# MONEY AND BANKING

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EXAMPLES OF PRIVATE GOLD COINS IN CIRCULATION BETWEEN 1830 AND 1860.




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See page 43.

# MONEY AND BANKING

ILLUSTRATED BY

## AMERICAN HISTORY

BY

HORACE WHITE

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# PREFACE.

On the 25th of February, 1862, the Government of the United States made its paper evidences of debt legal tender between individuals. The nation was thus sent upon the wrong road, and has been toiling in a wilderness ever since. In addition to the injustice which it wrought, the legal-tender act filled the public mind with misconceptions and delusions on the subject of money. So it came to pass that although we adopted irredeemable paper with the greatest reluctance, we were willing to flounder in it fourteen years after the supposed necessity for it had passed away. Then, partly by design, partly by chance, we resumed specie payments; but the people had, to a large extent, lost sight of the fundamental principles of money. The misconceptions and delusions remained, the most dangerous and widely prevalent being the notion that mere quantity is a desirable thing, and that the Government can produce quantity and ought to.

It is the aim of this work to recall attention to first principles. For this purpose it has been deemed best to begin at the beginning of civilized life on this continent and to treat the subject historically. The science of money is much in need of something to enliven it. If anything can make it attractive it must be the story of the struggles of our ancestors with the same problems that vex us. The reader will find an abundance of these in the following pages. Indeed, a complete and correct theory of money

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might be constructed from events and experiences that have taken place on the American continent, even if we had no other sources of knowledge. This may be said of the science of banking also. All the wisdom and all the folly of the ages, as to these two related subjects, have been exploited on our shores within the space of less than three hundred years.

Very few persons, if any, are satisfied with our present monetary condition. While I write these lines a withdrawal of $2,350,000 gold from the Treasury causes a fresh tremor and confusion of tongues. Everybody assures everybody else, and tries to assure himself, that it is of no consequence. Probably no harm will come of it, but why should it be noticed at all, except by a few dealers in foreign exchange? Because the public Treasury undertakes to maintain the ultimate gold reserve of the country, and because people doubt whether it can do so at all times. Are these doubts unreasonable? The only law on the statute book really effective for the discharge of this obligation was passed in 1862 for a different emergency, had been forgotten a quarter of a century, and was discovered by accident the last day in the afternoon. As regards the act of 1875 (under which gold was twice procured last year for the replenishment of the Treasury) it is a matter of dispute whether it is still in force, or whether it lapsed when specie payments were resumed. A dispute on such a question is itself an incentive to panic. Moreover, everything depends upon the mood and temper of the Administration for the time being whether such powers as the law confers shall be exercised wisely and promptly, or exercised at all.

Now suppose that the Government were out of the banking business altogether, its fiat money retired, and the Treasury restricted to its normal and proper business of collecting and disbursing the public revenue. In that case

the duty of redeeming the paper circulation, and maintaining a sufficient gold reserve for the purpose, would devolve on the banks, and would be discharged automatically. The banks would learn by experience how large a reserve is required generally. In emergencies, when, for any reason, more should be required, they would obtain the means from their maturing bills receivable. This would come to them either in the shape of their own circulating notes, thus lessening the call upon them for gold, or in gold itself, which the mercantile community would be obliged to procure and send in to them. Of course this implies a curtailment of discounts, but curtailment is not avoided under the present system. The curtailment in the panic of 1893 was as severe as it could ever be if the banks were solely responsible for the redemption of the paper circulation. But probably there would have been no panic at all at that time if the Government had been restricted to its proper business, and had not been issuing fiat money in large quantities.

It is thus apparent that the first step toward a rational system is the retirement and cancellation of the legal tender notes and the restriction of the Treasury to the duties for which it was originally and solely designed. When this is done the public mind will be so cleared that other reforms, and especially banking reform, may be hopefully undertaken.

Although banking is here treated historically, this volume must not be taken as a history of banking. I have merely selected such parts as serve to illustrate the principles of the science, to show what should be striven for and what avoided. The work of John Jay Knox, published after his death in Rhodes' *Journal of Banking*, was left in an unfinished state. If his life had been spared to give it the completeness and finish of his lesser work on "United States Notes" there would have been little left to be desired. Under the circumstances there is still room for such a work, which should

be a coördination of facts and principles showing the movement of ideas.[1]

My opinion is that the Scotch bank system is the best in the world and that we might borrow from it, as the Canadians have done, to our advantage. There are only ten banks in Scotland, but they have nearly one thousand branches, reaching every hamlet in the nation. Deposits are received and loans are made at each branch, but the branches pay out only the notes of the bank, which are redeemable at the head office. So it is necessary to have real money only in one place instead of perhaps one hundred different places. At the branches the bank's circulating notes answer the purposes of retail trade, while checks drawn against deposits answer all other purposes. Thus the maximum of business is done with the minimum of capital, which is the *raison d'être* of banking. In other words, credit has been systematized in Scotland to the last degree, and is found to answer all purposes so long as the paper sovereign can be converted into the gold sovereign at some convenient commercial center, at the pleasure of the holder.

I have been writing on these subjects in lectures and magazines several years. Thus the greater part of the chapters on the Gold Standard was published in a pamphlet in 1893, but it has been rewritten and important additions made. There may be some other passages that the reader has seen before, but the text is my own except where credit is given to others.

H. W.

New York, August, 1895.

[1] Since this preface was written the announcement has been made that Knox's *History of Banking in the U. S.* will soon be published as a book, with important additions and revision.

# TABLE OF CONTENTS.

## PART I. — MONEY.

### BOOK I.

**EVOLUTION OF MONEY.**


| CHAPTER | | PAGE |
|---|---|---|
| I. | Money a Commodity | 3 |
| II. | General Principles | 23 |
| III. | Coinage | 29 |
| IV. | Legal Tender | 38 |


### BOOK II.

**THE GOLD STANDARD.**


| | | |
|---|---|---|
| I. | Experience of England and the United States | 44 |
| II. | Experience of Germany and France | 55 |
| III. | Holland, Austria, and India | 67 |
| IV. | The Brussels Monetary Conference | 76 |
| V. | General Conclusions | 105 |


## PART II. — REPRESENTATIVE MONEY.

### BOOK I.

**FIAT MONEY.**


| | | |
|---|---|---|
| I. | General Characteristics | 117 |
| II. | Colonial Paper Money | 120 |

| CHAPTER | | PAGE |
|---|---|---|
| III. | CONTINENTAL MONEY | 134 |
| IV. | THE GREENBACKS | 148 |
| V. | CONFEDERATE CURRENCY | 166 |
| VI. | THE GOLD ROOM | 174 |
| VII. | AFTER THE WAR | 191 |
| VIII. | SILVER DOLLARS | 198 |
| IX. | THE "CRIME OF 1873" | 213 |
| X. | GENERAL CONCLUSIONS | 224 |


## BOOK II.

### BANKS.


| | | |
|---|---|---|
| I. | FUNCTIONS OF A BANK | 235 |
| II. | THE CLEARING HOUSE SYSTEM | 239 |
| III. | COLONIAL BANKING | 248 |
| IV. | FIRST BANK OF THE UNITED STATES | 258 |
| V. | SECOND BANK OF THE UNITED STATES | 271 |
| VI. | THE BANK WAR | 287 |
| VII. | END OF THE GREAT BANK | 298 |
| VIII. | BANKING DEVELOPMENT IN MASSACHUSETTS | 313 |
| IX. | THE SUFFOLK BANK SYSTEM | 324 |
| X. | BANKING DEVELOPMENT IN NEW YORK | 333 |
| XI. | THE SAFETY FUND SYSTEM | 339 |
| XII. | THE FREE BANK SYSTEM | 348 |
| XIII. | ECCENTRICITIES OF BANKING | 361 |
| XIV. | SOME NOTABLE BANKS | 374 |
| XV. | BANKING IN THE FIFTIES | 397 |
| XVI. | THE NATIONAL BANKING SYSTEM | 406 |
| XVII. | THE QUANTITY THEORY | 419 |
| XVIII. | THE MECHANISM OF EXCHANGE | 427 |
| XIX. | CONCLUSION | 436 |

APPENDIX A.

PAGE

Recent Bimetallist Movements in Germany . . . 447

APPENDIX B.

Mr. Shaw's History of Currency . . . . . 453

APPENDIX C.

Market Ratio of Silver to Gold, 1793–1895 . . 456

APPENDIX D.

Silver Coinage of the United States . . . . 457

APPENDIX E.

The Baltimore Plan . . . . . 458

APPENDIX F.

Secretary Carlisle's Plan . . . . . 461

APPENDIX G.

Gold Value of Greenbacks during the Suspension of Specie Payments . . . . . 465

APPENDIX H.

The Gresham Law . . . . . 466

---

Bibliography . . . . . 469
Index . . . . . 479

## ILLUSTRATIONS.

PAGE

EXAMPLES OF PRIVATE GOLD COINS IN CIRCULATION BETWEEN 1830 AND 1860 . . . . . Frontispiece

SPECIMENS OF FOREIGN SILVER COINS CIRCULATING IN THE UNITED STATES BEFORE 1860 . . . *To face* 37

COLONIAL BILLS OF CREDIT . . . . . " " 128

CONTINENTAL CURRENCY . . . . . " " 142

INTERIOR OF THE NEW YORK CLEARING HOUSE . " " 240

# PART I.

# MONEY.

# BOOK I.

## *EVOLUTION OF MONEY.*

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### CHAPTER I.

#### MONEY A COMMODITY.

EXCHANGE is the indispensable condition of civilized life. The vital principle of exchange is equality of value in the things exchanged. In order that there may be equality of value there must be a measure of value.

**Money Indispensable to Civilized Life.**

Money is anything that serves as a common medium of exchange and measure of value. It need not be a good measure; it is only necessary that it should be the agreed measure of any time, place, or people. We are now speaking of real money, not of its representatives or substitutes.

The earliest money of the Greeks and Romans consisted of cattle (*pecus*), whence came the Latin word *pecunia* and the English words *pecuniary*, *peculation* (cattle lifting), and *peculiar* (one's own). The first metallic money of the Romans was copper (*aes*), whence came the Latin word *aestimatio* and the English words *esteem*, *estimation*, *estimable*, all having reference to the mental operation of valuing or appraisement. The word specie is the same as species, with the final *s* omitted. Payment in specie was originally payment in kind. Silver was used as money in the time of Abraham, when it passed by weight.

**First Money in the Historical Period.**

Among the things used as money by various people within the historical period, are cattle, cacao beans, salt, silk, furs, tobacco, dried fish, wheat, rice, olive oil, cocoanut oil, cotton cloth, cowry shells, iron, copper, platinum, nickel, silver, and gold. It would be difficult to say what had not been used as money at some time or place. Our own history furnishes an abundance of curious examples, the most instructive being the tobacco currency of the colonial period. It may be said that Virginia grew her own money for nearly two centuries and Maryland for a century and a half. Hardly any form of currency could have been worse, the fluctuations in its value being extreme and incessant, and the social disorders produced by it enormous.

**Various Kinds of Money.**

The first law passed by the first General Assembly of Virginia, July 31, 1619,[1] was in reference to tobacco. It fixed the price of that staple "at three shillings the beste and the second sorte at 18*d.* the pounde," and required Mr. Abraham Persey, "Cape Marchant," to take notice thereof. The Cape Marchant was the keeper of the Virginia Company's "Magazin" or storehouse. He dealt out the supplies and received the tobacco. This was really fixing the price of the company's

**Tobacco Money in Virginia.**

[1] This was the absolute beginning of representative government in America. The organization was effected in the following manner: "The most convenient place we could find to sitt in was the Quire of the Churche where Sir George Yeardly, the Governor, being sette downe in his accustomed place those of the Counsel of Estate sate nexte him on both handes, excepte onely the Secretary then appointed Speaker who sate right before him." After prayers "all the Burgesses were intreatted to retire themselves into the body of the Churche, w'ch being done, before they were fully admitted they were called to order & by name & so every man (none staggering at it) took the oath of supremacy & then entered the Assembly."

**First Representative Government in America.**

goods, and some doubt arose in the minds of these newly fledged legislators whether their powers extended so far. They accordingly consulted the "Cape Marchant" before putting the law into effect and it was agreed to enact it provisionally, and to refer the matter to London, where it was ratified in due time.

Prior to this, the will of the Governor, who was the company's appointee, had been the law of the colony. He directed what crops should be cultivated and what work each man should do, and what rations should be served out of the "Magazin." The historian, Berkeley, writing of the year 1616, says: "Captain Yeardly made but a very ill Governor, he let the building and forts go to ruin, not regarding the security of the people against the Indians, neglecting the corn and applying all hands to plant tobacco, which promised most immediate gain."

On the 23d of December, 1619, there was a public sale of tobacco in London at which 20 shillings per pound was paid for the finer qualities of Spanish. This was in spite of the "counterblast" of King James I., who was still on the throne and who had likened the smoke of this plant to that of the Stygian pit, and had declared that it was fit only to regale the devil after dinner. The price of Virginia tobacco was never above 5 shillings per pound in London.

**High Price in 1619.**

The germ of the long series of tobacco inspection laws is found in another act passed at this first session. In order to "inforce" the growers "thoroughly and loyally to aire their tobacco before they bring it to the Magazin," it was provided that it should be inspected by two persons to be chosen by the Cape Marchant and two chosen by the inhabitants of the plantation or district, and "if not vendible at the second price it shall there immediately be burnt before the owner's face."

**Improving the Standard.**

Tobacco was already the local currency. One of the petitions addressed to the company by this body asked that a sub-Treasurer be sent to the colony to receive the rents and that he be instructed not to exact money "whereof we have none at all," but to collect "the true value of the rent in commodity."

The next mention of tobacco in the Statutes was in 1623, when it was enacted that any person who should be absent from divine service on Sunday should be fined one pound of tobacco.

An act passed in 1633 recited in its preamble that it had been the usual custom of merchants to make all bargains and contracts and keep all accounts in tobacco, which had occasioned trouble and inconvenience, in consequence of which it was enacted that such trading and keeping of accounts should thereafter be in money and not in tobacco. The word money, as used in the colonies, always meant metallic money.

**Conflicting Legislation.**

This good resolution did not last long, or perhaps could not be enforced, for we find another act passed in 1642 completely reversing this policy and in effect making tobacco the sole legal tender.[1] The act of 1642 was repealed in 1656, after which contracts in silver or in tobacco were alike enforceable at law, except in a few instances, but nearly all the trading in the province was done with tobacco as the medium of exchange.

**Tobacco Legal Tender.**

[1] Act XXXVII. "Whereas manie and great inconveniences do dayly arise by dealing for monie. Be it enacted and confirmed by the authoritie of this present Grand Assembly that all money debts made since the 26th day of March, or hereafter shall be made, shall not be pleadable or recoverable in any court of justice under this government, and that a coppie of this act be by the Capt. of the ffort or his deputy be fixed on the mastes of all shipps upon their arrival within the government, to the intent that all people whatsoever might take notice hereof." Hening I, 262.

The church tithes were payable in tobacco, and were made the first lien on the crop. A law of 1623 provided that no planter should dispose of his crop till the minister was satisfied.

In 1628 the price of tobacco reckoned in English money was 3*s.* 6*d.* per lb. in Virginia and 4*s.* in London. In the following year we find evidence of a decline in the price. It was sought to counteract this by limiting the supply and improving the quality. A law was enacted providing that no person should plant or tend above 2,000 plants for each member of his family and that nobody should "pay away" any bad or ill-conditioned tobacco for debts or merchandise under penalty of having the same seized and burned. In 1631 the price had fallen to 6*d.* per lb. Notwithstanding this heavy decline the cultivation increased rapidly. In 1632 a law was passed requiring every farmer to plant and tend at least two acres of corn for each member of his family, under penalty of losing his right to plant tobacco.

**Rapid Decline in Price.**

The decline in price continued, and energetic measures were taken to stop it. Five storehouses[1] were appointed to receive all the tobacco grown in the colony. Planters were

[1] In a law passed in 1712 these storehouses were called "rolling houses," and the roads were called "rolling roads." This phrase came from the customary method of transporting tobacco by rolling the casks along the public highway. Mr. R. A. Brock (*History of Tobacco* in the Tenth U. S. Census) describes this process. Wooden spikes were driven into the heads of the cask, and shafts like those of a buggy were attached to them, so that when the horse drew on them the cask would roll along the road. A box laid across the shafts carried the provisions and tools of the driver. "The tobacco-roller, as the driver (usually the owner) was called, never sought shelter on his journey — often of a week's duration — but camped at night by the roadside." Hening says that rolling was still practiced in 1814.

**Primitive Transportation**

required to bring hither their entire crop (except a small amount allowed for family use), before the last day of December in each year, to be inspected and stored. All payments of debts were to be made at the stores with the privity and in the presence of the store-keepers. The right to cultivate was restricted to 1,500 plants per poll. Rights of planting could not be transferred. Gunsmiths, nailers, brick-makers, carpenters, joiners, sawyers, and turners were not allowed to plant tobacco, "or do any other work in the ground," but the county commissioners were to see "that they have good payment made unto them for their work, out of the stores, as soon as the tobacco is brought thither." No tobacco could be sold at less than 6*d.* per lb. "as first cost in England."

**And Depreciation of the Currency.**

These measures were ineffective. The price continued to fall. In 1639 it was only 3*d.* It was now enacted that half of the good and all of the bad should be destroyed, and that thereafter all creditors should accept 40 lbs. for 100; that the crop of 1640 should not be sold for less than 12*d.*, and that in 1641 for less than 2*s.* per lb., under penalty of forfeiture of the whole crop. This law was as ineffectual as the previous ones had been, but it caused much injustice between debtors and creditors. In 1645 tobacco was worth only 1½*d.* and in 1665 only 1*d.* per lb. This ought to have been sufficiently favorable to debtors, but it was not so considered. A law was now passed allowing them to pay their debts in wheat, or tobacco, or silver, three shillings being reckoned as the equivalent of one bushel of the former commodity, or 30 lbs. of the latter. This law was not retroactive. Heretofore contracts in silver or in tobacco had been enforceable according to their terms. The law of 1645 was repealed the following year.

