

Ordinarily however, no single institution will be exposed to a loss of this character, of sufficient magnitude to endanger the public fund. No instance of that kind has yet occurred to us, although some have been noticed where a loss would have occasioned a winding up of the institution.

The following statement will shew the amount due to the banks subject to our inspection, from the banks and bankers in the city of New-York, at the times therein mentioned.

1830, April 1.	1830, July 1.	1830, Oct. 1.	1831, Jan. 1.
1,242,157	860,226	1,710,960,	2,597,690

These are nett balances after deducting all balances on the other side of the account, and their average will probably shew about the average amount of funds in New-York belonging to those banks.

The law of the last session prohibiting the circulation of small notes of the banks of other states has had a most favorable effect upon the state of the currency. Public opinion seems to have cooperated in carrying it into execution; and it is believed that but very few notes of that description are now held in circulation in the interior of the state. Their place has been supplied with those of our own institutions, of the genuine character of which, almost every citizen is capable of judging.

The extent to which this law may have operated towards increasing the circulation of our own banks, can only be conjectural, but is believed to have been very considerable.

For the purpose of shewing the increase of circulation occasioned as well by that cause as the operation of the new banks which have commenced business the last year, we have compiled the following table, shewing the aggregate amount of bank notes in circulation at different periods.

It comprises all the banks subject to our visitation. The Lansingburgh, Rochester, Commercial and Dutchess County banks, with whose statements we have been obligingly furnished, and estimates of the Middle-District and Columbia banks, until they stopped payment, thus giving the entire circulation of all the banks in the state north of the city of New-York, except the Orange County, and the two branches of the United States Bank.

1829, January 1,.....	\$4,408,056
“ July 1,.....	3,785,473
1830, January 1,.....	3,874,345
“ April 1,.....	4,549,123
“ July 1,.....	4,464,597
“ October 1,.....	5,720,979
1831, January 1,.....	6,762,541

The capital of these banks was

On the 1st Jan. 1830,.....	\$4,346,600
On the 1st Jan. 1831,.....	6,916,600

The following calculation will give the best estimate we are able to make of the entire amount of bank notes in circulation of the banks in this State, excluding the branches of the United States Bank:

Amount January 1, 1831, brought down, ..	\$6,762,541
Deduct packages known to have been sent for redemption, and in transitu on the 1st January,	300,000
	<u>\$6,462,541</u>
Add estimate for Orange County Bank,.....	100,000
Add for New-York banks, estimated at.....	3,835,000
	<u>\$10,397,541</u>

Annexed to this report will be found an aggregate statement of the local banks of several of the neighboring states, taken from their last returns. From these and the statements and estimates of our own banks, the following table is compiled for the purpose of giving a comparative view of the bank notes in circulation in those states. The actual circulation among the community, however, will be less by the amount of bank notes on hand by those banks, after deducting the amount of bank notes of other states and of the United States, possessed by the banks, and in circulation in those states.

Comparative view of Bank Notes in circulation in several States.

	Population.	Bank Capital.	Bank Notes in Circulation.	Specie.	Circulation to population.	Circulation to specie.	Capital to circulation.	Specie to population.
Rhode-Island,.....	97,000	6,065,200	929,490	365,784	9.58	2.54	6.52	9.77
Connecticut,.....	297,000	4,379,820	1,671,174	400,000	5.63	4.17	2.62	1.94
Massachusetts,.....	610,000	19,295,000	5,124,090	1,258,444	8.40	4.07	3.76	2.06
Pennsylvania,.....	1,300,000	12,815,581	7,870,609	3,013,369	6.05	2.61	1.63	2.92
New-York,.....	1,934,000	21,323,460	10,397,541	.....	5.37	.....	2.05	.....

* Estimated. Specie and notes of other banks reported together.

The amount of currency in a country is always in proportion to its wealth and business; and in this country, what may properly be considered currency, may be said to consist of specie, bank notes, and deposits in banks transferable by means of checks.

The amount of deposits reported by the banks in the adjoining States, appears to consist of so many items of a different character, some of which do not fall within that class of deposits fairly denominated currency, that they furnish very imperfect data for calculation, and are therefore omitted in the table.

It will be seen that the circulation of bank notes in these States bears a nearer proportion to their population than to the amount of bank capital; and that population, therefore, as regards them, is a better test of their wealth and business.

The proportion of circulation consisting of deposits, must be greater in this State than in either of those mentioned, in consequence of the immense business of that kind in the city of New-York; and probably if these were brought into the estimate, the proportional circulation of these five States would compare very nearly with our general ideas of their wealth and commercial character.

The common operations of banking, are, receiving deposits for safe keeping—loaning the floating balance of such deposits—borrowing large sums at a reduced rate of interest, and lending in small ones at the ordinary rate—paying interest upon deposits, and employing the average balance in productive investments—loaning capital upon real-estate, accommodation or business paper—purchasing and selling bills of exchange—circulating bank paper as currency, upon the credit either of a portion of capital reserved for redeeming it, or upon the floating balances of deposits.

These are all separate and distinct operations; and the business of banking is elsewhere frequently confined to one or a few of them. But here most of them are generally combined, and frequently all are carried on by a single institution.

Hence it is that many of the theoretical notions upon banking, are wholly inapplicable to the existing state of our banks.

One supposes that their aggregate expansibility or elasticity depends upon the aggregate amount of capital. Another, upon the amount of specie in their vaults. Another supposes that an accu-

mulation of bank capital increases to an equal extent the cash capital of the country; and another, that every increased issue of bank notes necessarily causes a proportionate depreciation of money, or rise in marketable commodities.

But none of these propositions are true of our banks, however accurate some of them might be when applied to banks pursuing only one or other of the different operations above mentioned.

A bank whose operations were confined to the discounting of business paper, (by which is meant notes received or drafts given for property sold and to be paid at maturity, an operation which requires very little capital,) might extend itself very nearly in proportion to the amount of its capital, making just allowances for fluctuations in business; but if a considerable proportion of its capital were loaned upon long credits, or upon accommodation paper or otherwise in a situation not to be commanded at short periods, the case would be entirely different. Such loans for business purposes may be fairly considered very nearly in the light of a reduction of so much capital.

So also the amount of specie on hand furnishes a very unsafe criterion; for the demand for it depends not upon the quantity of bank paper in circulation, (if the circulation is confined to its legitimate channels,) but upon the exigencies of trade; and a sudden revulsion may render an amount entirely insufficient, which in ordinary times would be an ample fund.

It is true, however, that when the channels of circulation become swollen, the fact is invariably indicated by a consequent demand for specie; but other causes produce the same effect.

Specie, however, although the ultimate, is not the only, means of redemption, or of resisting a pressure. The direction of the pressure, and the course of trade, must be considered; and the means growing out of the latter must be brought into account. For instance, in a commercial community situated as this State is, where the operations of business centre in a single city, if a pressure comes from that quarter, as most generally it will, it is obvious that funds there, to the country banks, answer all the purposes of specie at home; so that their ability is not dependent solely upon the quantity of specie on hand.

The same principle will apply to the city banks, which, by the operations of commerce, find it convenient to accumulate or procure credits in Europe or elsewhere.

The adjoining States are somewhat differently situated as regards their commercial operations, having no acknowledged centre of business for the whole State, and the operations of trade therefore not furnishing equal facilities to the country banks for accumulating credits at a point where credits are equivalent to specie.

We should expect, therefore, that their banks would find it necessary to keep larger supplies of specie than would be necessary for the country banks here; and such is the fact.

In Pennsylvania, for instance, the banks shew an amount of specie about equal to one half their circulation, deducting bank notes on hand. But the following estimate will shew the comparative means of resisting a pressure, between them and the twenty-nine banks in this State whose statements we have:

The Pennsylvania banks are liable to drafts for,

Circulation,	\$5,870,609
Dividends,	310,613
Due other banks,	2,215,912
Deposits,	7,234,739
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	\$15,631,873

Their available means are,

Public stocks,	\$1,046,578
Due from banks,	2,772,835
Notes of other banks,	1,861,347
Specie,	3,013,369
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	8,694,129

\$6,937,744

or 37 per cent of discounted notes.

The twenty-nine New-York banks,

Circulation,	\$5,870,935
Dividends,	39,841
State deposits,	129,763
Banks N. Y.	115,459
Other banks,	1,394,025
Deposits,	1,608,095

Carried forward,..... \$9,158,118

	Brought forward,.....	\$9,158,118
Specie,	\$443,383	
Notes of banks,	1,028,831	
Cash items,	169,497	
Banks N. Y.	1,668,896	
Other banks,	1,246,447	
Bankers N. Y.	1,049,323	
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		<hr/>
		\$3,556,741

or 51 per cent of discounted notes.

The pressure, therefore, upon the debtors of the banks, after their available means should be exhausted, would be 37 per cent in Pennsylvania, and 31 per cent here. It is presumed that the difference would be still greater, if the New-York city banks were brought into the calculation.

The practical operation of increasing bank capital is here rather a concentration of than an addition to the cash capital of the country. Many individual sources to which borrowers resorted, become discontinued, and the capital upon which they drew is concentrated in a bank to which they now have to resort.

It will be seen that but \$891,964 of the capital of the banks subject to our visitation, (whose aggregate capital amounts to \$6,294,600,) is owned by persons residing out of the State, and a very small proportion of that is owned out of the United States. Of the \$2,150,000 of new bank capital paid in, during the last year, only \$181,420 is owned by non-residents of the State.

The amount drawn from other productive employments, exclusive of individual loans, cannot be otherwise than entirely conjectural, but is believed to be inconsiderable.

Somewhat connected with the erroneous opinion that an accumulation of *bank* increases to the same extent the *cash* capital of the country, is another idea that an increase of bank capital increases proportionably the productive capital of the country. There can be no doubt that the substitution of bank paper for a specie currency, has increased the productive capital of the country to the same extent precisely that bank paper has occupied the place which would otherwise have been filled with specie; because we have been enabled to export that amount of specie, being a commodity having in-

trinsic value, and substitute in its place mere paper which has none. And the amount of saving to the United States, by way of interest, upon this capital, has lately been estimated at \$4,000,000.

Although it is not denied that an increase of bank capital generally increases to some extent the amount of bank notes in circulation, yet it by no means follows that every additional paper dollar thus put in circulation, displaces one of specie; for much of the additional circulation caused by multiplying banks, is thrown into use, to answer purposes for which specie would not have been resorted to, but which would otherwise have been accomplished by barter or credit.

It is therefore only the amount of specie necessary to carry on the business of the country, which can be said to be displaced by the substitution of paper; and that amount may be much less than the quantity of paper actually used on account of the greater facilities afforded by the latter. Hence an estimate of the amount of specie currency displaced, would seem to be overrated if founded on the actual circulation of paper and specie, when the former constituted the principal amount, much more so if founded upon the basis of capital.

The proposition that every additional issue of bank notes causes a proportional depreciation of money in the market, both specie and paper, and a consequent rise in the price of commodities, is one which has been often advanced, and which has lately received the sanction of very high authority, in a report to the House of Representatives.

It is said that after the expiration of the charter of the first bank of the United States, a large number of local banks sprung up, which, being free from the controul which the United States Bank had exercised over the local institutions, commenced a system of excessive issues which involved the country in all the evils of a disordered currency. The state of things in 1816, is put forward as an illustration; and it is urged, that in consequence of the suspension of specie payments during that and the preceding year, the quantity of bank paper issued had about doubled the entire circulating medium, and that the nominal price of every article was of course one hundred per cent. higher than it would have been, but for the duplication of the quantity of circulating medium. And this consequence is said to result simply from a redundancy of quantity, not

withstanding the bank notes should be of undoubted credit, and convertible into specie at the pleasure of the holder.

The circulating medium of the United States in 1816, is said to have been one hundred and ten millions, which was reduced to forty-five millions in 1819, and has since been increased to about fifty-five millions. From whence the consequence is deduced that "a specie dollar, in 1816, would purchase no more than half as much as a paper dollar will purchase at present."

These are important propositions; they have been widely and industriously circulated; and as every thing relating to the currency is interesting to all, are certainly entitled to serious consideration. It may not be amiss therefore, and we hope to be pardoned for making some few suggestions which occur to us in regard to them.

In the first place the statistical facts relied upon, require a correction, which is found in a later and more detailed statement, compiled principally from actual returns, and reported to be from the pen of a most distinguished individual.

This statement, which will be found in a review of the report alluded to, in the American Quarterly Review for December 1830, estimates the entire circulation of bank notes in the United States, on the

1 January, 1816, at ... \$44,700,000

1 January, 1816, at 66,500,000

1 January, 1820, at 43,780,000

1 January, 1830, at 64,380,000

The reviewer, alluding to the report referred to, quotes it as affirming that the value of *irredeemable* paper is altogether regulated by its amount, and does not depend upon the prospect of ultimate redemption.

This position he entirely refutes, both by argument and reference to facts of the most convincing character, derived from the actual prices current of American continental paper—Bank of England paper during the suspension of specie payments, and bank paper of this country under the same circumstances.

But the extent of the proposition, as affirming that the depreciation results entirely from the quantity issued, notwithstanding the bank paper may be convertible into specie at pleasure, seems entirely to have escaped his observation.

Is it true then, that every additional issue of bank notes convertible into specie, causes a proportionate depreciation of money, or what is the same thing, a rise in the nominal value of commodities?

Were the high prices of 1816 attributable to this cause?

Would the controul of the United States Bank have prevented the excessive issues of bank paper at that time?

It will be seen that the first proposition involves an entirely different question as regards the nominal value of property, from that which might arise, if by the extraordinary productiveness of the mines, or from any other cause, the quantity of the precious metals were to be suddenly and materially increased.

It is not necessary to controvert the proposition that the value of money is depreciated in proportion to the increase of its quantity, in any given state of the demand for it. But the question is, what is money? By the common consent of the civilized world, the precious metals have become the only measure of value. They have an intrinsic value, equal to the labor required to produce them, and an exchangeable value depending upon that quantity of labor and the demand for the product. Hence the increased facilities of procuring the article, and an increase of quantity in a given state of demand, must cause a depreciation in value throughout the globe.

But the effect of an issue of bank notes, is entirely different. They have little or no intrinsic value, and are not acknowledged by the world as the measure of value. Their depreciation, therefore, would not affect the nominal prices of property in another country, nor is it supposed that the quantity issued would cause any material depreciation in value, as long as their credit was undoubted, and rested upon the fact of their convertibility into coin at pleasure.