**Attempts to stop it by Law Ineffective.**

As creditors, who had tobacco debts due them, frequently postponed the payment, on one pretext or another, in order to take the chance of a rise in the price, an act was passed in 1666 to determine what should be a legal tender of tobacco.

**How a Tender of Tobacco was made.**

Notice of intended payment must be delivered to the payee or his agent, after which he could make no objection except to the quality of the tobacco, in which case the justice of the county should appoint two inspectors who should act under oath and select a third as an umpire in case of a disagreement, and their decision should be final. It was provided in a later act that if the creditor was not present the debtor should be discharged of his obligation, but should take care of the tobacco as though it were his own.

In the same year a treaty was negotiated and ratified between the colonies of Maryland, Virginia, and Carolina to stop planting tobacco for one year. The preamble recites that "the quantity of tobacco made in this country has become so great that all markets have been glutted with it, and the value is so low that the planter is rendered incapable of subsisting." This temporary suspension of planting made necessary some other mode of paying debts. It was accordingly enacted that both public dues, and private debts falling due "in the vacant year from planting" might be paid in country produce at specified rates.

**Planting stopped for One Year.**

In 1683 an extraordinary series of occurrences grew out of the low price of tobacco. Many people signed petitions for a cessation of planting for one year. As the request was not granted they banded themselves together and went through the country destroying tobacco plants wherever found. The evil reached such proportions that in April, 1684, the Assembly passed a law declaring that these malefactors had passed

**Tobacco Riots in 1683.**

beyond the bounds of riot, and that their aim was the subversion of the government. It was enacted that if any persons to the number of eight or more should go about destroying tobacco plants they should be adjudged traitors and suffer death.

In 1727 tobacco notes were legalized. These were in the nature of certificates of deposit issued by the inspectors. They were declared by law current and payable for all tobacco debts within the warehouse district where they were issued.

**Tobacco Paper Currency.**

In 1730 the notes were made the *only* legal tender for tobacco debts, in the warehouse district. They were redeemable in tobacco of a particular grade, but not in any specified lots — resembling in this respect the grain warehouse receipts of the present day. Counterfeiting the notes was made a felony. In 1734 another variety of currency called "crop notes" was introduced. These were issued for particular casks of tobacco, each cask being branded and the marks specified on the notes.

In 1742 it was enacted that persons not growing tobacco might pay taxes and fees to public officers "in current money at such prices and rates for tobacco as shall be settled by the courts of their respective counties."

**Violent Fluctuations**

In 1755 and again in 1758, in consequence of severe drought and short crops, it was enacted that all tobacco debts, taxes, and fees might be paid in money at 16*s.* 8*d.* per 100 lbs.

During the revolutionary war the currency of Virginia, bad enough in its normal state, fell into terrible confusion. It consisted of continental currency, Virginia bills of credit (both depreciating at a galloping pace) and tobacco. The latter had become a stable currency by comparison. Its value was fixed from time to time by the grand jury. After the revolution

**And Confusion of the Currency.**

the old system of payment by tobacco notes was resumed and continued until near the beginning of the present century.

The history of tobacco currency in Maryland is in general the same as in Virginia. In 1662 the scarcity of silver and the inconveniences of tobacco prompted the passage of a law compelling the inhabitants to have a certain amount of metallic money. It was enacted that every householder and freeman should "take up tenn shillings per poll for every taxable person under his or their charge, to be paid for in good casked tobacco at 2*d.* per lb. . . . to pay the said tobacco upon tender of the said summes of money proporconably for every such person's respective family." There was nothing in the law to prescribe what should be done with the silver thus obtained.

**Experience of Maryland.**

The year 1753 was distinguished by an act of formidable length and remarkable character for "amending the staple of tobacco." First, the inspection laws were greatly improved and then it was provided that all tobacco debts arising before May 16, 1747, if paid in tobacco inspected under this act should be reduced one-fourth. The act recited also that since traders had generally kept their books in terms of silver money, although their dealings had been in tobacco, and the intention of both debtor and creditor had been for payment in tobacco, in all such cases the creditor should be paid in tobacco at the rates prevailing at the time, but if paid in tobacco inspected under this act the debt should be reduced one-fourth. All judgments, bonds, mortgages, bills of exchange, notes or other securities of any kind for the payment of money, taken to elude the provisions of this act, were declared null and void.

**A Change of Standard.**

The circulating medium of the New England colonies was

quite as fantastic as that of Virginia and Maryland. In 1631 the General Court of Massachusetts ordered that corn should pass for payment of all debts at the price it was usually sold for, unless money or beaver skins were expressly stipulated. For more than half a century this order continued in force and operation, other things being added to the list from time to time.

**Early Massachusetts Currency.**

In 1635 musket balls were made legal tender to the extent of 12*d.* in one payment. Merchantable beaver was legal tender without limit at 10*s.* per pound.

In 1640 Indian corn was made current at 4*s.* per bushel, wheat at 6*s.*, rye and barley at 5*s.*, and peas at 6*s.* Dried fish was also legal tender. Taxes might be paid in these articles and also in cattle, the latter to be appraised.

**Inflation with Country Produce.**

The need of metallic currency was severely felt. In 1654 it was ordered that no coin should be exported, except 20*s.* to pay each one's travelling expenses, on penalty of forfeiture of the offender's whole estate.

The cost of carrying the country produce taken for taxes amounted to 10 per cent of the collections. A constable once collected 130 bushels of peas as taxes in Springfield. He found that he could transport this portion of the public revenue most cheaply by boat. Launching it on the Connecticut River, he shipped so much water on board at the falls that the peas were all spoiled. The General Court made him an allowance.

In 1670 it was ordered for the first time that contracts made in silver should be paid in silver.

In 1675, during King Philip's war, the need of money for public use was so great that a deduction of 25 per cent was offered on all taxes so paid. This rebate was afterwards increased to 50 per cent.

The first settlers of New England found wampumpeage, sometimes called wampum and sometimes peage, in use among the aborigines, as an article of adornment and a medium of exchange. It consisted of beads made from the inner whorls of certain shells found in sea water. The beads were polished and strung together in belts or sashes. They were of two colors, black and white, the black being double the value of the white. The early settlers of New England finding that the fur trade with the Indians could be carried on with wampum, easily fell into the habit of using it as money. It was practically redeemable in beaver skins, which were in constant demand in Europe. The unit of wampum money was the fathom, consisting of 360 white beads worth sixty pence the fathom. In 1648 Connecticut decreed that wampum should be "strung sutably and not small and great vncomely and disorderly mixt as formerly it hath been." Four white beads passed as the equivalent of a penny in Connecticut, although six were usually required in Massachusetts and sometimes eight. In the latter colony wampum was at first made legal tender to the amount of 12*d.* only. In 1641 the legal tender limit was raised to £10, but only for two years. It was then reduced to forty shillings. It was not receivable for taxes in Massachusetts. The use of wampum money extended southward as far as Virginia.

**Wampum and Beaver.**

The decline of the beaver trade brought wampum money into disrepute. When it ceased to be exchangeable in large sums for an article of international trade the chief basis of its value was gone. Moreover it was extensively counterfeited, and the white beads were turned into the more valuable black ones by dyeing. Nevertheless it lingered in the currency of the colonies as small change till the early years of the 18th century. While it was in use it fluctuated greatly in value.

**Disappearance of Wampum.**

In 1652 Massachusetts established a mint and began to coin shillings of the weight of 72 grains, the true shilling weighing about 93 grains. This became known as the "pine tree shilling" from the figure of a tree stamped on it. The short shilling had come into use insensibly, long before the colony set up her mint. The depreciation was due to the pernicious activity of coin clippers who were at work everywhere in Europe and America. The silver coins in circulation in the colonies were chiefly Spanish dollars, or pieces of eight reals, and fractions thereof, brought in by the West Indian trade. These were light or heavy, according to the time they had been in circulation and the treatment they had received. The heavy ones were selected to make remittances abroad. Those which remained grew lighter and lighter till, in 1652, the dollar had lost about one-fourth of its original weight. Accordingly, when Massachusetts began to coin shillings she conformed to the custom of merchants and made them one-fourth less valuable than the shillings of England.[1]

**First Silver Coins.**

**Pieces-of-Eight.**

Here it will be convenient to define the phrase "money of account." This means the money in which people keep their accounts, and do their thinking. The money of account in all the colonies was pounds, shillings, and pence, but there were no such things in circulation, except a limited number of the before mentioned pine tree shillings. The money in actual

**"Money of Account."**

[1] Dr. Bronson, in his valuable work on "Connecticut Currency," considers this debasement of the shilling by Massachusetts an act of intentional fraud by which creditors were cheated out of one-fourth of their dues. The true explanation, as above, with interesting details, is given in an anonymous pamphlet of the 18th century entitled: "A Discourse Concerning the Currencies of the British Plantations in America," etc. This pamphlet has been attributed, on insufficient evidence, to Dr. Wm. Douglass.

use was the Spanish *peso* or dollar and its fractions. This dollar was rated at 6 shillings in New England. The Spanish real was accordingly, in those colonies, the eighth part of 72*d.*, or "ninepence," a name by which many people now living remember it. When the dollar was divided into 100 cents the New England shilling was 16⅔ cents, *i.e.* the sixth part of a dollar. In New York, as will be seen later, the dollar came to be rated at eight shillings and the real thus became the "York shilling" or 12½ cents. In Pennsylvania the dollar was rated at 7*s.* 6*d.*, or 90*d.*, one eighth of which was approximately 11*d.* and was called a "levy," an abbreviation of eleven, and the half of it a "fip," an abbreviation of five pence. As the Continental Congress sat in Philadelphia its appropriations were made in dollars and ninetieths. The division of the dollar into one hundred parts was not made till 1792. By a law of that year Congress enacted that the money of account of the United States should be dollars, dimes, etc., but it did not become so in practice until after the civil war. All the people kept their accounts and did their thinking in dollars and ninepences, dollars and shillings, dollars and levies, dollars and bits, the last name for the Spanish real being peculiar to the Gulf States and to California. In my younger days the price of every article of merchandise was quoted in dollars, shillings, and sixpences. These examples serve to show that a law on the statute book establishing a money of account does not necessarily make one in practice.

**May be Different from that prescribed by Law.**

The disorders of the currency due to the clipping and sweating of coin led to different valuations of the Spanish "pieces-of-eight" at different places. According to a memorandum made by William Penn for the Earl of Bellomont in the year 1700 they passed for 6*s.* 9*d.* in New York; for 7*s.* 8*d.* in New Jersey and Pennsylvania; for 4*s.* 6*d.* in Maryland,

and for 5*s.* in Virginia and Carolina. These valuations were liable to constant change. The merchants of London addressed a petition to the Government asking that steps might be taken to put an end to these uncertainties in the colonies. The evil had been cured in England a few years earlier by the recoinage of 1696, a really heroic measure, in which the entire loss from coin clipping had been borne by the public treasury. It happened that, simultaneously with this London petition, one of like tenor was presented to Lord Bellomont by the merchants of New York, which he forwarded to the Board of Trade and Plantations together with the memorandum of Penn.

**Different Ratings of the Spanish Dollar.**

On the 18th of June, 1704, a proclamation was issued by Queen Anne on this subject. It first stated the actual value of foreign coin circulating in America, in terms of sterling money, according to the assays of the mint. "Sevil pieces-of-eight old plate,[1] 17 pennyweight 12 grains" were equal to 4*s.* 6*d.* The same, new plate 14 pennyweight, 3*s.* 7*d.* 1*f.* Mexico pieces-of-eight 4*s.* 6*d.* Pillar pieces-of-eight 4*s.* 6*d.* 3*f.* The proclamation then says that "from and after the first day of January next no Sevil, pillar or Mexico pieces-of-eight shall be accounted, received, taken or paid within any of our colonies or plantations at above the rate of six shillings per piece, current money, for the discharge of any contracts or bargains to be made after the said first day of January next."

**The Proclamation of Anne.**

Six shillings was considered by the home government a fair average of the various colonial valuations of the Spanish dollar. This valuation came to be known everywhere by the term proclamation money, or proc. money. One hun-

[1] The word plate (Spanish *plata*, silver), is here used to signify Spanish silver money, not bullion. Old plate meant old coinage.

dred pounds sterling was the equivalent of £133⅓ proclamation money.

The preamble to the proclamation says that it is issued in order to "prevent the indirect practice of drawing money from one plantation to another." This shows that our ancestors had the notion that New York, for example, could draw money from Boston by considering a dollar equal to 6*s.* 9*d.*, provided Boston considered it only 6*s.*

**Why it was issued.**

In the year 1700 South Carolina expressed her belief in this proposition by statute. The "mercantile system," which was bottomed on the idea that the precious metals are the only form of wealth, dominated Europe and America at that time, and this was one of its numerous manifestations and offshoots.

The proclamation was generally disregarded. Each colony continued to keep its accounts in its own ideal pounds, shillings, and pence, and even where these coincided for the moment with "proclamation money" they were soon brought out of harmony with it by issues of depreciated paper. Seeing that the Proclamation was not regarded, Parliament in 1707 embodied it in a law and decreed a penalty of six months imprisonment and a fine of £10 for each violation of it. This act was disregarded as completely as the previous proclamation had been.

**It is disregarded.**

The first local currency of New Netherland was wampum, but it was subordinate to the silver coinage of the mother country; that is, it was reckoned in terms of that coinage as fixed by the Dutch West India Company from time to time. It was first fixed at six white beads for a stiver. Wampum was not made in the province but was imported from the east end of Long Island, the principal seat of production. It is mentioned in a letter from the Patroons of New Netherlands to the States General in June, 1634, as "being in a

**Early New York Money.**

manner the currency of the country with which the produce of the country is paid for," the produce of the country being furs.

Beaver soon became current here, as in New England, and for the same reason, its currency value being fixed by the company at 8 florins per skin. This was the first establishment of the double standard on Manhattan Island.

**First Double Standard on Manhattan Island.**

As 6 wampum beads were equal to one stiver and 20 stivers to one florin, the ratio of wampum to beaver was 960 to 1. The usual consequences ensued. The market ratio did not coincide with the legal ratio very long. Nor was the legal ratio of either wampum or beaver to silver maintained; for, in 1656 Director Stuyvesant wrote to the company urging that beaver be rated at 6 florins instead of 8 and wampum at 8 for a stiver instead of 6, as these rates were nearer the commercial values.

The company ruminated over this proposition several months and finally answered in April, 1657: "We have, after due consideration come to the conclusion, that depreciation of the currency means destruction of the commerce and consequently ruin of the country. To prevent this we have decided to make no sudden change but proceed gradually, beginning with the wampum which is to be

**Changing the Ratio.**

reduced from 6 to 8 for the stiver, it being well understood that this reduction shall not take effect before the beginning of next year, 1658, and in the meantime upon the receipt hereof the people must be informed of it, as such measures are published here in all well governed Republics and Kingdoms, to cause the least possible inconvenience and loss to the community. We shall wait with reducing the currency value of beavers from 8 to 6 guilders, for we see difficulties in making these changes simultaneously."

In 1658 beaver was reduced to 6 florins, but it was advanced to 7 and again reduced to 6 before the Dutch rule came to an end in 1664.

The depreciation of wampum continued and Stuyvesant advised the company that it was immaterial whether the rate was 8 for a stiver or 10, "because the dealer marks, holds, or sells his goods according to the abundance of wampum and the price he has to give for beavers." In the same communication he said: "Wampum is the source and mother of the beaver trade, and for goods only, without wampum, we cannot obtain beaver from the savages." Nevertheless he insisted that neither wampum nor beaver was fit to be the currency of a civilized people. Stuyvesant was a very able man. In nothing is his sagacity more clearly shown than in his endeavors to introduce silver coin as the sole money of the colony. In the letter above mentioned he says: "It would be desirable, therefore, as I have repeatedly stated to you, that wampum and beavers, as well as tobacco, should be declared an absolute commodity or merchandise, and that the importation of no other small currency than silver should be allowed here."

**Stuyvesant opposed to Wampum and Beaver as Money.**

On the expulsion of the Dutch authorities the law-making power was vested in the Duke of York (afterwards King James II.), "his heirs, deputies, agents, commissioners and assigns." Colonel Nicolls, who bore the Duke's commission and who had received Stuyvesant's surrender, hastily summoned an assembly of the principal inhabitants at Hempstead, L.I., and promulgated a set of laws dated March 1, 1664, for the government of the province. These have ever since been known as "the Duke's Laws." The heterogeneous state of the currency was recognized by a provision that "all payments upon contracts and engagements should be satisfied

**Specific Contract Law of 1664.**

in kind according to covenant." Wampum and beaver continued to be the money of account for at least ten years, for in 1674 the Governor and Council, for the purpose of completing the fortifications of New York, ordered that a loan should be required "of the most affluent inhabitants of this city," whose property was above "4,000 guilders wampum value," which loan should be paid with merchantable beaver, or wheat at wampum price. Both wampum and beaver gradually faded away toward the close of the 17th century.

Coin clipping went on, after the proclamation of Anne, as before. It became necessary to adopt a new method of collecting and disbursing the public revenue. A thousand pounds might mean one thing to-day and another thing to-morrow.