It cannot be denied that prices rise as money depreciates. Suppose then an issue of bank notes as in 1816, but convertible into specie at the pleasure of the holders. It will not be pretended that these bank notes are any better than bank paper to purchase merchandize of the manufacturer in Europe. His prices therefore are fixed independently of any excessive issue of them—and fixed by that standard which the world acknowledges as the measure of value. The purchaser therefore converts his bank paper into coin, exports it to Europe, and purchases and imports his merchandize. He pays, as we have seen, in specie, the value of which in Europe,

cannot be affected by the quantity of bank paper in circulation in this country. Now will a dealer here pay in bank notes, twice the cost of that merchandize, when he can convert his bank notes into specie and go through the same process of importation himself?

If not, then it is not true that the price is raised or the money depreciated, in proportion to the issue of bank paper.

The proposition also assumes that under the circumstances supposed, the produce of this country would be nominally doubled in value. But the cotton or the flour would be worth no more in Europe, because there are other sources of supply. It would be preposterous therefore to suppose that a shipper would pay a two dollar bank note for a bushel of wheat to ship to Europe, when the price there was but one; if instead of doing it he could convert his bank note into specie and ship two dollars in coin.

Again, suppose, as was formerly the case in the western part of this State, that the produce of the country was chiefly purchased by the country dealers, upon sufficient credit to enable them to get it to market and realize the proceeds, (for credit, in some form or other, is the principal lever of business operations,) it is obvious that much less of what we term circulating medium would be employed, than is used in the present mode of purchasing with cash. In the former case, the property would go to market, and perhaps be converted into merchandize; the purchaser's notes would go into the hands of the agriculturist, and circulate until they should get into the hands of a debtor of the drawer, or be exchanged for merchandizes; and the whole transaction frequently be closed without the payment of a dollar in cash.

In the latter case, the purchaser of produce passes his note to a bank, in exchange for bank notes; pays in bank notes for the produce—the agriculturist pays his laborers, his mechanics, his merchants, &c. in bank notes, which find their way to market in some of the commercial towns; while in the mean time the purchaser of the produce, by a sale of it in the same market, is enabled to deposit the proceeds there to the credit of the bank, which pays his debt, and enables the bank to redeem its bills by drawing upon the deposit.

During the whole of this operation, the bank notes have been in circulation; and thus we see that the same business operation may

require a large or small amount of circulating medium, according to the manner in which it is conducted. In one instance it is done by a transfer of individual credit; in the other, by the transfer of bank credit.

The same amount of this description of business, as now conducted, requires the use of vastly more bank paper, than it did before the late war; and yet it never was supposed to be the occasion of any depreciation in the currency, or rise in the nominal value of produce.

Our purchasers have supposed the prices in the country to be regulated by the prices in New-York, and the prices there, by those in other parts of the world; and have never dreamed of paying higher prices, because they were paying in bank paper, which was current as money.

The error seems to lie in considering bank notes as money. They may be considered the representative of money, so far as the specie has been displaced by them, and lies in the vaults of the banks, because to that extent they will command what is money every where. And as long as sufficient of that can be commanded to answer the exigencies of commerce, with those who do not consider our bank paper such, it seems to us to be difficult to sustain the proposition that the value of money depends entirely upon the quantity of currency in circulation.

An imprudent issue of bank paper to individuals, to be used, not in satisfying the legitimate demands of business, but in encouraging a course of wild speculation or indiscreet overtrading; a ruinous extravagance of expenditure; or otherwise, where the borrowers will be unable to meet the fulfilment of their obligations—may indeed, to some extent, be said to affect prices, by producing an unnatural and excessive competition. But when the convertibility of bank notes into specie is rigidly enforced, the pulsation of business is felt; both the bank and the borrower soon find it to be a bad operation, causing embarrassment to the former, and loss or ruin to the latter; and the evil is checked before it becomes extensive or essentially injurious.

The rigid requirement of specie payments will always be found an infallible, as it is the only, corrective of a redundant issue of bank paper; for whenever the issue exceeds what the channels of business will absorb, the return of the excess is sure and speedy, and other

resources than those which are afforded by the ordinary current of business must be applied to its extinguishment.

It should not be forgotten, however, that the accumulation of bank capital to an extent beyond the requirements of business, affords strong temptations to this species of over issues. And the instances are not rare, where individuals, at times when the banks have found it difficult to keep up their discounts for business purposes, or have been tempted to increase them beyond the requirements of business, have been tempted to borrow imprudently without being able to calculate upon the means of repayment, perhaps to embellish a farm—to erect buildings—or enlarge a mercantile capital.

For a time the borrower reposes in security; but when the imperious demands of business require the use of the capital thus invested, a new loan, and a sacrifice to procure an extension of credit, are the consequences; and so on from time to time repeatedly, until the observer who lately saw the outward appearance of thrift and prosperity, now discovers a significant placard by the way-side: "This farm for sale."

It is true that banks being out of the question, the same effect is produced when unemployed capital accumulates in the hands of individuals, in consequence of a depression of business; but the facilities afforded to the incautious borrower are less, as the surplus capital of individuals is not susceptible of augmentation by the power of issuing a circulation beyond its amount.

But these are minor considerations as regards the proposition under consideration, and giving them their due weight, and allowing them all the influence upon prices which may be produced by an increased artificial competition, we still think they fall very far short of having a decisive weight in proving that the value of money depends upon, or is essentially affected by, the issues of bank paper, as long as that paper is convertible into specie.

It certainly is not proved by the prices of 1816, which are adduced as the illustration.

It may be admitted to the fullest extent, that the prices of commodities were enhanced at that period, by the excessive issues of bank paper, and yet the proposition is not established, for the bank notes of that time were not redeemed in specie. Specie payment had been

suspended by all the banks in the Union, except New-England, in the autumn of 1814, and were not resumed until the spring of 1817.

It is not intended to be denied, for all experience testifies, that paper of any description, which is put into circulation as currency, always must depreciate unless easily convertible into specie, no matter how ample may be the security for its ultimate redemption. Neither the arm nor the credit of government itself, can sustain it as currency. A melancholy proof of this in our own country, during the late war, must be still fresh in the recollection of all.

The humiliating fact remains upon record in the history of the times, that the treasury notes of the government, negotiable by delivery and bearing an interest, were exchanged at a discount for the bank paper of private corporations, not convertible into specie.

Yet the proposition is untrue that currency of this description is depreciated in proportion to the quantity issued. The prospect of ultimate redemption, and the proximity of that event, are all important in ascertaining and regulating the scale of depreciation. To the latter consideration chiefly must be ascribed the apparent anomaly above alluded to. The community had confidence in the ultimate solvency both of the government and the banks; but the opinion was probably entertained that the banks would resume specie payments sooner than the government.

If it be true then that excessive issues of bank notes do not essentially depreciate the whole currency, as long as such notes are redeemable in specie with facility, it would seem to follow that the actual depreciation of *irredeemable* paper, at any given time, may be measured by the premium which specie bears when exchanged for such paper.*

To what cause then were the high prices of 1816 attributable? Although it is granted that in some degree they were influenced by the excessive issues of bank paper, not however in any considerable degree, because such issues were excessive, but because the paper was not convertible into specie, we think it may be affirmed that the principal causes were entirely unconnected with the state of the currency.