**Silver Money reckoned by Weight.**

The Legislature of New York began, early in the 18th century, to make appropriations in ounces of plate, or "coined plate" as it was sometimes called. This was a return to the Abrahamic method. An act of 1709 appropriates 10,000 ounces of plate, which sum is declared to be equal to 14,000 pounds, meaning New York pounds. Thus the ounce was reckoned at eight shillings in New York. In sterling it was 5*s.* 2*d.*, *i.e.*, sterling was worth 33 per cent more than New York money, but the latter was equal to proclamation money. From 1709 to 1724, all levies of taxes and all appropriations of public money were made indifferently in ounces of plate or in New York pounds, shillings, and pence, but occasionally in both. In the latter year the pound sterling was worth 50 per cent more than its New York namesake. In 1744 it was worth 65 per cent more; in 1767 80 per cent more. The depreciation, subsequent to the proclamation of Anne, had been caused by colonial bills of credit.

In 1691 the Assembly of South Carolina passed an act making Spanish or Mexican dollars, or pieces-of-eight weigh-

ing 13 pennyweights "or more" current at five shillings each; those not of full weight four shillings. In 1694 "Lyon dollars"[1] were made current at four shillings, and any gold coins at the rate of ten shillings for two pennyweights. Thus the ratio of 13 to 1 between silver and gold was legalized.

**Early South Carolina Money.**

In the year 1700 we find the South Carolinians engaged in the practice (reprobated later in the Proclamation of Anne) of attempting to draw money from her neighbors by the mental operation of considering Spanish dollars worth a shilling or so more than they had previously taken them to be. On the 16th of November an act was passed "to raise the current coin of this province." It recited that "whereas the great decay of trade hath been occasioned by the scarcity of moneys — for the prevention thereof and for the better securing of that which is still left among us and likewise for the encouragement of greater quantities of moneys to be brought into this part of the province," all pieces-of-eight, "Mexico civill[2] or pillar," weighing 13 pennyweights should be current money of South Carolina at 6 shillings, all weighing 15 pennyweights at 6*s.* 9*d.*, and all weighing 17 pennyweights at 7*s.* 6*d.*, Lion dollars at 6*s.*, English crowns at 7*s.* 6*d.*, and New England shillings at 13½*d.* Gold coins were rated in this act at 6*s.* 6*d.* per pennyweight. This was a depreciation of the currency by 33 per cent since the passage of the act of 1694.

**Attempts to attract Money by Raising the Valuation.**

It will be noticed that the pine tree shilling of Massachusetts is here rated 1½*d.* above its valuation at home. This was by way of beating the Yankees at their own game.

[1] This, I believe, was a Dutch coin stamped with the figure of the lion of Brabant. I have never seen one.

[2] Meaning Seville, the place where the Spanish mint was situated.

In 1719 the Assembly made rice receivable for taxes "to be delivered in good barrels upon the bay in Charlestown."

**Rice Currency.**

In the following year a tax of 1,200,000 lbs. of rice was levied and commissioners were appointed to issue rice orders to public creditors, in anticipation of collection, at the rate of 30*s.* per 100 lbs., in the following form:

"This order entitles the bearer to one hundred weight of well cleaned merchantable rice to be paid to the commissioners that receive the tax on the second Tuesday in March, 1723."

Rice orders were made legal tender for all purposes, and counterfeiting was made felony without benefit of clergy.

When California was first invaded by gold seekers there were a few Mexican coins in circulation there, not nearly sufficient to answer the needs of the growing community. The immigrants brought more or less metallic money with them. The smaller coins were those of many different countries, chiefly Spanish. For want of sufficient coins the first trading was done largely with gold dust, sometimes by weighing it in scales, sometimes by guess-work. A "pinch" of gold dust about as large as a pinch of snuff had a current value and was a common measure in places where there was no means of weighing. At a public meeting in San Francisco, September 9, 1848, it was resolved by unanimous vote that $16 per ounce was a fair price for gold. This rate was immediately adopted in all business transactions. By and by private coiners of gold came into the field. The Legislature was at first alarmed by the appearance of these unaccustomed pieces, and passed a law to prohibit their circulation and to close the shops where they were made. It was soon found, however, that they were a great convenience. Then the law was repealed. Several establishments immediately

**Early California Devices.**

went to work assaying and coining gold. One of these was at Salt Lake City, whose productions were known as Mormon coins. Only one of these establishments, that of Moffat & Co., of San Francisco, conformed exactly to the Government standard of weight and fineness. All the others, however, including the Mormon ones, circulated freely and were received on deposit by the banking houses until the government set up an assay office and began to stamp octagonal pieces of $50, called "slugs," and afterwards those of $20 each. This was done in 1851; the San Francisco Mint was not ready till 1854. The Moffat coins continued to circulate after the mint had gone into operation, since everybody had confidence in their goodness. It is estimated that $50,000,000 of private coins were struck. They were received in the Atlantic cities at their assay value only.

**Private Coins and "Slugs."**

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## CHAPTER II.

### GENERAL PRINCIPLES.

It is evident from what has gone before that money, when real, is a commodity; and when representative, represents a commodity. This is true of gold as well as of beaver skins, of tobacco, of rice, or of wampum.

Roscher correctly observes that if money were nothing but a measure of value it would on that account, if on no other, possess value; just as a yardstick possesses value as a means of measuring cloth, apart from its value as wood or brass. This fact is often contradicted and still oftener lost sight of. No invention or discovery since the world began has been of so great service to mankind as that of a common measure

**Money is a Commodity.**

of value. One can hardly imagine a world existing without it. To say that the most indispensable thing in the whole world is a thing of no value, is a contradiction of terms absolutely blighting to the human intellect. As a matter of fact, however, all the things that have been used as money have possessed other value, and we have the best reason to believe that this other value led to their use as money in every instance without a single exception. We cannot conceive that gold would ever have been brought into use as money if it had not possessed certain qualities of beauty, portability, durability, etc., which caused it to be prized as an article of adornment. In the Homeric poems everything most precious and beautiful is golden. Zeus clothes himself with gold, his palace is floored with gold, his horses have manes of gold, and he grasps a whip of gold. The goddess of love and beauty is golden Aphrodite.

All trade is barter, or the exchange of property and service for other property and service. This is true when wheat is exchanged for gold and gold for cloth. Here are two acts of barter to accomplish one result, namely, the procuring of cloth for wheat. This is a case where the longest way around is the shortest way to your destination. Fancy two men trying to establish an equation between cloth and wheat without any common medium of exchange. This would be a very simple problem, however, in comparison with most of those which mankind has to deal with. Take another example: What should be the ratio of exchange between a given quantity of steel rails and the services of a physician?

**All Trade is Barter.**

There are certain tribes on the earth at the present time so sunk in barbarism that they have no common medium of exchange. Aristotle says that there were such in his day.[1]

[1] "It is plain that in the first society (that is in the household) there was no such thing as barter, but that it took place when the community

Professor Jevons mentions several in the first chapter of his "Money and the Mechanism of Exchange."

Perhaps sufficient has been said to show that the selling of wheat for gold and then selling the gold for cloth are really two acts of barter. The word barter is commonly used to signify the exchange of property without the use of money. It must be borne in mind, however, that all trade is barter, even when the precious metals are employed as intermediaries — the latter being articles of barter also, and possessing the same value as the things for which they are exchanged. *The whole science of money hinges on this fact.*

Objections to tobacco money in Virginia and to the variegated colonial currency of New England are obvious. They were inconvenient in every way. In the first place, they were not easily portable. It cost £3 6*s.* in 1662 for

became enlarged; for the former had all things in common, while the latter, being separated, must exchange with each other according to their needs, just as many barbarous tribes now subsist by barter. For these merely exchange one useful thing for another, as for example giving and receiving wine for grain and other things in like manner. This kind of trading is not contrary to nature nor does it resemble a gainful occupation, being merely the complement of one's natural independence. From this, nevertheless, it came about logically that as the machinery for bringing in what was wanted, and of sending out a surplus, was inconvenient, the use of money was devised as a matter of necessity. For not all the necessaries of life are easy of carriage; wherefore, to effect their exchanges, men contrived something to give and take among themselves, which, being valuable in itself, had the advantage of being easily passed from hand to hand for the needs of life; such as iron or silver or something else of that kind, of which they first determined merely the size and weight, but eventually put a stamp on it in order to save the trouble of weighing, and this stamp became the sign of its value." Aristotle's *Politics*, I. 9. — This definition of money and explanation of its origin have never been surpassed.

**Aristotle on the Origin of Money.**

cartage of the proceeds of the tax levy of the town of Ipswich, amounting to £70 6*s.* 8*d.* In Virginia there was a difference in the value of tobacco notes according to the location of the warehouse where the tobacco was situated. This amounted in some cases to 10*s.* per cwt.

**Qualities of Good Money. Ease of Carriage.**

Another objection is found in the fluctuations in value of these currencies. The range of tobacco prices in Virginia from 1619 to 1775 was from 3*s.* 6*d.* down to 1*d.* per lb. We have seen what strenuous efforts were made by the tobacco-planting colonies to restrict the production and what distress and disorder were caused by their inability to do so.

**Stability.**

Another inconvenience attending these media of exchange was the difference in value between different lots of the same article at the same place. Tobacco, even when up to standard, was of four different kinds, described in the laws as sweet-scented, Oronoko, leaf, and stemmed. Then there were differences in the inspection, some inspectors being more skillful and more strict than others, whereby their receipts or notes came to have a higher price than others. There were differences also arising from different seasons and different cultivators. A large part of the legislation of both Virginia and Maryland was directed to the suppression of "trash." No substance can be considered suitable for the purposes of money, if different parcels of it are of different degrees of goodness.

**Uniformity.**

Want of durability was another objection to all of these things. There was so much shrinkage and deterioration in tobacco that the notes issued against it could not be safely kept more than one year.

**Durability.**

Some of the articles used as money in the colonial period could be divided and subdivided without losing any part of their value, while others could not. Grain and tobacco

6 organized

could be so divided. Beaver skins could not. For the purposes of exactitude divisibility is necessary. No article which does not possess this quality can be considered a good medium of exchange.

**Divisibility.**

It is not absolutely necessary that the substance used as money should be coined. Gold and silver were used as money before they were coined. At first they passed by weight, and, as Aristotle says, the stamp, which was put on them to designate the weight, afterwards became the sign of the value. All that coining does is to save the trouble of frequent weighing and assaying. Accordingly it is desirable that the substance of which money is composed should be one which can receive and retain a stamp. None of the substances which the early American colonies used, in lieu of the precious metals, answered this requirement. The putting of wampum shells together in parcels equal to one penny, and higher denominations, easily recognized, was something akin to coinage.

**Ease of Recognition.**

So also was the marking of a hogshead of tobacco by an inspector. When so marked it would pass without reweighing or reëxamination. The stamp had here become the sign of value, but the tobacco itself could not be stamped because the substance was not suitable for receiving and retaining an impression.

All writers are agreed that the six requisites mentioned above are essential to a good kind of money, viz., portability, homogeneity, durability, divisibility, cognizability, and stability of value.

Long experience has taught mankind that these qualities are best embodied in two metals, gold and silver. Experience has likewise shown that it is impracticable to have both of those metals as a standard of value at the same time. Gold was retained rather than silver because it contains much

value in little weight and hence is better suited to the needs of modern commerce. Silver remained in use afterwards as small change because people were habituated to it. Every piece of our gold money passes for the value of the metal contained in it. This is true of the gold money of all nations. I had occasion recently to buy 500 francs in gold at a broker's office in Wall street. He gave me twenty-five pieces of 20 francs each. About one-half of them were French and the remainder Belgian, Spanish, Italian, Greek, and Tunisian. They passed readily everywhere on the Continent of Europe at their full value.

**The Precious Metals.**

It must not be assumed that gold is absolutely stable in value. When we speak of the value of the one thing which measures all values we mean its purchasing power in terms of those commodities whose supply is unlimited, or not controlled by monopoly. The value of gold thus measured is subject to variations, but it is impossible to measure them with accuracy even when we compare prices during long intervals of time. We are concerned at present only with the comparative steadiness of value of different things, as for example, gold and tobacco. If gold is subject to fewer changes of purchasing power than tobacco it is better fitted to serve the purposes of money and will sooner or later supplant it in that function. If it is subject to fewer changes than any other known substance it will supersede all others. The fact that it is not wholly free from variation itself will not prevent it from becoming the sole and universal money of civilized mankind.

**Gold not wholly Free from Variations in Value.**

Money is the product of evolution, a result of the ages. The better has gradually crowded the worst out of existence. Our own history forms no exception to this rule, for although our colonial ancestors for a time went back to a system

almost as rude as that of the Homeric period, they eventually abandoned it and resumed metallic money, which always served as a mental standard even when it was not a legal one. It is difficult now to understand why they endured the burden of bad money so long. There is evidence showing that the taxpayers and the "debtor class" wanted to have a variety of money as well as a great quantity of it. Nothing could be more abundant than the crops of wheat, corn, tobacco, and rice, yet it does not appear from the colonial records that either taxpayers or debtors as a whole gained any advantage from this abundance nor that they were at all satisfied with it. In fact laws were frequently passed in Virginia to save them from the oppression of being obliged to pay tobacco, and not infrequently relief was granted by enabling them to pay silver instead.

**Money a Product of Evolution.**

An invariable consequence of the use of tobacco and other produce as money was the exportation of specie. It is true that the exported specie paid for other property. It was not given away. The mischief was that the people swapped a good medium of exchange for a bad one. They took a bad tool in place of a good one in the most important part of their public and private economy or housekeeping.

**Exportation of Specie caused by the Use of Inferior Money.**

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## CHAPTER III.

### COINAGE.

COINAGE is the act of assaying, subdividing, and stamping a metal intended to be used as money. It is a certification of weight and fineness, but not necessarily of value, since

the same coin may exchange for more goods at one time than at another. Governments usually forbid coinage by private persons, because private coiners have a motive to deceive, and because deception is easy. Formerly Governments themselves habitually cheated their subjects by altering the fineness of coins, but that form of swindling is no longer practiced. Modern Governments in coining money adhere as closely to the legal standard as human skill can attain. If it were certain that private coiners would always make coins as good and as uniform as those of the Government there would be no reason for the Government making any.

**Coinage is an Act of Certification.**

We have seen how individual coiners operated in California for some years after that country came into our possession.

The first *thalers* were made at a private mint in Joachimsthal, Bohemia, in the year 1581. They were made by the Count of Schlick, and were called Joachimsthalers, or Schlickenthalers, or simply thalers. The German word *Thal* is the equivalent of *dale* or valley in English; and thaler is daler, or dollar. The coins manufactured by the Count of Schlick were of uniform goodness. Uniformity was so rare in the 16th century that the thalers acquired great popularity, and thus the word, with some slight variations, passed into many of the languages of Europe. Dollar was an English word in the time of Shakspeare, just as ducats and byzants were English words, although there were no such English coins.

**Private Coiners.**

Aristotle tells us that the first coins were pieces of metal with the weight stamped upon them, and that the stamp afterwards became the sign of the value. In early Rome small payments were made by tale, the larger ones by weight. The Latin word *expendo*, from which our words *expend* and *expense* are derived,

**Weight-Coins.**

means to weigh out. The Latin *stipendium* also means a payment by weight. The shekel, the talent, the drachma, the pound, the penny, the peso, the livre, and the mark were originally the names of weights. They are instances of the transference of the name of a weight to the name of a coin.

It has been proposed lately by men of ability that we should go back to the old fashion, and no longer issue legal tender coins from the mint but specified weights instead; as for example, ounces of gold and of silver, leaving them to pass for what they are worth. If this were done, who could guarantee that we should not travel the same road that our ancestors did? Who could say that we should not come to regard the gold ounce as we now regard the gold eagle and make it a legal tender, as soon as the inconvenience of not having any legal tender was seriously felt? If this plan is regarded as a hopeful means of doctoring the silver craze, I think that the same amount of political force needed to carry this measure through Congress might cure the silver disease in more direct ways.

**Proposal to abolish Legal Tender not Practicable.**

A standard is a measure, by comparison with which the size, weight, capacity, fineness, value of other things is determined, as a standard bushel, a standard gallon, etc. It is proper, therefore, to speak of a standard of value,[1] a standard of weight, a standard of fineness. The phrase "standard silver dol-

**The Monetary Standard.**

[1] Perhaps valuation would be a better word. In the Constitution of the United States the word value is used in the sense of valuation in the paragraph which gives Congress the power "to coin money, regulate the value thereof and of foreign coin." The word value, as now used, means purchasing power. Of course Congress cannot regulate the value of its own coins in that sense, still less that of foreign coins. But it can regulate the valuation of them in its own receipts and payments and between individuals.

lar," often used in this country, is a misnomer. It was first employed to distinguish the dollar of 412½ grains from the trade dollar of 420 grains. The silver dollar is not a standard of anything. Its value in trade is about double its metallic value, because the Government practically redeems it in gold.

**Unit of Value.**

A unit of value must be one thing, not two or more things. In our first mint law, the gold eagle was declared to be "of the value of ten dollars or units," the dollar or unit being "of the value of the Spanish milled dollar," and the weights of both were specified. This was an incongruity since it implied two units. The unit of value now is the gold dollar only. If two metals are coined in unlimited quantities, there must be a ratio of weight at which each may be used in the payment of debts. The ratio of 15 to 1 means that fifteen ounces or pounds of coined silver shall be equal for debt-paying purposes to one ounce or pound of coined gold.

**Legal Ratio.**

**Two Standards Impossible.**

Wise men in the past saw the impossibility of having two standards at the same time and keeping the coins of both in simultaneous circulation. John Locke was one of these. Believing it to be necessary to make a choice between silver and gold as the standard, he chose silver, but he thought that gold ought to be coined as commercial money, *i.e.*, to pass for what it was worth but not to be legal tender. Mirabeau and the other statesmen who considered this subject in France during and after the Revolution chose silver as the standard rather than gold because it was susceptible of division into small sums, and was therefore deemed better adapted to the needs of French industry. When it became necessary, in our own country, about the year 1834, to change the ratio of 15 to 1 which had been established in 1792, Mr. Condy Raguet, the foremost economist of that period, took the

same ground that Locke had taken in England and Mirabeau in France.