* That premium in New-York, during the first six months of 1816, averaged 11.6 per cent. and during the last six months of the same year 3.33 per cent. Those averages therefore may be said to be the actual depreciation in New-York in consequence of the suspension of specie payments. The premium upon specie in some of the other commercial cities, was somewhat higher; but in Boston, where the banks paid specie, it was merely nominal.

In whatever relates to the currency, as well as many other important subjects, the history of the times immediately succeeding the late war is full of interest. But to apply it properly we should connect it with that during the war, as well as antecedent and subsequent.

For a long time previous to the war, the ordinary channels of intercourse with other nations had been obstructed by the belligerent state of Europe, and by our own countervailing restrictive system, the tendency of which were to enhance the prices of foreign commodities, by the danger and difficulty of procuring of them, until a state of open war put an end to nearly all supplies, except such as found their way by an illicit trade. The prices of foreign articles immediately took an extravagant rise, and continued to appreciate, while the demand for our own productions, stimulated by the wants of an army, and the withdrawal of laborers from their accustomed employments, nearly kept pace.

These and similar causes always incident to a state of war, and peculiarly operative in a country almost wholly dependent as this then was upon the workshops of other nations for manufactures, are sufficient to account for the extraordinary prices which were found to exist during the year 1814. The war too had excited the speculating enterprise of individuals, and called it into action, and the community gradually became reconciled to prices with which under other circumstances their judgments would have been shocked.

But when the peace of 1815 was concluded it produced a great comparative reduction of prices, but by no means a minimum, because the demand was unprecedented. The reduction created demand and the demand prevented a greater reduction. Overtrading was the consequence of not duly appreciating the temporary nature of the demand for consumption, and was induced by a succession of reductions in price, as the manufacturers in Europe were compelled by competition at home to submit to them.

The operation of causes like these would tend to keep up prices for a length of time before the demand and supply should become so regulated as to reduce them to a minimum. If we add to this the fact that the double duties upon merchandize were continued until July, 1816, and then only partially reduced, we can be at no great loss to account for the actual prices current of merchandize in 1816,

without much reference to the amount of circulating medium at that time.

The unsettled state of the agricultural interest also, at the period alluded to, and the peculiar unkindness of the seasons, were causes of appreciation in the prices of produce.

We have been proceeding upon the assumption that the prices of 1816 were excessive; they were so perhaps compared with the present, but they were less than those of 1815, and on the decline. How then does a reference to that period when prices were declining, and the circulation redundant, illustrate the proposition that prices are raised in proportion to the quantity of circulation?

But again, if the proposition is true, we must admit that prices will be least when the circulation is lowest; but the estimates quoted above show that the currency in 1815 was less than 45 millions, while in 1816 it had risen to rising sixty-six: and yet prices were decidedly higher in 1815 than in the following year.

It must also be admitted, that so far as the quantity of currency affects the price of commodities, all articles must be proportionably affected.

We entertain no doubt that an examination of the actual prices current at the times alluded to, will show conclusively that the prices of 1816 were on a rapid decline, notwithstanding the redundancy of the currency, and that different articles were by no means proportionably affected.

We have neither the time nor statistical facts necessary for such an examination, but the annexed table giving the prices of a few leading articles believed to be nearly correct, will give something of an idea of the result of such an examination.

	1814	1815	1816
Iron,	\$150,00 per ton.	\$130,00 per ton.	\$100,00 per ton.
Tea,	2,00 per lb.	1,60 per lb.	1,00 per lb.
Sugar,	20,00 per cwt.	20,00 per cwt.	14,00 per cwt.
Rum,	2,00 per gal.	1,69 per gal.	1,06 per gal.
Molasses,	1,00 do	90 do	50 do

For the reasons above mentioned, we think it unfair to charge the prices of 1816 entirely to the account of excessive issues of bank paper, believing that other causes ought in justice to bear much the

greatest proportion of the charge. There can certainly be but little accuracy in the assertions that prices were appreciated in consequence of over issues of paper to such an extent as to render two dollars then, of no more value than one at present.

If this conclusion is correct, it will follow that the severe pressure which was felt through the whole country in 1819, is not justly attributable as it has been said to be, to the resumption of specie payments by the banks in 1817.

A return to specie payments is undoubtedly always attended by a pressure upon the community, but that pressure may be measured by the extent to which the issues were excessive during the suspension, and if other causes than a redundancy of paper, contributed to raise prices; they are fairly chargeable with their share of the depreciation when prices fall and losses and embarrassment ensue.

Besides, as the effect of the curtailment and pressure necessary to enable the banks to resume specie payments, the distress in 1819 would seem to have lingered too far behind the cause.

When it is not only claimed that the existence of a national bank would have prevented the excessive issues of the local institutions at the period above mentioned, but also that the state banks never would have resumed the payment of specie but for the coercion of the present United States bank, and that such an institution is necessary for the purpose of enforcing this most important of all banking principles, justice to our own institutions as well as to the character of the state would seem to require some examination of the reasons upon which so bold a proposition is advocated.

The argument rests upon the assumption that the United States bank did compel the local banks to resume specie payments, and that they could have been compelled by no other means; because as it was obviously their interest to keep up as large a circulation as possible in order to ensure large dividends, they could not have been induced to co-operate *voluntarily* in the restoration of the currency, and they would not have been compelled by the state legislatures, *first*, because the tendency of a depreciated currency to attract importations by lessening the actual amount of duties paid to the government and to lighten the burthens of federal taxation, would have rendered it the interest of the states not to do so; and *secondly*, because as the banks were directly or indirectly the creditors of almost the whole community, their control over public opinion would

have been such as to have prevented legislative action in a case where a severe pressure upon the community would have been the necessary consequence: or in other words, that our legislative bodies would not have been found sufficiently independent to have required of the banks the fulfilment of the principal condition of their charters, however much the public interest may have required the firmness.

It is neither our business nor our purpose to comment upon the character of an argument of this description, either as it concerns the official guardians of the public interest, or the gentlemen concerned in our banking institutions. But the history of legislation in this state most certainly shows that sufficient independence and firmness, have always been found here to control and restrict the operations of banking as far as the interests of the community and the stability and value of the currency were deemed to require.

And during the suspension of payments alluded to, more than one law was enacted by our legislature for the purpose of facilitating compulsory proceedings against them by abolishing the quaint and dilatory practice which had theretofore embarrassed such proceedings.

It so happens that the present Bank of the United States went into operation at about the time when the local banks resumed specie payments; and thence, we apprehend, the conclusion is jumped at, that such payments were compelled by the operations of the United States Bank. Indeed, it has been asserted, that such payments would not have been suspended if such an institution had been in operation at that time.

Among the admitted causes of that suspension are enumerated the blockade of nearly the whole maritime frontier, the capture of Washington, the threatened invasion of Baltimore and New York, the long continued and heavy drafts for specie from the eastern states for purposes not now necessary to be mentioned, and the exhaustion of the banks in the middle states, produced by the loan from those states to the government of nearly thirty-eight out of about forty-one millions of dollars, and the payment of about the same proportion, of the eleven millions of treasury notes and temporary loans of the government then in existence, and by the re-payment of about seven millions of the capital of the old United States Bank,

belonging to foreigners, and the necessary extension of their loans to take up the paper of individuals in that bank.