All of these wise men were wrong, but they must not be blamed. It was by no means obvious that one of the two metals (and the one most largely used) could be safely debased, and reduced to a mere counter, or token money, of limited legal tender, the other being retained as full legal tender. Yet the truth was perceived by Adam Smith. In the "Wealth of Nations" (I. 5), speaking of the inconveniences to English trade arising from the exportation of silver coin, he says:

**Adam Smith on Subsidiary Coinage.**

"This inconveniency perhaps would be less if silver was rated in the coin as much above its proper proportion to gold as it is at present rated below it: provided it was at the same time enacted that silver should not be a legal tender for more than the change of a guinea, in the same manner as copper is not a legal tender for more than the change of a shilling."

Although this weighty suggestion was published in 1776, it was not noticed by any government until 1816 when Mr. Pole, the master of the British Mint, called the attention of Parliament to it in connection with other monetary reforms. In 1816 a law was passed reducing the weight of British silver coins by 6 per cent and making them legal tender for only 40 shillings in one payment, and providing that silver should be bought by the Government and coined for the Government only. There has been no trouble since that time in keeping silver and gold in concurrent circulation, but the silver in British coins is worth only about half of its face value.

**English Subsidiary Coinage.**

The English experiment seems not to have been noticed by other nations, for the reason probably that silver and not gold was their principal money. When, in 1834–37, the

United States changed its ratio to 1:16 gold was overvalued just as it had been in England in 1717 and with the same consequences. Our silver began to be exported. The minor coins, being of proportional weight with the dollar, were melted and exported, and their place in the circulation was taken by light-weight foreign coins, principally Spanish and Mexican. Two halves, four quarters, or ten dimes, if new and of full weight, were worth about $2\frac{1}{4}$ cents more than a gold dollar. Consequently they would be collected by brokers, melted and exported. But two halves, four quarters, or ten dimes, that had lost $2\frac{1}{4}$ cents' worth of silver by abrasion, would circulate, because there would be no motive to melt or export them. There would be no profit in it. When I was a boy the silver money of this country consisted almost exclusively of foreign coins, more or less worn, chiefly Spanish and Mexican, but with a considerable sprinkling of English, French, German, and Scandinavian pieces. Every merchant kept a coin chart manual for handy reference to determine the value of these pieces as they were offered in trade. I have also seen Spanish quarters cut in half, each piece circulating as a York shilling.

**Silver Coins in the United States prior to 1853.**

When the great outpouring of gold from California and Australia began in 1848 and subsequent years, the price of silver rose so that the dollar of that metal was worth in the market $1.04 in gold. This fresh advance of $1\frac{3}{4}$ per cent in the price of silver carried still more of those coins out of the country, *i.e.*, all that were worth by weight more than 100 cents per dollar in gold. So the remaining ones became lighter and smoother. Finally it became apparent that if full-weight silver coins would not circulate on the ratio of 1:16, while those of light weight would circulate, it would be safe to *make* minor coins (halves, quarters, etc.) designedly of light

**Exportation of Small Coins.**

weight on Government account, of limited legal tender. There would be no profit in exporting such coins, because they would not sell as bullion for as much as it would cost to collect them.

Acting upon this principle, Congress, in 1853, passed a law providing for the coinage of new half dollars, quarters, dimes and half dimes about 7 per cent lighter than the old ones. These were to be coined from silver bought by the Government and not otherwise, and were to be sold to the public at par, *i.e.*, 100 cents gold for each 100 cents of the new coins, although these were worth considerably less, at par. The new coins were legal tender for only five dollars in one payment. There was no longer any motive to export the halves, quarters, etc., since they could not be collected for less than 100 cents per dollar and could not be sold for more. Thus we, in our turn, found out that the system suggested by Adam Smith in 1776 would work. Not only would it work, but it has proved to be the only system that would keep both metals in circulation under all circumstances. It has proved also to be the system that would call into circulation the largest possible amount of both gold and silver at any one time and place.

**The Law of 1853.**

Such is the underlying principle of a subsidiary coinage, of whatever metal or substance it may be composed. Our silver dollar, the French five-franc piece and the German thaler circulate at par on the same principle. They are subsidiary coins of larger size. They are now worth as metal only one-half of their nominal value, but since they are limited in number, and since the governments receive them for all public dues, they are not depreciated. Receiving them for public dues is one way of redeeming them. Our coins, smaller than one dollar, whether of silver, copper, or nickel,

**Principles of Subsidiary Coinage.**

are redeemable by the Government in gold when presented in sums of twenty dollars or more.

If subsidiary silver coins circulate at a value which is largely imaginary the question may be asked, why not make them of some other metal, or even of paper? There are no reasons except custom and convenience. A coin not heavier than a half dollar is more convenient than a piece of paper; it is cleaner, and in the long run is probably cheaper, as it does not require frequent renewal. A cheaper coin might be made out of some other metal, but it is always best to conform to the habits of the people. Having been born and nurtured in a silver subsidiary coinage, no good reason is apparent why we should depart from it.

**Why made of Metal.**

Nobody would have ventured, twenty-five years ago, to predict that all the *Écus* or five-franc pieces of France and the thalers of Germany would continue to circulate at par after their metallic value had fallen one half. Ricardo had indeed laid down the rule that however debased a coinage may become it will pass for the intrinsic value of the bullion which it *ought* to contain, provided the quantity be not excessive. This principle as applied to paper money was known long before Ricardo. We find it in the discussions on our own colonial and continental currency. But the five-franc pieces and the thalers were an unknown, immeasurable quantity. Therefore they did not come under Ricardo's rule. There is every reason to believe that if the great fall of silver had come suddenly in the early seventies there would have been a panic and a great depreciation. Moreover everybody would have apprehended extensive counterfeiting when the face value of those coins became much greater than the metallic value. But since the depreciation took place gradually and imperceptibly there was no panic

**Why the Thalers, the Écus and the Silver Dollars circulate at Par.**

SPECIMENS OF FOREIGN SILVER COINS CIRCULATING IN THE UNITED STATES BEFORE 1860.

**MEXICAN.**




Dollar, $1.00.




½ dollar, 50 cents.




¼ dollar, 25 cents.




Real, 12½ cents.




½ real, 6¼ cents.

**ENGLISH.**
















*From Taylor's Reporter, June 1, 1848.*

## Specimens of Foreign Silver Coins circulating in the United States before 1860.

### GERMAN.




3½ Gulden, $1.32.




Thaler, 66 cents.




66 cents.




Florin, 48 cents.




Gulden, 36 cents.

*From Taylor's Reporter, June 1, 1848.*

SPECIMENS OF FOREIGN SILVER COINS CIRCULATING IN THE UNITED STATES BEFORE 1860.

**SPANISH.**




Dollar, $1.01.



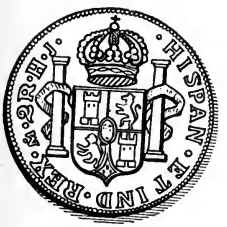

½ dollar, 50 cents.




½ pistareen,
9 cents.




½ real, 6¼ cents.




¼ dollar, 25 cents.




Pistareen, 18 cents.




Real, 12½ cents.

**DANISH.**




Specie Rix Dollar, $1.02.

*From Taylor's Reporter, June 1, 1848.*

## Specimens of Foreign Silver Coins circulating in the United States before 1860.

**FRENCH.**




Five Francs, 93 cents.




93 cents.







**DUTCH.**




Guilder, 36 cents.




2½ Guilders, 90 cents.

*From Taylor's Reporter, June 1, 1848.*

at all. Yet the condition is not a satisfactory one. It would not be chosen voluntarily. There is a certain amount of suppressed agitation on the subject in every country where it exists. In France the name of "metallic assignats" has been given to the five-franc pieces, meaning that they have a resemblance to the paper money of the revolution.

**The Condition not Satisfactory.**

One hundred and seventy-four different varieties of foreign silver coins, besides many gold ones, circulated in the United States prior to 1860, at their bullion value, which were quoted in the coin chart manuals of Taylor, Thompson, Nicholas and others.

By various acts of Congress beginning in 1793 and running till 1827, the following foreign coins, if of full weight, and no others, were made legal tender in the United States, viz., the gold coins of Great Britain, Portugal, France, Spain and the dominions of Spain; silver, Spanish milled dollars, and French crowns, and the fractional parts thereof. In 1834, and running till 1857, the following foreign coins, if of full weight, and no others were made legal tender in the United States, viz., the gold coins of Great Britain, Portugal, Brazil, France, Spain, Mexico and Colombia; silver, dollars (not the smaller coins) of Spain, Mexico, Peru, Chili, Central America, Bolivia, and the five-franc pieces of France.

**Legal Tender of Foreign Coins.**

It was the intention of Congress to give the character of legal tender only to the silver dollars of Spain and the five-franc pieces of France, but the dollars of Spain which circulated here were mostly coined in the Spanish-American provinces, and when these countries achieved their independence, it became necessary to name them in order to avoid ambiguity. This is the reason why so many American countries were named.

## CHAPTER IV.

### LEGAL TENDER.

**Meaning of Legal Tender.**

THE phrase tender, or legal tender, means that in any case of dispute between parties touching the fulfilment of a contract, or the payment of a debt, or the adjustment of damages, the debtor may deposit the thing which is legal tender in Court and receive his discharge. The legal tender thing may be of much or of little value, or of none at all.

The principle of legal tender did not begin as a piece of conscious legislation. As Aristotle says, the government begins, at a time when metal is circulating by weight, to certify the weight and fineness. It stamps small ingots in order to avoid the necessity of frequent weighing. This is coinage. Then people make contracts in terms of the government coinage, and the government enforces the contracts. Under Roman law the creditor was obliged to take in payment whatever the government was coining. This principle appears not to have been questioned before the time of Sulla, although there were serious debasements of the coinage at different times, and especially during Hannibal's invasion. In the Lex Cornelia, a penalty was enacted against those who should refuse the government's coins. Under Diocletian there was a change of system. Gold was then made to pass by weight. In the later Empire, however, the legal tender quality seems to have been restored to governmental coins.

**Roman Law of Tender.**

**Colonial Tender Laws.**

We have seen how capricious were the tender laws of the colonial period. Virginia, for example, varied her practice in the following manner:

**1633.** Gold and silver the only legal tender.

**1642.** Tobacco the only legal tender.

**1655.** Tobacco, silver and wheat equally legal tender at fixed rates.

**1666.** Peas, Indian corn, barley, oats and wound silk added to the preceding articles as legal tender at fixed rates.

**1727.** Tobacco notes legal tender for tobacco debts within the warehouse district, but not elsewhere.

**1730.** Tobacco notes the *sole* legal tender for tobacco debts in the warehouse district.

**1755.** Silver legal tender for tobacco debts at a fixed rate.

Maryland likewise had several varieties of legal tender including this:

**1753.** Inspected tobacco legal tender for debts at one-fourth higher rates than uninspected.

The following varieties of legal tender exist at the present time under the laws of the United States:

**Present Varieties of Legal Tender.**

1. Gold coins, legal tender without any express limit.

2. Silver dollars, and Treasury notes issued under the act of 1890, legal tender "except where otherwise expressly stipulated in the contract."

3. United States notes (greenbacks), legal tender except for interest on the public debt and for duties on imports. Since the resumption of specie payments (1879) these notes have been made receivable for duties by Treasury order, to avoid the trouble of carrying gold to and from the custom house.

4. National Bank notes, legal tender in payment of any debt or liability to any National Bank; also receivable for all Government dues except duties on imports, and tenderable for all Government debts except interest on bonds.

5. Silver coins smaller than one dollar, legal tender to the amount of ten dollars in one payment. Coins of nickel and copper, legal tender to the amount of twenty-five cents in one payment.

If a law of tender is made applicable to debts contracted or to bargains made before its enactment, and it alters the terms thereof, it is unjust.

**Injustice in Changes of Legal Tender.**

It is sometimes said that a change in the law of tender exhausts itself on past debts; that while people cannot avoid accepting the new legal tender thing for preëxisting dues, yet that they straightway adjust their business and bargains to the new law, and thus escape further harm. This is true only of a very small part of the community. The masses either do not understand the subject sufficiently, or are so enmeshed in the social fabric that they cannot extricate themselves. For example, no individual workman can raise his wages by his own volition merely because his cost of living has increased.

**First Legal Tender under the Constitution.**

Gold and silver were made full legal tender in the United States at the ratio of 1:15, on the recommendation of Hamilton, in 1792. The Spanish dollar had been declared the monetary unit of the United States by the Congress of the Confederation. The dollars in actual circulation were of two different coinages, varying slightly in weight and fineness, and also in the amount of loss by abrasion. Their average weight was ascertained by Hamilton to be 371 grains of pure silver. The commercial equivalent of this dollar in gold was $24\frac{75}{100}$ grains of pure metal. This fact, and a survey of the market ratios of Europe, led him to consider the ratio of 1:15 the proper one to adopt. Fifteen times $24\frac{75}{100}$ is $371\frac{25}{100}$, which thus became the number of grains of pure metal in the silver dollar.

It turned out that our new dollars were 2½ grains lighter than new Spanish dollars. A somewhat whimsical result followed. As our dollar was received in trade in the West Indies as the equal of the Spanish, it became profitable to send American dollars there and to bring back Spanish dollars to be re-coined at our mint. There was a profit of about one per cent in the operation. So it came about that, although our mint was coining dollars as fast as possible, few or none were to be found in circulation. We were working for bullion brokers without pay. To put an end to this useless expense, President Jefferson, in 1805, gave an order to the mint to stop coining dollars, and no more were coined till 1836.[1] There was no law authorizing the President to give such an order, but on the other hand there was nothing in the law requiring the mint to deliver dollars to the depositors of silver bullion. A delivery of half-dollars, quarters, and dimes, these being of proportional weight with the dollars, was equally a compliance with the law. It seems to have been Jefferson's idea that by stopping the coinage of dollars a check would be put to this traffic, it being more troublesome to handle two half-dollars than a whole one. If this was his conception, he was mistaken. The half-dollars ran away as briskly as the dollars had formerly done. Our circulation continued to be filled with abraded Spanish silver coins.

**A Whimsical Result.**

The first change in our legal tender act was made in 1834 and 1837 when the standard weight of the gold dollar was fixed at $25\frac{8}{10}$ grains and the standard fineness nine-tenths. Under this law the fine gold in the dollar was $23\frac{22}{100}$ grains. The standard weight of the silver dollar was fixed at 412½ grains, but the amount of fine silver in it remained unchanged. The new

**The Change in 1834-37.**

[1] Laughlin's Bimetallism, page 53.

ratio was approximately as 1:16. We were then practically on the silver basis and had been so for a long time, the premium on gold in the market being 4½ per cent. Anybody having $100 gold could buy $104.50 silver to pay his debts with. Neither the statute law nor the moral law offered any objection to this, because it was a part of every bargain. The government never promised to hold the market ratio of the metals steady at 1:15. This had come in the course of time to be 1:15.625. Under the new law anybody having $100 silver could buy $102.25 gold to pay his debts with. In other words the standard was debased 2¼ per cent. The law of 1834 ought to have provided that preëxisting contracts should be settled on the preëxisting basis.

**The Law of Tender adds Nothing to the Value of Gold.**

The law of tender adds nothing to the value of gold. The early gold coins of California were not legal tender, yet those which were of equal weight and fineness with government coins were of equal value. The thalers of the Count of Schlick were not legal tender anywhere, yet they circulated all over Europe and were more freely received than Government coins, because they were more uniform in quality. The Spanish dollar was not legal tender for eight shillings in the colony of New York, yet it was always good in trade at that rate.

**Proof of this in the History of France.**

Perhaps the most decisive test of the proposition we are considering is furnished by the experience of France, while John Law had control of her finances. On the 11th of March, 1720, in order to sustain the value of paper money, an edict of the government was promulgated that after the first of May gold should no longer be used in the payment of debts, nor silver after the first of August, and that no more of either metal should be coined. "Thus," says a recent history,[1]

[1] France under the Regency, by James Breck Perkins, p. 491.

"France for a short time enjoyed the distinction of being the one civilized country where a man could not pay his debts with gold or silver, a state of affairs which had no parallel since mankind passed from the era of barter and chose the precious metals as the medium of exchange." This edict was enforced by all the power of a despotic government, but the value of the metals was not lessened in the slightest degree, while that of the paper money went downward faster than before. The decree was in operation only one month. Other decrees of like nature were enacted and proved equally futile. In the course of fifteen months the value of gold was changed twenty-eight times and that of silver thirty-five times; that is, the government decreed these changes and sought to enforce them, but succeeded only in cheating individuals.

**Value of Precious Metals not lessened by Demonetization.**

The Mint at Philadelphia has upwards of sixty varieties of private gold coins which circulated in the United States at one time and another. They were manufactured in North Carolina, Georgia, Oregon, California, Utah, and Colorado, and were not legal tender. Examples of these private coins are shown in the frontispiece, viz.:

1. Coined by Templeton Reid of Georgia. Value about $5.00. Mr. Reid afterward removed his coining apparatus to California.
2. Bechtler Mint at Rutherfordton, N. C. Value about $4.90.
3. Letters over the figure of a beaver are the initials of the persons composing the Oregon Exchange Co. Value about $4.84.
4. Letters J. S. O. mean J. S. Ormsby, the coiner of these pieces. Value $9.37.
5. Mormon Coin. Letters above the clasped hands mean Great Salt Lake City Pure Gold. Value $4.36.
6. Pike's Peak (Colorado) Coin. Value not known.
7. Ingot of Moffat & Co., San Francisco. Value $16.00.

# BOOK II.

## *THE GOLD STANDARD.*

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### CHAPTER I.

### EXPERIENCE OF ENGLAND AND THE UNITED STATES.

THE single gold standard is the most important fact in financial science and the one over which the hottest controversy now rages.

In the 17th and 18th centuries most, if not all, civilized countries employed both gold and silver as money of full legal tender, intending to use them simultaneously but really using them alternately. The use of two metals requires, as has been already said, a legal ratio between them, giving debtors the option of paying, for example, either 1 ounce of coined gold or 15½ ounces of coined silver, for an equal sum, the mints being open at all times to the coinage of either metal in unlimited amounts for private persons. Concurrent circulation of the two metals can continue only so long as the market ratio coincides with the legal ratio. When 1 ounce of gold, as in the example cited, comes to be worth a little more than 15½ ounces of silver, gold will be withdrawn from circulation, sold for silver, and the premium pocketed. If the market ratio turns the other way silver will be withdrawn and gold will be retained. The monetary history of nations consists mainly of these changes and of the recoinages to which they led.

**Condition during the 17th and 18th Centuries.**

Prior to the year 1871 the only countries that had the single gold standard were Great Britain and her colonies, Portugal, Turkey, Brazil and the Argentine Republic. Those which had the single silver standard were Germany, Holland, the Scandinavian countries, Austria, Russia, Egypt, Mexico, Japan, India, China, Central America, Bolivia, Ecuador and Peru. All the countries not named in either of these lists had the bimetallic system, or double standard. Nearly all have changed to the single gold standard, having been moved thereto by experience.

**Condition in 1870.**

The first nation to do so was England. This step was really taken in 1798, although the date usually assigned to it is 1816.

The pound sterling was originally a pound weight of silver, divided into twenty parts called shillings, and each of these into twelve parts called pennies, or pennyweights. Gold made its first appearance in the coinage of England in the reign of Edward III. (A.D. 1345). The ratio of gold to silver fixed by royal decree in this coinage was about 12½ to 1.

**The Experience of England.**

From this period to the forty-third year of the reign of Elizabeth there were nine debasements of the silver coinage accompanied by changes in the gold coinage, but as these were arbitrary acts of the reigning sovereigns they possess no scientific interest. In the forty-third of Elizabeth (1601) the last debasement was made. The pound weight of silver was then coined into sixty-two shillings, and the pound of gold into thirty-three and one-half sovereigns of seven pennyweights and four grains each, the ratio of gold to silver being 11 to 1. The silver coinage being henceforth unchanged, it becomes possible to trace the commercial variations of the two metals and to observe the ineffec-

**Arbitrary Debasements of the Coinage in Early Times.**

tual struggles of society and government to keep both of them in use as legal-tender money.

Queen Elizabeth died two years later. Before her successor, James I., had been on the throne three years, gold had risen in value as compared with silver, and the gold coins were exported to such an extent that it was necessary to diminish their weight about 11 per cent. The ratio now established was a little more than 12 to 1.

In the ninth year of the same reign the gold coin began to be exported again, so that it was necessary to make a new change of ratio. This time the ratio was fixed at 13 to 1. But this was too great an advance in the rating of gold. An exportation of silver set in, which caused great inconvenience in the kingdom. Instead of readjusting the ratio, the king, in the year 1614, issued a proclamation prohibiting the exportation of the precious metals. The proclamation had no effect. So another one was issued in 1618, reaffirming the first one and forbidding the melting of coin for the purpose of making plate, although a certain amount might be used for repairing old plate and keeping it up to its original standard. As the evil continued, a third proclamation was issued in 1622, and a fourth in 1624. None of these had any effect except to make a record of the futility of attempts to enforce a legal ratio which is different even in a slight degree from the market ratio. It was customary during this period to pay a premium of two pence for silver change to the amount of twenty shillings.

**Commercial Variations of Metals under James I.**

**Proclamations Against Exporters.**

Soon after Charles I. began his reign, he issued a proclamation on the same subject, reciting the previous ones of his father and acknowledging that they had been disregarded. In 1636 seven persons accused of melting and exporting coin were arrested and fined £8,500, and im-

prisoned till the fines were paid, but even this example did not put a stop to the practice. Silver was worth two or three pence per ounce more than the mint valuation, and this fact dominated the whole nation. But what could not be prevented by royal proclamation and star chamber was stopped by an unseen force. The price of gold was slowly rising, so that about the beginning of the Commonwealth, the ratio that King James had established was identical, or nearly so, with the market ratio. The exportation of the precious metals ceased until the reign of Charles II.

**Proclamations and Punishments Ineffectual.**

In 1663 gold had risen in value so that it was necessary to change the ratio to 14½ to 1. This was an advance of about 8 per cent since James I.

Each time that a change was made in the gold coinage a new name was given to the coin so produced, in order to distinguish it from its predecessors. The coin that Charles II. now introduced was called the guinea. It was ordered that this coin should pass for twenty shillings, but it immediately became current in trade at a higher rate, passing for twenty-one to twenty-two shillings. No attempt was made to enforce the mint valuation or to prevent melting or exporting. Consequently silver became in practice the only legal-tender money. Nobody would offer a guinea to pay a debt of twenty shillings when it was worth twenty-one shillings. The guineas passed for what they were worth as bullion. That was a time when the clipping of coin was much practiced, but it was no advantage to clip a gold coin, since it was taken only at its bullion value. The silver coins, however, passed by tale. Consequently they were subjected to the clipping process. The evil became so great that a re-coinage of silver was necessary, and was undertaken in the reign of William III. This was a cele-

**First Appearance of the Guinea.**

brated event in many ways. Both Sir Isaac Newton and John Locke were concerned in it. In the year 1717 the guinea was made current by royal proclamation at twenty-one shillings in silver, at which figure the ratio was about $15\frac{1}{7}$ to 1. This was in the third year of the reign of George I.

**The Re-coinage of 1696.**

"It was about this time," says Lord Liverpool, "that a marked preference was shown by the people for gold money rather than silver, on account of its convenience in making large payments." This he ascribes to the increase in the commerce of the country. As gold was slightly overrated at the ratio of $15\frac{1}{7}$ to 1, there was a tendency to export silver. Only £584,000 of the latter metal was brought to the mint for a period of eighty-three years down to the end of the century, and most of this came from Spanish treasure ships captured in war. The only silver coin retained in circulation was that which had been much worn. As these light-weight pieces varied among themselves, the lightest ones were selected to make payments, a condition which became worse and worse until Parliament, in 1774, passed an act limiting the legal tender of silver coins to £25 in tale. For any sum above £25 they could be paid by weight only. This act was to continue in force only two years, the expectation being that some other remedy for the evil would shortly be found. It was reënacted from time to time till 1798, when another clause was added, providing that no more silver should be coined at the mint, nor should any be delivered that had been coined, but that the owners of such silver should be paid for it. In the following year (1799) a brief act was passed making the act of 1774 perpetual. In 1816 the character of the British monetary

**Renewed Exportation of Silver.**

**Only Light Silvar Pieces remain.**

**Silver first Demonetized for this Reason.**

system was formulated by an act of Parliament on its present basis, the essential part of this act being in the following words:

"XI. And whereas at various times heretofore the coins of this realm of gold and silver have been equally a legal tender for payments to any amount, *and great inconvenience has arisen from both those precious metals being concurrently the standard measure of value and equivalent for property;* and it is expedient that the gold coin made according to the indentures of the mint should henceforth be the sole standard measure of value and legal tender for payment, without any limitation of amount, and that the silver coin should be a legal tender to a limited amount only, for the facility of exchange and commerce:

**Gold Standard made Permanent in 1816.**

"Be it therefore enacted, That from and after the passing of this act, the gold coin of this realm shall be and shall be considered and is hereby declared to be the only legal tender for payments, except as hereinafter provided, . . . and no tender of payment of money made in the silver coin of this realm of any sum exceeding the sum of forty shillings at any one time, shall be reputed a tender in law, etc."

This is a brief résumé of the experience and legislation of Great Britain. It is important as showing that the single gold standard was adopted on account of the "great inconvenience" of the double standard, which had been in vogue previously. Of course, this "inconvenience" had attracted the attention of learned men before 1798. John Locke had shown that a double standard composed of two things of varying value was an impossibility. He favored the single standard of silver, as did the learned men who considered the same question in France a century later.

**John Locke against the Double Standard.**

It appears that the gold standard was adopted without

any particular design on the part of those who brought it about. They found, as a matter of fact, that the monetary evils existing in 1774 could be cured most readily by limiting the legal tender of silver. So they did it for two years, and then for two years more, and so on, till 1798–99, when they had become satisfied by the experience of twenty-five years that the single gold standard was the right thing to put an end to the "inconvenience." Seventeen years later, the experiment having continued to be successful, they passed the law which I have quoted. That law, in substance, remains in force to the present time, and we may be sure that it would not have lasted so long if it were not a good thing *per se*.

**The Change made to promote the Public Convenience.**

The United States adopted the double standard of gold and silver in 1792. In this matter our statesmen followed the example of the older countries of Europe. At Hamilton's instance, the ratio of 15 was adopted, and there is no room to doubt that this was very close to the true market ratio at the time. Nevertheless, gold began to grow scarce in our circulation as early as 1810, and had wholly disappeared in 1817. One ounce of gold had come to be worth as metal something more than fifteen ounces of silver. It was worth while for bullion brokers to collect gold coins and export them.

**Experience of the United States.**

Mr. Raguet wrote to the *National Gazette* in 1820 to explain the reason for "the disappearance of gold from the United States." Two years later he wrote again on the same subject, saying "that although the coinage of gold continued to be large ($1,319,030 in 1820), not a gold coin was anywhere to be seen in circulation." The facilities of the mint were simply used by merchants to certify the

**Early Disappearance of Gold.**

weight and fineness of gold for exportation. There were stirrings in Congress on the subject of a change of ratio as early as 1818. Various projects were brought forward. Scarcely a session passed without some movement in one House or the other. In 1834 the Gold Bill, as it was termed, was reported by a special committee of the House, of which Mr. Campbell P. White, of New York, was chairman. The debates and the newspaper discussions show that there were three considerable forces at work to promote the passage of the Gold Bill. One was the desire to have gold again in circulation. This desire found apt expression in the words of Thomas H. Benton, who declared that the object of his endeavors was :

**Movements in Congress to recover it.**

"To enable the friends of gold to go to work at the right place to effect the recovery of that precious metal which their fathers once possessed, which the subjects of the European kings now possess, which the citizens of the young republics to the south all possess, which even the free negroes of San Domingo possess, but which the yeomanry of this America have been deprived of for more than twenty years, and will be deprived of forever unless they discover the cause of the evil and apply the remedy to its root."

**Thomas H. Benton's Views.**

The production of gold in the Southern States had risen from $5,000 in 1824 to $868,000 in 1833, and the belief was generally entertained that if the mint valuation of gold were raised, it would give the producers of that metal a pecuniary advantage. In other words, it would serve as a measure of "protection" to that industry. This was an entire mistake, but it had a considerable influence in promoting the passage of the Gold Bill.

**Motives leading to the Change of Ratio in 1834.**

**Southern Gold Mines.**

The third impelling force was the bank controversy then raging. This was largely a party question, the supporters of President Jackson being generally supporters of the Gold Bill. The silver standard, it was contended, promoted the circulation of bank notes because silver was bulky and heavy. The gold standard, on the other hand, would curtail bank-note circulation because gold was easily handled. Hence the opponents of banks, and especially of the Bank of the United States, were in favor of the Gold Bill.

**The Bank Controversy.**

The Bill, as reported to the House by Mr. White, provided for a ratio of 1 : 15.60, but when it came up for discussion, Mr. White moved an amendment making the ratio 1 : 16; and this amendment was adopted without a division. Then another amendment was offered making the ratio 1 : 15.625, and it was supported on the ground that it was the true market ratio, and that it would keep gold and silver in concurrent circulation. The adoption of the ratio of 1 : 16, it was contended, would drive silver out of circulation. Nevertheless, the amendment was voted down — yeas, 52 ; nays, 127. The Bill was then passed in the House by 145 to 36, and in the Senate by 35 to 7.

**Law of 1834.**

It was perceived on both sides that the passage of the bill would make the United States a gold-standard country in practice. Why, then, was the double standard retained in theory? One reason was that a great many contracts were in existence, such as ground leases and bonds and mortgages, expressly calling for payment in silver. Another was that the smaller coins (halves, quarters, and dimes) were of proportional weight with the dollar. These, it was thought, could not be dispensed with, the principles of a subsidiary coinage being then imperfectly understood.

**Double Standard retained in Theory, but discarded in Practice.**

So the double standard was retained in law although discarded in practice.

Under these circumstances, the gold standard existing *de facto*, and there being no silver except light-weight subsidiary coins, our mint authorities, the only people who took any interest in the subject, began even before the war to recommend that the single gold standard should be adopted in law as it had been adopted in fact. Ex-Governor Pollock, Director of the Mint, in his report for 1861, called attention to the incongruity of a silver dollar that was worth 2.98 cents more than the gold dollar, and 8 cents more than two half-dollars. He recommended that it should either be dropped from the list of coins or reduced in weight so as to correspond with the subsidiary coins. He considered that gold was *de facto* the standard of value, and he recommended that the law should conform to the fact. But the nation had more exciting topics to discuss in 1861 than those relating to coinage. In 1866, after the war, Mr. John J. Knox, who then had charge of the Mint and coinage matters in the Treasury Department, recommended a revision of all the laws relating to the Mint. Secretary Boutwell approved of the suggestion. Mr. Knox and Dr. Linderman were appointed in 1869 a committee to make such revision. They presented their report with a draft of a bill in 1870. The report recommended the discontinuance of the silver dollar, this coin being obsolete.

**Mr. Pollock's Recommendation.**

**Law of 1873.**

**Report of Knox and Linderman.**

The bill and report were transmitted to the Finance Committee of the Senate on the 25th of April, 1870. The bill passed the Senate on the 10th of January, 1871. It made the gold dollar a unit of value and it dropped the silver dollar from the list of coins. The bill failed in the House for want of time. The forty-first Congress having expired

without final action, it came up again in the Forty-second. It passed the House May 27th, 1872, by yeas 110, nays 13. It passed the Senate January 17, 1873, without a dissenting vote. The metal in the silver dollar at that time was worth two cents more than the gold dollar. No objection to the bill was heard until the price of silver had fallen so that the silver dollar, if there had been any, would have been worth less than the gold dollar. Then it became fashionable to say that the bill was passed surreptitiously. The truth is, that the bill was before Congress two years and ten months, that it was printed thirteen times by order of Congress, that the debates on it occupy sixty-six columns in the Senate proceedings and seventy-eight columns in the House proceedings, and that the discontinuance of the silver dollar was specially discussed in the House. The reason why the discontinuance of the silver dollar attracted so little notice was that this coin had been discontinued *de facto* in 1834, when the ratio of 16 to 1 was adopted.[1]

**The False Charge that it was passed surreptitiously.**

Let us imagine for a moment that silver had not fallen in price after 1873. Would anybody ever have missed the silver dollar? Would anybody have doubted that the gold standard was brought about in this country by natural causes operating upon men's minds in the same way as it was in England, the action of Congress in 1873 merely giving the form of law to what had been done practically at an earlier period?

**Congress merely gave the Form of Law to an Existing Fact.**

As the act of 1873 has not been repealed or modified it follows that the United States are on the single gold standard.

[1] The so-called "crime of 1873" will be considered at length in a subsequent chapter.

## CHAPTER II.

### EXPERIENCE OF GERMANY AND FRANCE.

In the year 1857 the states composing the German Zoll-Verein and the Empire of Austria entered into a monetary treaty by which they adopted the single silver standard. In the preliminary conferences, Austria had desired to adopt the gold standard, but her wishes had been defeated in a whimsical manner which is thus described by Professor Lotz of the University of Munich :

**Germany adopted the Silver Standard in 1857.**

"Some German states, jealous of their sovereignty, of which they believed their mint policy to be the most intimate part, strongly opposed the adoption of the gold standard. Their chief argument can only be regarded now as very unimportant. They maintained that the consequence of the adoption of the gold standard would have been a recoinage of the silver currency into subsidiary coin. Now it would have been necessary, for technical reasons, to concentrate such coinage in one or two great mints. But this concentration, at that time, appeared impossible to the smaller states without seriously threatening their sovereignty." [1]

**Whimsical Reason for doing so.**

Thus from 1857 to 1871 Germany had the single silver standard, but as she could not transact business with silver alone, she used for her international and wholesale trade a heterogeneous assortment of gold coins, partly domestic and partly foreign, including napoleons, pistoles, guineas, eagles, Russian imperials, Friedrichs d'or, ducats, crowns, etc., passing as

**Her Heterogeneous Metallic Money.**

[1] "The Monetary Situation in Germany," in the Annals of the American Academy of Political and Social Science, Phila., July, 1893.

commercial money. The question of a reform of the currency had been under discussion by the economists and publicists of Germany for nearly ten years, but until 1868 the question under debate was a question of *uniformity* of money rather than of the metallic standard. "The chief problem," says Professor Lotz, "was to unify the seven different monetary systems which existed till 1873. Compared with this, the question how to get rid in some way of the inconveniences of the then prevailing silver standard, was only of secondary importance."

**And Paper Money.**

In addition to this great variety of coinage, due for the most part to the spirit of particularism, there were state notes and bank notes in circulation to the amount of 700,000,000 marks, of varying degrees of goodness and different rates of discount. The losses caused by the discount on the paper money in circulation and the bother of the heterogeneous silver money, made the monetary situation insupportable.