The sufficiency of these causes may be matter of much more deliberate and grave reflection now than it probably was at that agitated and gloomy period of our history. And the suggestion may not now be thought unkind, that a national bank, at that portentous crisis, could still have compelled the payment of specie by the local institutions, thus crippled by their exertions to sustain the government, while their vaults were full of the depreciated notes of its treasury and their resources cut off by the utter prostration of its credit.

Such a suggestion then, however, was not heard; but had it been, its reception may be conjectured from the unexampled forbearance with which a patriotic community then submitted to the deprivation. The strongest evidence of the necessity of the measure is the fact, that the whole community forbore, while it was in the power of any individual of moderate fortune to have seriously injured, if not ruined, almost any of the institutions.

But the situation of the country had then become such that the necessity of sacrifices was generally felt, and not until that period were the community at large prepared to meet it.

Then it was that the nation may be said to have entered into the war, and the force of public opinion, in a supposed case of necessity, not only disarmed the law of its penalties, but actually kept the irredeemable paper of the banks at par with specie for more than six months after the suspension.

If we have stated the true causes of the suspension of specie payments in the autumn of 1814, it is difficult to perceive how a national bank, if one had then been in operation, could have averted the catastrophe.

The extraordinary causes which had produced the crisis, must have been felt by a national bank equally with the local ones.

Indeed, it is more than probable that such an institution, if it had been able to sustain its solvency, would have become so weakened by its exertions to sustain the sinking credit of the government, and by the sacrifices consequent upon the transfer of such vast amounts from one part of the country to another, as were required to carry on the war, as to have been the first to have felt the

necessity of suspending specie payments. The Bank of England has often done so for similar reasons.

It has been said, however, that a national bank "would have put the treasury department on its guard," and that "both acting in concert would certainly have been able at least to retard the event!"

It may be so. But when the bankers of Philadelphia were transporting their specie to Lancaster for security, when the heads of the departments were fleeing from the conflagration of the capitol, when the shattered credit of the government was bartered at the exchanges at from 10 to 15 per cent below par, and aided by the pledge of individual responsibility, to procure the means of offering double bounties for enlistments, we should be apt to question the efficiency of such concert.

The fact that the local banks resumed specie payment at about the time when the United States Bank went into operation, 1817, neither proves that the resumption is due to that cause, nor that they were in a fit situation to have done it before.

It will be recollected that the peace took place within a few months after the suspension of specie payments, and we have before alluded to the fact, and suggested some of the causes of the demand for foreign merchandize which immediately followed that event—To have resumed specie payments upon the conclusion of peace, the banks would not only have had to struggle under the same embarrassments which caused the suspension, and from which the few latter months of the war were by no means calculated to relieve them, but also to encounter that new demand for specie to export created by the demand for the China trade and for merchandize from Europe; and this, too, at a time when, according to a statistical account in the article before quoted, the specie in the vaults of the eastern banks amounted to \$8,200,000, while that in those of all the others in the Union only amounted to \$8,800,000. Most of the forty-five millions of paper then in circulation, was in that of the middle states, and an attempt at that time to redeem it in specie would most probably have converted embarrassment into irretrievable ruin.

It was therefore thought necessary to bespeak the patience of the public until the establishment of regularity in commercial operations, until the war debts of the government could be partially liquidated, and in short until all could in some measure recover from the ex-

haustion consequent upon the slackening of exertions and the relaxation of markets which had theretofore been held at their utmost tension.

It is not shewn that the local banks could with safety have resumed the payment of specie sooner than they actually did, but it is alleged that they made no effort to do it until about the time when the present Bank of the United States went into operation, in the early part of 1817.

Then it is conceded that payments were resumed under an arrangement for that purpose made between that institution and several of the local banks, and until it can be shewn that the local institutions might have resumed payment earlier, or in what manner they were *compelled* by the United States Bank, the inference may be doubted that they were so compelled.

The merit may as well be claimed for an individual banker, who is known to have instituted legal proceedings to compel the resumption of specie payments.

It is true, however, that the national bank did render essential aid towards restoring payments. It could not well have gone into operation as a specie paying institution, while all the other banks by which it was surrounded, had their vaults closed, and so far as that bank may claim the merit of rendering its assistance, and probably of accelerating the event, it would undoubtedly be conceded.

The assistance rendered by means of a loan in Europe, and the importation of several millions of specie, would seem to show, however, that before that time, the banks were not in a situation to have resumed their payments.

But what are the means of coercion possessed by the United States Bank, giving the assurance of its past, and promise of its future usefulness, which are not in the power of others?

It is said to operate by receiving the notes of the local banks, and insisting upon their redemption. The banks in New-York formerly did, and the brokers in Wall-street now do, precisely the same thing; and such also of necessity is the practice among all the country banks; for while some redeem promptly, they must necessarily insist upon prompt payment by others.

The same legal means of coercion, in case of refusal, and the same remedy by discrediting the paper of delinquents, are alike open to the Bank of the United States, to the local banks, and to the whole community.

We may rest assured that the jealousy and rivalry which will always be found to exist among banks, will furnish a sufficient guaranty for the enforcement of this cardinal principle of banking, and that if the laws furnish the means of compelling specie payments, no one, much less the whole, will be suffered to deviate from it, unless in a case of urgent necessity.

And notwithstanding the uncomplimentary suggestions that legislatures may be found so subservient to the banks, or so influenced by motives of interest, to suffer the evils of a degraded currency, for the purpose of lessening their actual payments of duties and taxes to the general government, as to refuse to provide those means, we must yet be permitted to entertain the belief that prompt and adequate remedies will always be found provided by law, especially in those sections of the country which have any pretensions to a commercial character.

The provisions of our laws would seem to be abundantly sufficient. In addition to the penalty of heavy interest during the suspension, (the only penalty in the charter of the United States Bank,) the offence subjects the institution to a forfeiture of its charter. It is made the duty of the commissioners to enforce the forfeiture, and the remedy is simple and expeditious.

So far then as the enforcement of specie payments (the true corrective) can operate to restrain excessive issues of paper, we apprehend the restraint must be felt under our banking system. Besides this, the limitation by law of the amount of circulation to twice the amount of capital—the more efficient limitation of the amount of loans and discounts to twice and an half the amount of capital, and the frequent examinations to be made by the commissioners, interpose additional and important restraints.

It is said in the report to which we have so often alluded, that “a promise to pay specie at a place remote from the place of circulation, and where the bills would never come but at a great expense, and for the sole purpose of being presented for payment, would neither give credit to the notes, nor operate as an effective check upon ex-

cessive issues;" that "human wisdom has never devised any adequate security against the excessive issues, and consequently the depreciation of bank paper, but its actual and easy and prompt convertibility into specie at the pleasure of the holder;" and that "whatever, therefore, in a system of bank circulation, prevents the reflux of redundant issues, necessarily destroys the only adequate security against these injurious and ruinous excesses."

We quote these observations with entire approbation; and respectfully submit whether the currency is more in danger of being depreciated by excessive issues from the institutions under our restrictive system, than from the gigantic institution which assumes to control and keep within bounds the entire mass of local banks?