**Agitation for the Gold Standard.**

Dr. Soetbeer had published two articles in 1863 and 1864 on the gold standard, but it was not until after the Paris Monetary Conference of 1867 that the commercial classes began to take an active interest in the question. After this event a great many publications appeared in Germany showing an unmistakable tendency in the public mind to the gold standard. The most important of these is the report which Dr. Soetbeer made at the Ninth Congress of German Economists in the year 1868. This Congress met in Hamburg and pronounced in favor of the unification of German money, and of the gold standard. Its action was ratified soon afterward by the Handelstag, the united commercial bodies of the North German Confederation, and would have been carried into effect at once but for the war with France. This event postponed the reform one year.

On the 5th of November, 1871, the Finance Minister of the new German Empire, Herr Delbrück, presented to the Imperial Diet a brief report of the "motives" which had led the government to propose a measure for the unification of the German coinage. This measure provided for the coinage of gold pieces of ten and twenty marks, and it discontinued the coinage of silver on private account, but did not demonetize the thalers, or three-mark pieces, that were in circulation. The report says, first of all, that it may be considered as beyond doubt that the existing silver standard cannot be maintained. The only gold coins authorized by existing law were German crowns and half-crowns, but these had no fixed relation to the standard silver coins of the nation nor to those of any other country. Consequently they were not accepted in the domestic circulation. They had never been an integral part of it, nor had they acquired any standing in international commerce, being melted down as soon as they reached the frontier. Consequently the internal commerce of Germany was confined to the use of bulky and inconvenient silver coins. "The inconvenience of silver coins," says the report, "led of necessity to a very considerable circulation of paper, which, in ordinary times, is taken as a welcome facility, but in critical times contains the germs of serious dangers. The artificial demand for paper created by the exclusive circulation of silver made it almost impossible to adopt any radical and rational regulation of the banking system through laws common to all Germany."

**Monetary Law of 1871.**

For these reasons — namely, that silver was bulky and inconvenient, and that it brought about a forced circulation of paper and prevented any wise regulation of bank issues — the single gold standard was recommended, with a silver subsidiary coinage. The measure was supported by very strong speeches by Minister

**Reasons for it.**

Delbrück and by Dr. Bamberger, and it passed on the 23d of November.

This measure was provisional only. The ratio of 15½ to 1 between the old silver and the new gold coins was adopted. In 1873 another measure was brought forward, for withdrawing the old silver coins from circulation altogether. It was carried into effect as to all except the thalers. These continue still in circulation, like our silver dollars and the French five-franc pieces, although their metallic value has fallen one-half since 1873.[1] The government is empowered to withdraw them at any time, but has not seen fit to do so. There has been a good deal of adverse criticism in Germany on account of this delay, but it is based upon political rather than economic grounds. As long as peace continues the thalers will circulate freely and without depreciation, but in the event of war they might, it is contended, give rise to trouble; that is, the public, knowing that they are worth intrinsically only one-half of what they purport to be, might suddenly demand their redemption. In such a case they would not be redeemed because the government and the Reichsbank would have other and more imperative calls for their gold. How much trouble would result from this, is matter of conjecture only — not much, I think. France is exposed to the same trouble. All that can be said is that

**The Silver Thalers remain.**

[1] One curious consequence of the Austro-German treaty of 1857 is mentioned by Professor Lotz. The treaty provided that Austrian thalers coined between 1857 and 1867 should circulate as legal tender money in Germany. About seventy millions of the four hundred and forty million marks in thaler pieces circulating in Germany were of this Austrian coinage, and it became a matter of serious controversy which country should bear the loss resulting therefrom. In 1892 the question was settled, Austria agreeing to take back one-third of her thalers, and Germany to take care of the rest. The loss to Germany from the Austrian thalers is estimated at nineteen to twenty million marks.

the monetary affairs of both countries are in a state of inconsistency, but not necessarily in a state of danger. Both are on the "limping standard." This phrase, *étalon boiteux*, was brought into use in the Monetary Conference of 1881 to define countries which have the single gold standard, but also have a considerable amount of legal tender silver, which the banks must receive on deposit and with which they may, if they choose, redeem their notes. This kind of money is aptly called by Professor Taussig "large change." It is well to remark here that at the Brussels Monetary Conference of 1892, the delegates of Germany denied that the Reichsbank had ever paid silver to anybody who had claims upon it and who desired gold, or that it had ever made difficulties about paying gold. A similar denial was made by Dr. Bamberger, who is an authority of the first rank, and he added that if the bank should refuse gold, the government would immediately put it in liquidation.[1]

**But are not necessarily Dangerous.**

**The Reichsbank never refuses to pay Gold.**

There is another consideration which Professor Lotz considers a controlling one for Germany. "The military interest," he says, "is the predominating one in our policy. What then are the demands of the military interest? Each of the great nations which are preparing for the next war, France, Germany, Russia, are anxiously collecting a great fund of gold coin in the vaults of their central banks. In the next war both Germany and France may be forced to borrow enormous sums of gold coin from their central banks and to suspend the specie payment of bank notes during the time of war; then it will be of the greatest importance to have an established standard of value which is everywhere accepted without artificial international measures. The

**Military Reasons for the Gold Standard.**

[1] Stichworte der Silberleute, Berlin, 1893.

next war will cost enormous quantities of blood and enormous quantities of money. But the war money will certainly be gold. Since gold is the war standard, Germany, and France too, will prepare their standards in view of the coming crisis, as they are preparing guns, powder and soldiers. This is not a political argument of high ethical value, but it is a forcible one for our present policy."

Why should war-money be gold, rather than silver? Because everybody who has anything to sell is willing to take gold in exchange for it, while few are willing to take silver except in small sums. Governments accordingly choose gold for the same reason that they choose breech-loading rifles, machine guns and smokeless powder, instead of the old contrivances of the last century. They are concerned only with the efficiency of the instrument. Is it supposed that a bimetallic treaty would outlast a war? Would the parties to it take each other's silver at the ratio of 16 to 1 or at any ratio different in the smallest degree from the market?

It is said by some that Germany, by demonetizing silver in 1871 and by selling it in 1873 and later, drove France and the Latin Union into a suspension of silver coinage, and caused the great decline in the price of that metal. If this were true it might possess an academic, but not a practical interest. But such a charge cannot be sustained. Germany had completed her new monetary system and stopped selling silver in 1879. Her total sales were 3,363,500 kilograms, being much less than the present yearly production, whereas silver continued to decline all the same. The decline has been more rapid since Germany stopped selling than it was before. From 1871 to 1879 the aggregate decline was 9*d.* per ounce; from 1879 to 1894 it has been 22½*d.*

**The Selling of Silver by Germany.**

Germany was driven to the gold standard, just as Great Britain and the United States had been previously, by the *inconveniences* of silver money. These inconveniences manifested themselves with some variations of detail in different countries, but all grew out of the ponderousness of silver, an evil which increased with the growth of commerce.

In France the livre was originally a pound weight of silver. It was debased by royal authority from time to time, as in England, but much more rapidly. M. Béranger, in his report on the French monetary system in 1802, says that the ratio of gold to silver was changed twenty-six times between 1602 and 1773, and that the livre at the time when he wrote had been reduced to the seventy-sixth part of its original weight. The livre is now called the franc. It is impossible to trace any scientific connection between these recoinages and the metal ratios except that the divergences between the legal and market ratios, whenever they were discovered, were seized upon by the Government as an excuse for further debasement. They "fell back alternately from gold to silver and from silver to gold," says Béranger, making a profit to the royal treasury each time. M. Calonne, Comptroller-General under Louis XVI., has given us a list of the principal recoinages prior to his time, of which there were four in the reign of Louis XIV. and five in that of Louis XV.

**France before the Revolution.**

It would be a waste of time to recount them. The ratio existing when Louis XVI. came to the throne was $14\frac{5}{8}$ to 1. It had been adopted in 1726. The legal ratio in England at that time, as we have seen, was $15\frac{1}{7}$. Both ratios were, or gradually became, divergent from the market ratio. Silver was exported from England and gold was exported from France. A recoinage in the latter country became necessary, and this was undertaken and executed by Calonne in good faith in the year 1785. Calonne chose the ratio of

15½. This ratio was in force when the celebrated law of 1803 was passed, under the Consulate. It was not exactly conformable to the market ratio at the time. It rated gold too highly, but Calonne said that he had observed that gold had an advancing tendency, and he believed that if 15½ was not the true ratio then, it would become so before long. In this he was right, for when the law of 1803 was passed, there was no observable tendency to export either metal, and the Hamburg market ratio, as tabulated by Soetbeer, was very close to 15½.

**Ratio of 15½ adopted in 1785.**

I have in another place made a study of the documents and debates which preceded and led up to the French Monetary Law of 1803. The substance is that these learned and patriotic men, without exception, considered a double standard impossible and any attempt to establish it disastrous. They accordingly determined to establish, and thought that they had established, the single silver standard by a law, the first paragraph of which reads as follows :

**The Law of 1803.**

> General provision.—Five grams of silver, nine-tenths fine, constitute the monetary unit which retains the name of franc.

But they were confronted by the fact that gold was an indispensable part of the monetary system. How to retain it in the circulation as a subordinate metal while making silver the sole standard was the great puzzle of the day. No less than eight important papers were drawn up from time to time on this question, and no decision was ever reached except to allow gold to be coined at the French mint at the ratio of 15½ to 1, with the understanding that if the market ratio should change, the gold, but not the silver, should be recoined.

**Great Puzzle of the Day.**

Almost immediately after its enactment France plunged into wars which lasted till 1815. Of course, the nation had very little time to think about her coinage laws. Gradually the price of gold rose above the legal ratio, and that metal was exported to such an extent that Chevalier tells us that "twenty-five years after that date [1803] the circulation consisted of silver only." Abundant proofs can be adduced showing that bimetallism did not exist in practice in France between 1820 and 1847. Mr. Robert Giffen has published a table showing the premium on gold in Paris during every month of that period. This premium was at times as high as two per cent. The contention of the bimetallists that the French law of 1803 kept the ratio steady at 15½ till 1873 is contradicted by facts.[1]

**Exportation of Gold after 1815.**

[1] The following citations are conclusive on this point:

"A change of 1½ per cent in favor of gold had sufficed, thirty or forty years ago, to cause that metal *to disappear wholly from commercial payments*."—Chevalier, *Baisse probable de l'or*, p. 215, written in 1859.

"Under the régime of the Law of the 7th Germinal, year XI (1803), gold has ceased to figure in transactions of any magnitude, since it acquired an appreciable premium. People took their gold to the money-changer, in order to pocket the premium and *made payments exclusively in silver as everybody knows*."—Ibid., p. 220.

"In those times when one was paid even so small a sum as 1000 francs, he received his bulky and heavy money in a canvas bag and had to hire a porter or a cab to carry it home."—Prof. Francis Bowen in report of U. S. Monetary Commission of 1876, p. 146.

"In France all large payments, which, as is well known, *were formerly made in sacks of five-franc pieces*, have been of late years effected in gold, and almost all the old five-franc pieces have been successively exported or melted down."—Report of M. Achille Fould, Minister of Finance to the Emperor Napoleon III., on the monetary treaty of 1865.

"Before 1848 silver was the usual money; daily payments were made in five-franc pieces. Gold, proportionally rare, had at this epoch

From 1850 to 1860 there was an enormous increase in the production of gold in Russia, California and Australia, and scarcely any increase in that of silver. The market ratio declined to 15.46 in the year 1851, so, of course, gold could again circulate in France. The ratio continued to decline till 1859, when it reached its lowest point, viz., 15.19. It remained below 15½ till 1867. During this interval of sixteen years France imported $600,000,000 of gold and exported about half that amount of silver. Her circulation became saturated with the yellow metal, to the great delight of her people, who had become tired of carrying sacks of five-franc pieces to and fro in cabs and handcarts.

**Exportation of Silver after 1850.**

The exportation of silver from France was so extensive at this time that the country was almost denuded of small money. It became necessary to coin gold pieces as small as five francs. In 1857 the scarcity of silver became so great that the Government appointed a commission to investigate the subject. This commission was bent upon maintaining the silver standard. So, instead of following the example of the United States and making silver coins of light weight and of limited legal tender, it recommended that an export duty be put on silver, that bullion brokers be prosecuted, and that assorting and trading in coins be prohibited by law. In other words, this sapient commission went back for inspiration to the times of Louis XIV. and of James I.

**The Lack of Small Change.**

*almost gone out of the French monetary circulation*, in which it was estimated that not more than one hundred million francs remained." —Block's *Dictionnaire de la Politique*, vol. ii, p. 338.

"This is evident from the well known fact that the currency of France, *which is of silver*, is not more liable to fluctuate than that of Great Britain which is of gold."—Raguet, *Banking and Currency*, p. 194, written in 1839

and Charles I. of England. Some attempts were actually made to carry out these senseless recommendations, but they were soon abandoned. It was about this time that Chevalier, the French economist, who was a stout champion of the silver standard, proposed to solve the difficulty by providing that French gold coins should have a fixed weight, but a variable value, and that the value should be announced by legislative decree at certain short intervals. M. Levasseur, another economist of renown, but with a keener vision, expressed the opinion that gold had made itself the standard in spite of the law, and he suggested that the wisest thing for France to do was to make the law conform to the fact.

**Absurd Remedies.**

Nothing was done at that time. Events drifted till 1864, when the lack of small change had become so serious that the Government brought a bill before the Corps Législatif authorizing the lowering of the fineness of all the silver coins less than five francs to 835 instead of 900 thousandths. This was in effect the same thing that we had done in 1853, when we converted all our silver coins less than one dollar into token money. The proposal was more shocking to the French legislator than to the American, for the reason that the franc was the monetary unit sanctioned by the law of 1803, and this monetary unit was one of the very things to be lowered. The Legislature recoiled, but it sustained the lowering of the pieces smaller than one franc. The difficulty could not be removed by such homœopathic treatment, and as the same difficulty existed in the neighboring countries of Belgium and Switzerland, a convention was called for the purpose of adopting some common steps for relief. Italy also was induced to join, and soon afterwards Greece. France considered it admissible to do by treaty what she had not been willing to do by direct act. By treaty dated

**The Latin Monetary Union formed.**

December 23, 1865, these four countries adopted their present token coinage of silver and limited its legal-tender faculty to fifty francs. This was the origin of the so-called Latin Monetary Union.

The French legislators abandoned the silver standard with extreme reluctance. They were attached to it by custom and tradition. They desired, like their ancestors of the Revolution, to have the silver standard with gold as a subordinate metal. They allowed events to drift until 1873, when they were startled to find that 154,000,000 francs' worth of silver had been deposited at the mint for coinage in that year, against only 5,000,000 francs' worth in 1871–72. The amount of silver so deposited was more than the mint could coin in a year and a half, if it did nothing else. The market ratio of gold had risen nearly to 15.75. There was a profit of 1½ per cent in sending silver bullion to the mint and using the resulting coin to buy gold for export. The delegates of the Latin Monetary Union were hastily assembled, and they determined to limit the coinage of silver to 120,000,000 francs per year for all the countries concerned. This was virtually the adoption of the gold standard.

**How France came to the Gold Standard.**

At the beginning of 1876 the market ratio had reached nearly seventeen to one. The crisis was becoming acute. Switzerland had ceased to coin her allotted share of silver. Belgium had passed a law authorizing the Government to stop coining that metal. M. Léon Say, the French Minister of Finance, sent to the Senate March 21, 1876, a bill of only two lines, in these words, viz., "The coinage of silver five-franc pieces may be limited or suspended by decree." The Senate Committee to which it was referred, under the lead of M. de Parieu, reported a more drastic measure absolutely

**The Mints closed to Silver in 1876.**

forbidding the coinage of any silver money of full legal tender. The legislative body again showed its aversion to change by rejecting the Senate report and adopting, on the 5th of August, the more moderate measure of the Minister of Finance. But it really made no difference which of the two was adopted. The door of the French mint was closed to silver on the following day, and has not been reopened.

The gold standard made its way in France not only without design on the part of individuals, but in spite of the strenuous resistance of almost all the men who busied themselves with the subject at all.

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## CHAPTER III.

### HOLLAND, AUSTRIA AND INDIA.

THE experience of Holland is no less instructive. Prior to 1847 this country had the double standard at the ratio of 15.60 to 1. She had become convinced, however, that a double standard was merely an alternate standard, first one thing and then the other. So she decided to have a single standard, and adopted that of silver in 1847.

**Course of Events in Holland.**

When Germany adopted the gold standard a commission was appointed by the King of the Netherlands to examine the monetary question. It recommended that the coinage of silver be suspended for six months, and a bill to that effect was passed in May, 1873. This law was renewed twice for periods of six months each. A second report of the Commission was made, recommending a bill for the adoption of the single gold standard, but this bill was rejected by the second Chamber in March, 1874. When the law suspending the coinage of silver expired in May,

1874, immense quantities of silver began to flow to the mint. Silver florins passed in trade at the old ratio of 15.60 because they were limited in quantity, but it was obvious that they would soon fall to the bullion value of silver. So in December, 1874, a new six-months' suspension of coinage was ordered by the legislative body — the same one that had refused to adopt the single gold standard. Before this period had elapsed the Minister of Finance proposed that the silver coinage be discontinued indefinitely and that gold coinage be allowed. This bill was passed in June, 1875. Here again the gold standard made its way over the heads of the wise men of the time.

**Tried to Avoid the Gold Standard, but could not.**

The adoption of the gold standard by Austria is now in progress. That country had had the single silver standard since 1857, but was under a suspension of specie payments. When it was ascertained in 1879 that the decline in silver was likely to be permanent the Government gave orders to the mints in both Austria and Hungary to receive no more of that metal from private individuals for coinage. The effect of this order was to make Government paper money the standard, and this paper varied somewhat from day to day in comparison with gold, but it no longer followed the downward march of silver. The paper florin was worth in 1879 about 42 cents. In 1892, before the currency reform was adopted, it was worth 41 cents. If it had kept pace with the decline of silver it would have been worth only 30 cents. This fact was adverted to by the Indian Monetary Commission in 1893, as showing that comparative steadiness in the value of a silver currency may be maintained, if the quantity of it is restricted. Austria had a gold coinage at this time, but it was not legal tender.