That institution is already asserting its dominion in almost every section of the country; its branches are issuing a circulating medium in the form of small checks, payable at places remote from that of their issue and circulation; and these checks are believed to form the greater part of the circulation of the branches in the interior of this State.

Its notes, too, enjoying a more extensive credit, in consequence of the assumed national character of the bank, and of their being receivable for duties and public lands in any part of the Union, without regard to the place of payment, are consequently held in circulation at much greater distances from the places of redemption, than the notes of the local banks possibly can be.

These circumstances operate to prevent that healthful reflux which indicates a redundant issue—tend to destroy the "only adequate security against injurious and ruinous excesses," and point to the means which might be used, under improper management, to inundate the country with irredeemable paper, or paper convertible into specie only at remote places and at great expense. The injurious effect is the same in either case, differing only in degree.

It would probably be within the power of that institution, by still further multiplying its branches, and by issues of notes or checks in one part of the Union payable in another, to sustain a circulation equal to the whole estimated currency of the United States; a large proportion of which would, at any given period or place of pressure, be practically irredeemable.

The fact that it may have been prudently and discreetly managed in this respect thus far, furnishes no certain pledge that such will always be the character of its administration. However safely it may be trusted to redeem its paper *any where* when such redemption is practicable, by reason of its interest to keep up the credit and circulation of its paper, yet it must be remembered that it is only in times of distress and difficulty that such redemptions are particularly valuable. And the impracticability of providing means at every office to meet the paper issued at others, as the demands of business may require, has long been conceded.

The power of filling up almost the entire circulation of the country with paper in any sense or to any extent irredeemable, and consequently subject to depreciation, is one of the most serious import; and it will be fortunate indeed if it shall long be exercised, and motives of interest not lead to its abuse.

The guarantee possessed by the public that its notes shall be redeemed in specie, consists in that provision of the charter which imposes as a penalty for refusal, the liability to pay interest at twelve per cent!

Such provisions were found utterly inadequate in the case of the local banks; and it would require no great stretch of imagination to conjecture that the time may come when the employment of capital in the sale of exchange would be found a lucrative business, even at the hazard of paying extraordinary interest upon that proportion of the circulation which might be presented for redemption.

The most stable guarantee, after all, will be found in the character of those to whom the management of its concerns may be committed.

The banking system of this state adopted by the Legislature of 1829, looks rather to the eventual security of the public against losses, than to the prevention of temporary embarrassments occasioned by the vicissitudes of commerce.

We entertain the confident belief, that it will be found adequate to the accomplishment of the former object, and contribute essentially towards diminishing the evils incident to times of general embarrassment and distrust.

Most, if not all, the bank failures which have occurred in this State, as well as the neighboring ones, are attributable to causes against which this system interposes its guards.

The security held out by means of a capital, the exhaustion of which must precede any loss by the public, has been found to be deceptive in consequence of a secret arrangement by which stock notes of individuals have been received or substituted for capital. And it was a common thing to put a bank in operation upon a small part of its capital being paid in, thereby enabling it to discount to stockholders for the purpose of furnishing the means of paying further calls.

The capital of the institution was thus furnished by means of its own credit, and men of little or no responsibility were enabled by these facilities to become stockholders to large amounts, and in fact to controul institutions in which they had little or no real interest.

It is impossible that such deceptions should be practised under the present law, which requires the entire capital to be paid in, and an examination into that fact by the commissioners before commencing operations. And it will be equally impossible afterwards to substitute stock notes for capital, without their knowledge.

The purchase of banks for purposes of plunder, will be difficult of accomplishment, without those facilities afforded by some other institution, by means of large loans, hypothecation of stocks, or other devices, which will be constantly exposed to the observation of the commissioners.

Formerly the means of making such purchases were procured by an hypothecation of the very stocks to be purchased, and the nominal purchaser possessed the right of voting upon the stocks, which in reality belonged to the person furnishing the means; and the controul of an institution thus acquired, secured such a disposition of its funds as might suit the purposes of fraudulent managers.

The provision of the present law which prohibits a stockholder from voting upon pledged stock, destroys the object of such devices.

Large loans to favorite individuals upon doubtful or no security, have also been found to have been the cause of failures. These will be easily detected by the commissioners in the course of their

frequent examinations; and if the certainty of detection does not effectually prevent such operations, the cases will seldom be found incurable if taken in season.

Instances have occurred where owing to losses of this character, an entire capital has been sunk, and yet the bank continued doing business, and making dividends. The real stockholders were the first to suffer, and the public security vanished with the squandered capital.

Under the present system it is made the duty of the commissioners to wind up an institution which has lost half its capital.

Another, and perhaps as important a feature as any in the system, is that which secures a right to, and makes it the interest of, one institution to operate as a check upon another through the commissioners.

A bank failure has never yet occurred in this State without some other institutions being forewarned of its approach, by means of their intercourse with each other; but the difficulty has been a want of means to prevent it, and a want of interest in doing so.

By the present law, suspicious facts may be confidentially communicated to the commissioners, which it is their duty to investigate and act upon; and they may be required to do so at the call of any three institutions.

Our experience has already enabled us to appreciate the value of these means of information; and we endeavour to encourage their extension, by a strict adherence to their confidential character.

Bank failures in the ordinary course of business, we think are rendered quite improbable if not impossible; and although they may be produced by gross and sudden frauds, against which the prohibitions of law, and the scrutiny of the most vigilant officers would furnish no protection, yet it is to be hoped that such instances, should they ever occur, will be so rare that the fund raised by the tax upon banks for that purpose, will at all times furnish an ample indemnity to the public.

In times of commercial embarrassment it will be the interest of the institutions to sustain each other, and no doubt can therefore be entertained of their disposition to do so as far as their own circumstan-

ces will permit, and as the situation of the weaker ones will render it safe to assist them.

But there may be times when the elasticity of a part, or perhaps the whole collectively, might be insufficient to meet a severe pressure occasioned by some extensive and extraordinary derangement of the commercial concerns of the country.

The effect of such a crisis would depend entirely upon the source and extent of the pressure, and although these might and would generally be traced, they are not always to be foreseen in season to avert the calamity.

A failure of the wheat crop for instance, which ordinarily produces to the country perhaps two millions of dollars, would deprive the country of that amount in the statement of its account with the city. A portion of this deficiency will have been realized by credits obtained in anticipation, another portion will be requisite to supply the necessary wants of the country, and thus the notes of the country banks will accumulate in the city, while the anticipated means of redemption are cut off. So far as their funds in New-York and specie at home would go, they have the means of resisting the pressure; but these are calculated only for an ordinary demand, and circumstances have now produced an extraordinary one. They must therefore depend, after exhausting their ordinary means upon such assistance as their debtors might be able to afford, and upon obtaining a temporary credit at the place where credit is wanted to equalize the balance.

It is not specie that is indispensable to meet such a pressure, but credit in New-York, the course of trade being there and the debt due there: and it is obvious that such credit might be obtained, (the eventual security being unimpaired and unquestionable,) provided the extent of it should be within the elasticity of the money market: or in other words, provided the city could give the credit and meet its own engagements.

The country banks therefore, in the case supposed, would be enabled to sustain themselves by these means under a pressure, against which their own resources must have yielded.

Instances of this description not unfrequently occur upon a small scale, where a single institution finds itself under the necessity of making a temporary loan to counterbalance some unexpected disap-

pointment. And the same principle is applicable to the pecuniary concerns of an individual; a single bank; to the banks of a particular section of country, and to the banking interest collectively: a slight cause deranges the pecuniary affairs of an individual; a more serious one, those of a bank; and a still more extensive one, those of a number or the whole.

Suppose a cause of more universal pressure—as a revulsion in trade directly affecting the whole country—an overtrading with other nations, such as distinguished the period succeeding the late war, and a consequent accumulation of balances beyond the ordinary means of payment by exportation. The deficiency must be supplied and the equilibrium restored either by the exportation of specie, or by obtaining a credit in Europe which will answer the purpose of specie. If no timely provision for such a credit were made the consequence would be a demand for specie to export to the place where payment was required. A pressure of this description is first and most severely felt by the city banks, but rapidly extends itself through the whole monetary interest of the country. The specie is drawn from the vaults of the different banks and collected for exportation; the stocks of the government are purchased and remitted, and when these are exhausted, and such other means of remittance as can be commanded for the purpose, if a deficiency still remains, a suspension of payment must ensue.

Such a state of things necessarily begets a distrust of banking institutions as well as individuals, and the evil is increased by a general *panic*, which, however much it may be mitigated by the assurance of the eventual solvency of the banks or security of the public, is not to be entirely averted by the present system, and perhaps by no other within the power of legislation.

It arises from the operation of commercial principles, and it is the peculiar business of a banker to keep his observation constantly fixed upon the operations of trade, and by a prudent and timely forecast, to endeavor to provide funds or credit, wherever its exigencies may require balances to be paid.

Still, however, the causes alluded to, produce only a temporary embarrassment, and the public in the mean time have every guaranty that the debts of the banks will be ultimately paid.

The commercial character of this country and of this state pre-eminently, must ever render it subject to those revulsions which affect a currency composed, as ours is, principally of paper.

But we have now become to such a degree independent of other nations for our supplies of manufactured articles, that the pressures which we may anticipate, may be expected to be, rather for credit to sustain individuals at home, than for money to pay our national balances abroad.

At present, at all events, there would seem to be a sufficiency of coin to relieve any just apprehensions of the effects which may result from the fluctuations of trade.

In a late report made to the Senate of the United States, it is estimated that there is

In the banks,	\$15,000,000
In circulation,	8,000,000

The reviewer above quoted, estimates that on the 1st of January, 1830, there was

In the banks,	\$22,094,000
In circulation,	10,000,000

We incline to the opinion that both these estimates are now too low.

The report of the banks in Pennsylvania and Massachusetts, shew an accumulation in their vaults of \$1,324,000 during the last year, and the amount held by the United States Bank, has accumulated during the same period, \$4,184,000. It now possesses near eleven and an half millions.

The rapid diminution of the stocks of the government, which have always furnished a convenient means of obtaining credit in Europe, will probably tend to render a larger amount of specie necessary to be retained, to sustain the currency of the country, than heretofore has been found necessary. But on the other hand, the diminished demand for the Asiatic and other foreign trade—the restoration of quiet among the South American states—and the increased supply of gold from our own rich mineral region, (should an equalization of its standard to that of silver prevent its exportation) may be expected to produce a countervailing operation.

Giving due weight to all the just causes of apprehension for the safety of our banks, we still think they are not of a character which

should render us dissatisfied with the policy of adopting a currency essentially of paper.

And notwithstanding there may be causes of temporary embarrassment, arising from the operations of trade, against which our system may not be calculated effectually to guard, yet we may claim with fairness, that our banks are no more exposed to such embarrassments than others, and that in this respect our bank policy is as safe, while in other respects we claim for it more safety than has been found under any other system devised to suit our peculiar situation.

So far as the public is concerned, the principal objections to it have been, its supposed tendency to encourage excessive issues of paper, by giving it an undue credit, and the excessive multiplication of banks.

If it be true that excessive issues of bank paper do not essentially depreciate the currency so long as such paper is easily convertible into specie, and if it be true that our law is pre-eminently calculated to enforce such payments, there would seem to be no great weight in the first objection, nor any well founded ground of complaint that our currency should be in good credit. But if any further security is required against excessive issues of paper, it will be found to be most ample in those provisions which limit the loans and discounts of each institution to twice and an half, and the issues of paper to twice the amount of capital.

It will very rarely happen that the circulation of an institution can be raised to the amount authorised by law, while the loans and discounts are kept within it. Both these provisions are salutary in their operation upon individual institutions, although, looking at the aggregate statement of the banks, they would seem to be inoperative.

The other objection to the system has been, its supposed tendency towards the excessive multiplication of banks, in consequence of a reliance upon the fund, rather than the solidity and good management of the institutions themselves. Probably such is in some degree the tendency of that feeling of security which we are apt to indulge in a system that promises much, though not entire safety.

The business of banking has already progressed so far as to have become interwoven with all our business relations, and to have given

a permanent character to our currency. If it were desirable, therefore, it would be impossible, to effect an essential change of the leading features of our policy.

So far as the requirements of actual business demand, it will undoubtedly be reasonably safe to extend the facilities of banking; but it is equally true that the security upon which we rely may be overloaded; and we should deceive ourselves in supposing that the present, or any other system which can be established by law, would afford perfect security against every evil that might result from an excessive and improvident increase of bank capital.

C. STEBBINS,
J. REES,
G. R. DAVIS,
Bank Commissioners.

January 24, 1831.

NOTE.

In the table, page 8, the amount of specie held by the banks of this State, is not stated, in consequence of the amount in New-York being unknown. It has since been ascertained that, on the 31st December last,

The U. S. Branch Bank held,	\$3,400,000
The local banks,	2,909,000
Making in the city of New-York,	\$6,309,000

These data enable us to calculate that the amount of specie held by the banks of this State, on the 1st January inst. was \$3,435,000.

Aggregate Statement of the Banks of several States.

	October, 1830.
RHODE-ISLAND.	
46 Banks	
Debts of directors,	\$768,006
“ other stockholders,	611,027
“ others,	5,647,590
Specie,	365,734
Foreign bills,	187,764
Deposits in banks,	329,050
Stocks,	115,782
Real and personal estate,	271,263
	\$8,291,216
	October, 1830.
	\$6,065,200
	929,490
	946,159
	118,086
	46,211
	\$8,105,096

	March 1, 1830.
CONNECTICUT.	
14 Banks	
Debts,	\$5,171,294
Real estate,	169,891
Stocks,	203,100
Deposits in banks,	542,453
Specie and notes of other banks,	853,482
Other items,	98,158
	\$7,038,378
	March 1, 1830.
	\$4,379,820
	1,671,174
	649,661
	156,869
	180,864
	\$7,038,378

69 Banks.

Debts and stocks,	
Due from banks,	\$27,987,234
Real estate,	2,191,087
Bills of State banks,	621,152
" other banks,	914,096
Spente,	479,759
	1,258,444
	<u>\$33,451,772</u>

MASSACHUSETTS.