**Austria-Hungary stops Silver Coinage in 1879.**

**Thus prevents Serious Decline in the Currency.**

Since 1879 the problem of finance in Austria has been twofold, namely, to resume specie payments (which must, under the circumstances, be gold payments), and to fix a ratio at which all paper money and paper obligations should be redeemable. The ratio decided upon was that of 119 paper to 100 gold, that being the average ratio prevailing in the market during the thirteen years from 1879 to 1892.

As the question of standard was really settled by Austria in 1879, when she closed her mints to silver, we are concerned to know how she came to take that step. The report of the special commission of the upper house on this subject says that it had become clear as long ago as the decade 1860–1870, when Europe was becoming saturated with gold, that this was the only metal fitted to be the standard of nations of advanced civilization. "Gold was dominant and the standard of value," says this report, "in all trade on a great scale as early as the fourteenth and fifteenth centuries, even though silver was then the standard in all domestic exchanges. . . . *In every age there is some metal dominant in the industry of the world, which forces its way with elemental strength in the face of any public regulation, and in our day gold is that metal.*"

**Why Gold Standard was adopted.**

After many struggles with the double standard the single standard of silver was established in British India in the year 1835, the unit of value being the rupee. Prior to 1873 this coin was worth about 1*s.* 10¼*d.*, but was usually reckoned as the equivalent of two shillings, or 48 cents, the price of silver being about 60*d.* per ounce. With the gradual growth of commerce the inconvenience of silver, on account of its bulk and weight, became oppressive. Hence, as early as 1859 the commercial classes of the country began to urge the government to adopt the gold standard, with silver as subsidiary

**British India.**

currency. In 1864 the Bombay Association addressed a memorial to the government on the subject, saying "that a silver currency might have been suitable to the country when its commerce was limited and payments in the main extremely small, but was very inconvenient when wealth was largely diffused throughout the country and the operations of commerce had become so enormous. The transport of this bulky and cumbersome currency entailed heavy and useless expense on the country and was a serious impediment to trade." The Bombay Chamber of Commerce took similar action, saying that "the importation of gold into India had steadily increased for many years, though it was not legal tender; that the natives themselves had devised a rude remedy for the deficiency of the existing silver currency by using gold bars stamped by the Bombay banks as a circulating medium. That the exclusion of gold from the currency of India could not be justified or be considered other than barbarous, irrational and unnatural."[1]

**The Silver Standard adopted in 1835.**

**Early Movement for the Gold Standard.**

**In Consequence of the Bulk and Weight of Silver.**

These petitions led the government of India to ask leave of the home government to adopt bimetallism, although the petitioners had asked for the single gold standard, with silver subsidiary. The home government replied that bimetallism was impracticable by reason of the market variations of the two metals. So the matter was dropped and was not resumed until the government itself began to be threatened with a serious loss on its remittances to England. In the year 1878, silver having fallen to 50*d.* per ounce, the government of India made a proposal to the home government that it be authorized to close the mints against the free coinage

**Failure of Movements until 1893.**

[1] Bimetallism, by Henry Dunning Macleod, pp. 74, 77.

of that metal until the rupee should rise to its normal value. The proposal was rejected. In the light of subsequent events this was a serious mistake. In the year 1886, silver having fallen to 42*d.* per ounce, the government of India again expressed its anxieties to the home government, but did not obtain liberty to take any decisive action.

**India's Remittances to England.**

The government of India collects its taxes in rupees and has to pay a large sum annually in gold or its equivalent, for interest on the public debt, for pensions, and for military supplies purchased in Europe. These sterling obligations are nearly £20,000,000 per year, chiefly in consequence of large borrowings in England for railways and irrigation works. The total revenues, including railway and irrigation receipts, for 1891 were 875,000,000 rupees, of which about one-third was required to meet the sterling payments. These payments are made in the following manner: The taxes being collected in rupees and lodged in the Indian Treasury, the India Council makes drafts on that fund from time to time and sells them in London to the highest bidder for sterling, with which it pays its gold obligations. These drafts call for rupees, and are known as "Council Bills." They are bought by English importers of Indian goods. Thus the payment of India's foreign debt is made with her exported produce. Balances of trade between England and India are settled with gold, as with other countries. India has a large stock of gold in use as commercial money.

**Definition of "Council Bills."**

**Movement in 1892.**

On the 23d of March, 1892, the price of silver having fallen to 39*d.* per ounce, the government of India communicated to the home government a correspondence with the Bengal Chamber of Commerce in which the latter body asked attention to the heavy fall in the value of the rupee and inquired what

the government proposed to do about it. The government of India renewed the expression of its anxiety on this subject.

On the 21st of June, the government of India transmitted to the home government a report and plan for currency reform prepared by Sir David Barbour, Financial Secretary of India (a very pronounced bimetallist), to be considered in case the Brussels Conference should adjourn without a definite and satisfactory result. In this report it was considered impossible to establish in India a currency composed entirely of gold, yet the example of France and of other countries, which had the gold standard but maintained a large circulation of silver of full legal tender, pointed to the conclusion that the gold standard could be established in India without a large accumulation of gold. It was believed that £15,000,000 sterling would be ample for the purpose. Sir David avowed himself a bimetallist in principle, but in the event of a failure of the Brussels Conference he thought that an attempt should be made to establish the gold standard in India. A later statement from the same authority dwelt, in the strongest manner, on the severe and increasing embarrassments to the finances of India growing out of the decline of silver. There was a deficit, he said, for the year 1893–94 of 15,951,000 rupees. It would be practicable to deal with this deficit if they could be assured that the decline of silver would stop at that point. "But it unfortunately happens that unless some settlement of the currency question is obtained, there is no prospect of even the most moderate degree of stability in the rate of exchange. The disastrous and unprecedented fall in the gold value of silver, which has been experienced during the last few years, has destroyed confidence, and we know that the question of

**Sir D. Barbour's Reports.**

**Disastrous Losses to the Government by Reason of the Silver Standard.**

stopping their purchases of silver is being seriously agitated in the United States of America. The exact consequences of such stoppage it is impossible to foretell; but the conclusion I have come to is that the consequences would, at any rate for a time, be disastrous to the Indian Exchequer and that the government of India would, in such case, be involved in pecuniary difficulties of greater magnitude and more lasting in their effects than any which have hitherto been experienced in this country."

**India Currency Reform Committee.**

On the 21st of October, the Secretary of State for India notified the Lord Chancellor (Lord Herschell) that a committee had been appointed to consider and report upon the communications of the government of India on the subject of currency reform, consisting of the Lord Chancellor, the Rt. Hon. L. H. Courtney, Sir T. H. Farrer, Sir R. E. Welby, Mr. Arthur Godley, Lt. Gen. R. Strachey and Mr. B. W. Currie.

**Economic and Social Effects of the Fall of Silver.**

The report of the Committee was made on the 31st of May, 1893. Allusion was first made to the embarrassments of the government of India in its remittances to England. The effect of the fall of silver on the people and the commerce of India was next considered. As India pays her debts, not with silver, but with her products, it cannot be affirmed that, taking the country as a whole, she has lost by the fall of silver, but there can be no doubt that the burden has been shifted from one class to another. The land tax under the permanent settlement of Bengal has been lightened, while the increased salt tax has weighed more heavily upon the people at large. It has been said that the fall of silver has had a tendency to stimulate exports; that a given quantity of produce exported on a declining silver market brings to the exporter a constantly increasing number of rupees, while

wages and other costs of production do not increase in the same ratio, and hence that exports are stimulated. This is a plausible theory, but statistics do not sustain it. On the contrary they show that the export trade of India has been less when silver was rapidly falling than when it was comparatively steady. Several striking illustrations of this fact are given. If it were true that exports were stimulated in the manner suggested it would not prove that it was an advantage to India as a whole, but merely that the employer had made a temporary gain at the expense of the wage earner, since wages rise more slowly than prices. It has been generally believed that prices in the interior of India have remained unchanged notwithstanding the fall of silver, but the evidence points to the conclusion that during recent years the silver price of Indian produce has risen. Testimony showed that rice, the chief food product of Bengal, had more than doubled in price since the rupee began to fall. The comparison was made between seasons of ordinary fertility.[1] This had been a great hardship to the laboring classes.

**Not True that Indian Exports were stimulated by Fall of Silver.**

**Or that Prices had remained Stationary.**

Attention was then given to Sir D. Barbour's plan of currency reform. It was regarded as an encouraging fact that the closing of the Austrian mints to silver in the year 1879, although that country had an inconvertible paper currency, had had the effect to make the foreign exchanges comparatively steady, notwithstanding the great decline of silver. Both Austria and India had the single silver standard, but the florin had suffered little depreciation during the past thirteen years, while the rupee had suffered a heavy decline.

**A Hint from the Experience of Austria.**

[1] Testimony of J. A. Anderson, *Minutes of Evidence*, p. 192.

The Committee recommended that the request of the government of India for permission to close the mints against silver, retaining the right to coin rupees on government account, be granted. In order, however, to guard against any sudden and large advance in the value of the rupee on account of its scarcity, it was recommended that the government should announce that it would give rupees for gold at the rate of 1*s.* 4*d.* per rupee and would receive gold for taxes at that rate.

**Indian Mints closed in June, 1893.**

The recommendations of the Committee were approved by the home government and were promulgated by the government of India on the 26th of June, 1893.

The first effect of the closing of the Indian mints was a heavy fall in the price of silver. The price at the beginning of June, 1893, was 38¾*d.* After the announcement was made it fell to 30½*d.*, and later to 27½*d.* The public assumed that it was the intention of the Indian government not to let the rupee fall below 1*s.* 4*d.*, although the language used was merely a promise that it should not rise above that figure. The government gave some grounds for the mistake by refusing at first to sell Council Bills below 1*s.* 4*d.* But it could not maintain that rate. A large amount of silver had been lodged at the mints before the decree became operative and the owners of this could sell rupees in competition with the government, as indeed anybody could who possessed rupees or commercial credits in India. Meanwhile the sterling obligations must be met. Borrowing was resorted to at first, but eventually Council Bills had to be sold for what they would fetch. The price of rupees fell slowly from 15¼*d.* to 13*d.* The price of silver fell to 27½*d.* per ounce. The value of the rupee

**Effects of the Government's Action.**

**Rupees are now an Irredeemable Currency but Better than Silver.**

under free coinage would be only 11*d.* In other words the rupee has a "scarcity value" of 2*d.* more than the silver bullion contained in it. This 2*d.* stands for more than £2,000,000 annually in the government's gold obligations. The rupee is now in the category of irredeemable currency, like the Austrian silver florin, and the problem before the government is the same that Austria had to deal with before she took steps to introduce the gold standard.

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## CHAPTER IV.

### THE BRUSSELS MONETARY CONFERENCE.

THREE international conferences have been held for the purpose of considering the question of the remonetization of silver.[1]

The first was called at the instance of the United States, and met at Paris, August 16, 1878. All the great powers of Europe except Germany, and most of the lesser ones, took part in it. The conference remained in session till August 29. On the day before the adjournment the European delegates, except those of Italy, joined in a collective answer to the propositions of the United States saying: (1) that it is necessary to maintain in the world the monetary function of silver as well as of gold, but that the selection of one or the other, or both simultaneously, should be governed by the special situation of each state or group of states; (2) that the question of the restriction of the coinage of silver should be equally left to the discretion of each state or group of states;

**Conference of 1878.**

[1] The earlier Conference of 1867 had for its object the adoption of an international coin, not the establishment of any particular metallic standard; but incidentally a preference was expressed for the single gold standard. This Conference had no practical result.

(3) that the differences of opinion which have appeared exclude the discussion of the adoption of a common ratio between the two metals. The representatives of the United States dissented from these conclusions. Thereupon the conference adjourned *sine die.*

The second conference was held at the instance of France and the United States. It met in Paris, April 19, 1881. In this conference Germany and British India participated, in addition to the countries represented in that of 1878. It remained in session till July 8, having taken one intermission from May 19 to June 30. No conclusion was reached and no vote was taken on the main question. The conference adjourned to April 12, 1882, but never reassembled.

**Conference of 1881.**

The third conference assembled at the City of Brussels, November 22, 1892, at the invitation of the President of the United States "for the purpose of considering what measures, if any, can be taken to increase the use of silver in the currency systems of nations." The invitation was accepted by Austria-Hungary, Belgium, Denmark, France, Germany, Great Britain, British India, Greece, Italy, Mexico, the Netherlands, Norway, Portugal, Roumania, Russia, Spain, Sweden, Switzerland, and Turkey. The United States were represented by Edwin H. Terrell (Minister to Belgium), William B. Allison and John P. Jones (Senators), James B. McCreary (a Representative in Congress), Mr. Henry W. Cannon and Mr. E. Benjamin Andrews. The delegates of Great Britain were Sir Charles Fremantle, Sir C. Rivers Wilson, Sir Wm. Houldsworth, Mr. Alfred D. Rothschild and Mr. Bertram Currie. Those of France were Mr. Tirard, Minister of Finance, Mr. de Lion d'Airoles, Director of the Mint, and Mr. de Foville, Chief Statistician of the Ministry of Finance. Those of Germany were Count Alvensleben

**Composition of the Brussels Conference.**

(Minister to Belgium), Dr. von Glasenapp (Privy Councillor), and Mr. Hartung, Director of the Reichsbank. Mr. Montefiore Levi, one of the delegates of Belgium, was chosen President.

The second session was held November 25. Mr. Allard of Belgium having laid on the table a pamphlet prepared by himself containing facts relating to the monetary crisis, Mr. Hartung of Germany desired to make a correction. It was stated in the pamphlet that in 1888 the Reichsbank had refused to pay gold. He wished to say that this was an entire mistake. The Reichsbank had never "upon any occasion or under any pretext" refused to redeem its notes in gold or made difficulties about paying gold for export.

**Germany denies that the Reichsbank has ever refused to pay Gold.**

Mr. Allison on behalf of the United States then presented the plan and programme of the United States. This was in the form of a resolution, "That in the opinion of this conference it is desirable that some measures should be found for increasing the use of silver in the currency systems of the nations." He desired that plans and proposals to this end should be presented by delegates from other countries, which should have precedence in the discussion, but he would nevertheless offer (1) the plan of Mr. Moritz Levy in the conference of 1881, (2) the plan of the late Dr. A. Soetbeer. Lastly he would offer the plan prepared by the delegates of the United States, that of international bimetallism, or the unrestricted coinage of both gold and silver of full debt-paying power, at a common ratio. The Levy plan proposed the withdrawal from circulation of all gold pieces and all paper money of less denomination than 20 francs in order to make room for silver coins or silver certificates. The Soetbeer plan embraced the Levy plan with a number of technicalities which

**Programme of the United States.**

**The Levy and Soetbeer Plans.**

it is not necessary to describe. "Our country," said Mr. Allison, "in its currency and in all its money rests upon the gold standard. Our statutes declare that it is the settled purpose and policy of the United States to maintain silver and gold in circulation at par with each other and there is no currency in circulation in the United States, whether it be paper or silver, that is not convertible into gold at the will of the holder. The United States in its legislation and in its policy has aided to sustain silver in the currency of the world, and it is because of the desire of our people for an increased monetary use of silver that our President, supported by both houses of Congress, has proposed this conference."

Mr. de Rothschild (Great Britain) made a proposal in these words: "The American Government are purchasers of silver to the extent of 54 millions of ounces yearly, and I would suggest that on condition these purchases were continued, the different European powers should combine to make certain yearly purchases, say to the extent of about £5,000,000 sterling annually, which purchases to be continued over a period of five years at a price not exceeding 43 pence per ounce standard, but if silver should rise above that price, the purchases for the time being to be immediately suspended." Mr. de Rothschild expressed the opinion that if this conference should break up without arriving at any definite result a monetary panic would ensue, the far-spreading effects of which it would be impossible to foretell.

**The Rothschild Plan.**

Mr. Tirard (France) said that his country had an enormous quantity of silver, which imposed upon her the greatest prudence and that she could not accept any proposal unless upon the condition that that stock of depreciated metal should not be increased, or if increased that it should not be without very serious compensations. He was disappointed

**France does not want any more Silver.**

that the delegates of the United States had put forward subsidiary proposals to be discussed in advance of the proposal which they personally favored. He reserved absolute and complete liberty of action for himself and his colleagues.

Count Alvensleben (Germany) made the following declaration:

"Germany, being satisfied with its monetary system, has no intention of modifying its basis. The imperial government does not, however, fail to recognize that the continual oscillation and considerable fall of silver are much to be regretted from an economic point of view, and that it would be advantageous to the economic interests of the empire if the evils could be remedied in a lasting manner. Upon these considerations the Imperial Government felt that it ought to accept the invitation of the United States to this conference. None the less, in view of the satisfactory monetary situation of the empire, the Imperial Government has prescribed the most strict reserve for its delegates, who, in consequence, cannot take part either in the discussion or in the vote upon the resolution presented by the delegates of the United States."

**Germany declines to take Part in the Discussion or vote.**

Count Khevenhüller-Metsch (Austria-Hungary) said that under the instructions he had received from his government he should be unable to take part in the discussions or the vote.

**Austria and Russia decline to vote.**

Prince Ourousoff (Russia) said that he was not allowed to vote upon proposals which had a definite character or involved practical resolutions.

Baron de Renzis (Italy) and Mr. DeVolder (Belgium) said that their countries, being bound by treaty with the members of the Latin Union, could not assume an attitude different from that of the other members of the Union.

The delegates of Roumania, Portugal, Turkey and Greece said that they could not take part in the discussion or vote.