	June, 1890.
Capital,	\$19,295,000
Circulation,	5,124,090
Due other banks,	2,128,576
Deposits on interest,	2,804,868
" not on interest,	3,574,957
Profit and loss,	544,496
	<u>\$33,474,987</u>

32 Banks.

Discounted notes,	\$18,649,293
Loans and bonds and mortgages,	1,752,152
Public stocks,	1,046,578
Canal, turpiki and bridge do.	629,147
Real estate,	1,250,753
Expenses,	54,498
Due from banks,	2,772,885
Other debts,	183,612
Notes of other banks,	1,661,347
Specie,	3,013,369
Bank stock,	897,993
	<u>\$32,051,872</u>

PENNSYLVANIA.

	Nov. 2, 1890.
Capital,	\$12,815,881
Circulation,	7,870,609
Dividends unpaid,	810,613
Due other banks,	2,215,912
Deposits,	7,234,739
Other debts,	186,156
Profit and loss,	1,417,975
	<u>\$32,051,585</u>

[ASSEMBLY

NEW-YORK.

Aggregate statement of 29 Banks reporting to Bank Commissioners, January 1, 1891.

Discounted notes,	\$11,155,025 88
Bonds and mortgages,	272,940 20
Real estate,	429,339 25
Personal estate,	11,579 62
Stock owned,	63,471 00
Expenses, &c.	48,159 87
Due from individuals on account,	120,699 88
Specie,	443,383 55
Notes of other banks,	1,028,831 45
Other items counted as cash,	169,497 77
Due from private bankers in New-York, ...	1,049,323 38
Due from banks in New-York,	1,663,896 29
Due from other banks and corporations, ...	1,246,447 23
Suspense account, &c.	8,309 20
Due from branches to parent banks,	404,126 47
	<u>\$18,115,031 04</u>

Capital,	\$6,294,600 00
Bank notes in circulation,	5,870,986 39
Profit and loss,	678,739 46
Deposits on account of debts,	93,938 10
Dividends unpaid,	39,841 89
State of New-York deposits,	129,763 58
Canal fund deposits,	1,484,873 14
Due to banks in New-York,	115,469 32
Due to other banks,	1,394,025 62
Due private bankers in New-York,	69 99
Individual deposits,	1,608,095 91
Due from branch to parent banks,	404,688 64

No. 59.]

99

\$18,115,031 04

LIST OF BANKS

In the State of New-York, in operation on the 1st day of January, 1831.

BANKS.	Expiration of Charter.	To whom required to report.	Capital employed.	Stock owned by non-residents of the state.	Bank notes in circulation.	Specie on hand.	Directors' liabilities to the bank.	Stock owned by directors.
Lockport Bank,.....	1850	Bank Commissioners.	\$100,000	.....	\$130,517	\$5,033 20	\$30,927 75	\$43,95 1
Bank of Genesee,.....	1852	do	100,000	620	168,196	7,873 32	21,671 29	29,000
Bank of Monroe,.....	1850	do	300,000	115,650	233,147	7,672 42	43,551 41	116,025
Livingston County Bank,.....	1855	do	100,000	.....	130,418	4,755 74	28,328 21	81,600
Wayne County Bank,.....	1858	do	100,000	.....	195,422	7,404 04	31,989 20	62,825
Ontario Bank and Branch,.....	1856	do	500,000	106,800	329,693	19,312 47	*26,166 36	44,750
Bank of Geneva,.....	1853	do	400,000	296,400	396,613	15,004 15	32,150 84	92,600
Bank of Auburn,.....	1850	do	200,000	10,050	260,541	16,448 82	38,934 87	84,200
Bank of Ithaca,.....	1850	do	200,000	.....	285,781	10,061 52	58,024 02	80,100
Onondaga County Bank,.....	1854	do	150,000	10,500	189,435	17,350 77	22,605 41	38,500
Bank of Utica, and Branch,.....	1850	do	500,000	80,850	584,597	41,910 12	*72,813 98	79,600
Jefferson County Bank,.....	1854	do	80,000	1,300	132,107	16,090 73	18,822 97	18,150
Ogdensburgh Bank,.....	1859	do	100,000	2,500	138,376	25,170 39	23,397 08	45,200
Bank of Chenango,.....	1856	do	120,000	19,140	168,925	13,426 05	7,358 00	34,325
Central Bank,.....	1855	do	120,000	.....	181,173	13,416 21	23,473 04	96,570
Orsego County Bank,.....	1854	do	100,000	.....	35,700	2,878 44	10,775 00	58,300
Mohawk Bank,.....	1853	do	165,000	10,775	58,967	8,100 90	10,325 00	28,750
Bank of Albany,.....	1855	do	240,000	5,400	88,118	27,491 67	71,834 00	21,900
New-York State Bank,.....	1851	do	369,600	15,964	241,502	25,982 69	119,713 00	43,036
Mechanics' and Farmers' Bank,.....	1853	do	442,000	26,135	286,477	33,645 69	135,177 00	126,803
Canal Bank,.....	1854	do	300,000	25,500	142,437	10,418 67	84,439 67	53,940
Bank of Troy,.....	1853	do	440,000	49,600	271,317	19,573 46	81,840 10	92,820
Farmers' Bank,.....	1853	do	278,000	32,200	167,872	16,109 97	41,792 38	73,170
Merchants' and Mechanics' Bank,.....	1854	do	300,000	20,400	161,835	10,153 29	92,062 22	46,750
Saratoga County Bank,.....	1857	do	100,000	1,250	56,836	5,782 44	26,457 80	36,625
Hudson River Bank,.....	1855	do	100,000	5,000	152,852	11,520 40	50,945 68	41,050
Catskill Bank,.....	1853	do	150,000	55,930	277,099	20,795 89	40,162 54	57,324
Bank of Poughkeepsie,.....	1858	do	100,000	.....	137,025	10,615 24	29,885 48	40,000
Bank of Newburgh,.....	1851	do	140,000	.....	267,961	19,384 85	29,109 03	28,297
			\$6,294,600	\$491,964	\$5,870,934	\$443,383 55	\$1,288,783 33	\$1,696,160
Bank of Rochester,.....	1840	Comptroller annually in September.	\$250,000					
Commercial Bank,.....	1845	Legislature annually in February.	225,000					
Dutchess County Bank,.....	1845	do	75,000					
Orange County Bank,.....	1833	Not required to report.	105,660					
Lansingburgh Bank,.....	1833	do	72,000					
Long-Island Bank,.....	1840	Legislature annually.	300,000					
Dry-Doek Company,.....	Unlimited.	do	200,000					
Chemical Manufacturing Company,.....	1844	do in February.	400,000					
North River Bank,.....	1842	Legislature if required.	500,000					
Manhattan Company,.....	Unlimited.	Not required to report.	2,050,000					
Bank of New-York,.....	1832	do	1,000,000					
Merchants' Bank,.....	1832	do	1,490,000					
Mechanics' Bank,.....	1832	do	2,000,000					
Phoenix Bank,.....	1832	do	500,000					
Tradesmen's Bank,.....	1833	do	480,000					
Bank of America,.....	1832	do	2,031,200					
Union Bank,.....	1831	do	1,000,000					
City Bank,.....	1832	do	1,250,000					
Fulton Bank,.....	1844	do	600,000					
Delaware and Hudson Canal Company,.....	1844	do	500,000					
			\$21,323,460					

* The liabilities of the directors of the branches, and the stock owned by them, are not included.

• In Bibliography
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