Mr. Van den Berg (the Netherlands) said that his government would support the proposal submitted by the delegates of the United States without binding themselves in regard to the means of carrying it out.

**Declarations of Other Countries.**

Mr. Mier y Celis (delegate of Mexico) made a similar declaration.

Mr. Tietgen (Denmark) said that he should vote on the resolution, but in so doing should not undertake any engagement.

Third Session, November 28. After a brief discussion a committee of thirteen members was appointed to consider the proposal submitted by Mr. de Rothschild and such other proposals as had been or might be offered.

Fourth Session, December 2. The Committee made its report. The Rothschild proposal was first considered. Preliminary to such consideration the committee inquired: (1) whether there was any practical means of restricting or regulating the output of silver, and it came to the conclusion that there was none; (2) what was the probable future annual production of silver? and it received from the delegates of Mexico and the United States the opinion that the maximum production had already been reached; (3) what was the future policy of the United States with reference to the purchase of silver? and it received from Mr. Cannon the opinion that, if some arrangement were not reached by this Conference, the Silver Purchase Act of 1890 would be repealed; (4) what was the future policy of British India? and it received from Sir G. Molesworth the opinion that, failing any definite action by this Conference, British India would close its mints to silver and take steps looking to the adoption of the gold standard. Against the Rothschild plan the argument was advanced that it was an attempt to interfere with

**Report on the Rothschild Proposal.**

a natural economic law, which must sooner or later overcome any artificial arrangement, and that it was impossible to set any limit to the sacrifices into which the nations might be drawn. It was said that a maximum sum and a definite time were fixed in the proposal and that the experiment would be worth its cost. To this it was answered that an experiment on a larger scale had already been made in the purchases of the United States from 1878 to the present time, notwithstanding which, the price of silver had fallen continuously except during a short speculative period. In the course of the discussion it was ascertained that the United States, Mexico and British India could only agree to the Rothschild proposal in the event that the newly-bought silver should be used as money. The question was then raised how, in case the proposal were adopted, the silver should be purchased, whether by a central organization or by each state acting separately. Before reaching a decision on this point a vote was taken on the question whether the delegates would recommend the Rothschild plan to their governments, if it should be adopted, and it was decided in the negative by six yeas to seven nays.[1] A vote was then taken on the Moritz Levy plan and it was adopted by a large majority, but Sir Charles Fremantle said that he could not recommend this plan to his government except in connection

**Adverse Vote in Committee.**

[1] The proceedings in committee were secret, but the subsequent debate showed that the vote was as follows :

| *Yea.* | *Nay.* |
|---|---|
| Mr. CANNON (United States). | Mr. CRAMER-FREY (Switzerland). |
| Mr. CASASUS (Mexico). | Mr. DE FOVILLE (France). |
| Sir C. FREMANTLE (Great Britain). | Mr. FORSSELL (Sweden). |
| Sir G. MOLESWORTH (India). | Mr. RAFFALOVICH (Russia). |
| Mr. DE OSMA (Spain). | Mr. SAINCTELETTE (Belgium). |
| Mr. VAN DEN BERG (Netherlands). | Mr. SIMONELLI (Italy). |
| | Mr. TIETGEN (Denmark). |

with the Rothschild plan, or some other plan supported by a preponderating majority of the great powers. It was announced that this was not the final report of the committee.

Lieutenant-General Strachey (British India) made a brief statement of the difficulties pressing upon his government by reason of the decline of silver and said that he should not be able to support any proposal that was not of a distinctly practical character. By this he meant one which had the support of countries sufficient in number and financial importance to give reasonable assurance of its being really effective and not involving future prolonged discussion. Considering the attitude of delegates toward the Rothschild proposal, as indicated by the report, he feared that it would be impossible for him to support it, although, had it been more favorably received he should have been glad to submit it to his government, subject to certain modifications which his instructions imposed upon him.

**British Indian View of it.**

Mr. Allard (Belgium) considered the Rothschild proposal inadequate. In his opinion there was a scarcity of gold in the world and a fall of prices in consequence. Why should the Bank of France with its enormous stock of gold make difficulties about paying out that metal unless it were really scarce? What was to be thought about the borrowing of £3,000,000 gold by the monometallic Bank of England from the bimetallic Bank of France? "Is the system of the bank which confers the benefit, or of that which receives it, to be preferred by us? I do not hesitate to give the preference to the Bank of France, which conferred the benefit, although that bank is absolutely bimetallic, and my conclusion is that of the two banking systems I prefer that which is based upon

**Mr. Allard's Opinion.**

the two metals."[1] Returning to the Rothschild proposal he held that the plan would be abortive for the same reasons that the American purchases had been ineffectual to stop the fall of silver, which fall was really an appreciation of gold. The proof of this was that general prices had not fallen in the silver standard countries, India and Mexico. Referring to Mr. Rothschild's prediction that if the conference should break up without arriving at any definite result a terrible monetary panic would ensue, Mr. Allard said that this panic would inevitably take place at the doors of the Bank of England.

Mr. Bertram Currie (Great Britain) saw no serious evils resulting from the disuse of silver as the standard of value. This had come to pass by the process of natural selection and any artificial attempt to arrest it was doomed to failure. We were asked to do something to raise the prices of commodities. Such an object was entirely opposed to the economic doctrines accepted in England. "Cheap goods, not dear goods, plenty and not scarcity have always been held to be the conditions of profitable trade." Still it had never been proved that the general fall of prices had been brought about by the scarcity of gold and he did not believe in that theory. The wealth of a nation did not depend upon the amount of gold and silver it possessed. The contrary was much nearer to the truth, and it might be argued that the

**Mr. Currie's Opinion.**

[1] The word bimetallic is not applicable to a bank in any case, but if it were so would fail of application where the amount of the silver coinage is limited by law. If the Bank of France is bimetallic because it receives silver five-franc pieces on deposit, the amount of which cannot be increased, then it is also trimetallic, because it receives a certain amount of bronze coins also. The Bank of France holds about $400,000,000 gold and about $250,000,000 silver. Mr. Allard apparently meant to say that he considered the bank stronger than it would be if its whole metallic stock were gold. In this the bank's officers would not agree with him.

more prosperous and civilized a nation becomes the less occasion has it to use the precious metals and the smaller is the stock it requires for its transactions.

Mr. Allison moved that the discussion be adjourned till Tuesday in order to give the delegates of the United States time to make themselves thoroughly acquainted with the report of the Committee. This motion was agreed to.

Fifth Session, December 6. Sir Rivers Wilson (Great Britain), speaking for himself and colleague Sir Charles Fremantle, said that their faith was that of the school of monometallism pure and simple. They did not admit that any other system than that of the single gold standard would be applicable to their country. The question to be considered now was whether the Rothschild or the Levy plan, one or both, had the prospect of meeting such a preponderance of support as would justify the representatives of Great Britain in recommending them to the consideration of their government. Mr. Rothschild's plan had not received such support. The Levy plan involves the withdrawal of the half-sovereigns from circulation. Great Britain would be unwilling to submit to this inconvenience unless it were presented in conjunction with a plan offering advantages which a preponderant majority of the Powers would recognize.

**Sir Rivers Wilson's Views.**

Mr. McCreary (the United States) could not consider the Rothschild proposal adequate nor could he agree that it was a just and proper remedy "for the American Government to continue the purchase of silver bullion to the extent of fifty-four million ounces yearly at a price not exceeding one hundred cents to the dollar,[1] on the condition that European

[1] Probably Mr. McCreary meant by this phrase that under the Rothschild plan the United States would be obliged to continue buying, even if silver should rise to $1.29.29 per ounce standard, at which rate the metal in the silver dollar would be worth one hundred cents.

Powers make yearly purchases amounting to five millions of pounds sterling for 5 years at a price not exceeding 43 pence per ounce standard, and if silver should rise above that price the purchases for the time being to be immediately suspended. I cannot quite see why we in America should be required to pay if necessary one hundred cents to the dollar while European powers only pay not exceeding 73 cents to the dollar and the purchases to stop if silver should rise above that price." Mr. McCreary then went into a general argument in favor of international bimetallism.

**Mr. McCreary considers the Rothschild Plan Inadequate.**

Mr. de Rothschild said that after the important declaration of the delegate of the United States he considered it his duty, out of respect to the conference, to withdraw his plan. He had not submitted his plan to the United States delegates before handing it in, but he had sounded them on the subject and had believed that his proposal would be of a kind to give them satisfaction. One of them had just pronounced against the adoption of the plan, and it only remained for him to withdraw it.

**Mr. Rothschild withdraws it.**

Mr. Van den Berg (the Netherlands) and Sir W. Houldsworth (Great Britain) made general speeches in favor of bimetallism.

The President thought it his duty to point out that the two excellent speeches which had just been made had no bearing on the special subject of discussion, namely, the Levy plan. He would ask speakers to connect their remarks as far as possible with the discussion of the report.

Mr. Sainctelette (Belgium) was disappointed that some of the British delegates were opposed to the Levy proposal. He considered the withdrawal of gold coins smaller than 20 francs very desirable, because they wear out three times as fast as large ones. There was no less than £23,000,000 of

small gold coins in England which might be replaced by silver. There was no reason why this replacement should be made dependent on the Rothschild plan or any other plan. All plans to be generally acceptable, must be in the nature of compromises, and accordingly he did not understand why the delegates of the United States did not give more assistance. He had asked, in the committee, whether the silver-producing countries could not do something by tax or otherwise to curtail the production of silver, and they had replied in the negative. How could you raise the selling price unless you raised the net cost of production? The way to raise the net cost of production was to impose a tax. There were many more unpopular taxes than one on silver mines. He did not see any obstacle to that solution of the question. One objection raised to such a tax was that the mines were largely owned in Europe, but he was not aware that European interests were an object of such extreme solicitude on the part of the United States. He hoped that the delegates of both Great Britain and the United States would make more satisfactory declarations.

**Mr. Sainctelette favors the Levy Plan.**

Sir Charles Fremantle (Great Britain) said that by reason of the large amount of half sovereigns in circulation (about £22,500,000) Great Britain would be making a large sacrifice in surrendering the convenience which their circulation afforded. He asked the gentlemen whether Belgium had any small gold coins to surrender under the proposed plan.

**Sir Chas. Fremantle opposes it.**

Mr. Sainctelette replied that Belgium had none, but he was convinced that if she had them she would be none the less ready to adopt the proposal.

Mr. Cannon (the United States) said that it would not be more reasonable to tax silver than to tax copper or lead. Such a tax would be contrary to the spirit of the institu-

tions of the United States, if not a violation of the Constitution.

Sir G. Molesworth (British India) made a general speech in favor of international bimetallism. He did not believe in the efficacy of simple purchases of silver. He had for years publicly expressed the opinion that the purchases of silver under the Bland Act and similar measures were opposed to the first principles of monetary science and must end in disaster, from which, if the United States had up to the present escaped, it was because of the great expansion of its population and industry.

**Sir G. Molesworth does not believe in Silver Purchases.**

Appended to the proceedings of the fifth session is a proposal of Sir W. Houldsworth, of which the principal points are : That a bimetallic union be formed by as many nations as choose to go into it, and that the nations which prefer to retain the single gold standard shall receive deposits of silver bullion at their mints and give receipts therefor in ounces, each receipt to specify the equivalent gold value of the same at a specified rate per ounce to be determined by international agreement, the quantity of silver specified in the receipt to be delivered by weight to the bearer when called for, and in no other manner and on no other account whatsoever, "these receipts to circulate as money in all transactions." He believed that such a bimetallic union would keep gold and silver coins at par with each other and keep the silver deposit receipts at par with gold.

**Sir W. Houldsworth's Proposal.**

Sixth Session, December 8. Mr. Allison (United States) suggested a provisional abandonment of the Levy plan in order to begin at once the discussion on bimetallism. The motion was agreed to.

Mr. Raffalovich (Russia) considered that facts had demonstrated that it is contrary to the nature of things to

establish a fixed ratio between the value of gold and the value of silver. But whatever may be our conception of an ideal state of things, we have to consider the actual execution and carrying out of that conception. He agreed with Mr. Currie that the more a country advances in wealth and civilization the less is its need of the precious metals. One of the sources of England's strength was the certainty of gold payment; and although the basis might seem narrow, the narrowness was itself not without advantages, since it made the rate of discount responsive to coming dangers and thus gave early warning of impending trouble. The question of a "defensive premium" having been touched upon in the discussions, he called attention to the recent expression on that point by M. Léon Say, a master of monetary science, in a preface he had written to a French edition of Goschen's "Theory of Foreign Exchanges." In this preface M. Say had condemned the policy of establishing a premium on gold taken for export.

**Mr. Raffalovich considers Bimetallism Impracticable.**

Mr. Van den Berg (the Netherlands) said that the Bank of the Netherlands kept its foreign balances almost exclusively in London and Berlin, and very little in Paris and Brussels, "because we cannot be sure in advance that when our bills in Brussels and Paris fall due we shall be paid in gold, should circumstances induce us to ask for it, without submitting to a premium, to which naturally we object."

Mr. Cramer-Frey (Switzerland) thought that if the plan of purchasing silver were adopted, neither Mr. Rothschild nor any other person could guarantee that at the end of the period of trial the situation might not be worse rather than better. As for bimetallism he would fail of his duty if he ever entertained the idea that that system was admissible for Switzerland. He and his collegue had received the most

**Switzerland considers it Inadmissible.**

formal instructions from their government on that point. As to an enlarged use of silver, it would be impossible in the Latin Union countries to force into circulation a single five-franc piece over and above those now in use. If France should consent to withdraw her ten-franc gold pieces, her actually existing five-franc pieces now lying idle in the cellars of the bank would more than suffice to fill the vacuum. He thought that the evils arising from silver depreciation had been exaggerated. The foreign trade of India had more than doubled since 1872, and even the Lancashire manufacturers, who complain so bitterly, had more than doubled their exports of cotton goods to India. He thought that the best solution would be found by giving free play to natural causes.

Mr. Andrews (the United States) made a speech in favor of bimetallism. He warned the delegates that the United States would not give up gold and go to the silver basis, nor would the United States go on forever sustaining the price of silver. "That would be more than Europe has a right to ask of us." Mr. Cleveland had been elected president as a pronounced and uncompromising adherent of the gold policy. Therefore the time-honored monetary policy of the country would never be changed by his consent. Still, the United States wished to rehabilitate silver in order to "stay that baneful, blighting, deadly fall of prices which for nearly thirty years has infected with miasma the economic life-blood of the whole world." Many writers had fallen into a curious confusion by "identifying fall of general prices with intrinsic cheapening of commodities." Decrease in intrinsic cost was a blessing, but a general fall of prices was an absolute and unmitigated curse to human civilization. Low prices are not to be condemned, but "the everlasting *fall* of prices, the act of sinking, is the accursed thing."

**Mr. Andrews favors Bimetallism.**

Mr. Zeppa (Italy) said that an inevitable law had impelled civilized nations to pass gradually to gold monometallism. The working of this law had been accelerated perhaps by the excessive production, and consequent fall, of silver, as compared with gold, causing a suspension of its coinage by the bimetallic states, which suspension had without doubt emphasized the depreciation. A majority of civilized states, too, had been under a régime of inconvertible currency. Their people thus became habituated to paper, and when specie payments were resumed they could not reconcile themselves to the use of heavy silver money. As the law of least resistance impels nations towards the ideal of gold monometallism, so it leads them to economize the use of all coined metal by means of clearing houses and other instruments of credit. Taking these things into consideration it is astonishing that persons admittedly of high intelligence and genuine culture are to be found who would wish to lead the nations backward and to reëstablish bimetallism. No international agreement, however numerous the contracting states, could reëstablish the old relation between silver and gold. Nevertheless he saw evils in a sudden adoption by all the nations of the single gold standard, and for this reason he had favored the Rothschild proposal as a middle course, avoiding bimetallism on the one hand and the too hasty adoption of the gold standard on the other.

**Mr. Zeppa opposes it.**

Mr. Weber (Belgium) wished to meet the arguments of those who repeat with unabashed persistence that the fall of prices is due entirely to the scarcity of metallic money. According to these modern Jeremiahs the fall in the price of cereals, of cotton, of wool, etc., results from a scarcity of coin in the monetary circulation of this world. The enormous areas that have been put under cultivation in the New World and at the Antipodes are ignored. For instance a

few years ago America produced an annual crop of six million bales of cotton; in 1891 it was nine millions. In 1878 Australia had 62 million sheep, in 1891 she had 124 millions; that is, exactly double. Are we not criticising Providence if we complain of the cheapness of products, when that cheapness is in consequence of their abundance? Those who groan at the fall of prices fail to see that certain products have gone up and down since 1873 exactly as they did before that date. This proves that there is no general and unvarying cause that affects prices, but that it is the abundance and scarcity of the products themselves. No doubt the universal employment of silver as money would have a powerful effect on prices, but it would be transitory and would be followed by inevitable reaction. It was not true that there had been a scarcity of gold in recent years. On the contrary the gold reserves of the banks of issue of the world had increased by 2661 millions of francs from 1881 to 1891 and the stock in the Bank of France showed a further increase of 200 millions of francs from 1891 to 1892. Moreover the trade of the world had grown rapidly during the same period of time, the exports and imports of three countries (France, the United States, and Great Britain) having increased nearly 3000 millions of francs from 1880 to 1890, showing that commerce was not fettered by a scarcity of metallic money. Suppose bimetallism established. There is a limit of time to every international agreement. At the expiration of it, as at the expiration of the Latin Union, each country must take care of the coins that bear its stamp, yet it is a part of the plan that no country shall refuse its stamp to any metal offered to it. The work done by a mint is not in proportion to the size of the country that operates it. The losses which would result

**Mr. Weber discusses the Fall of Prices.**

**What will happen when the Proposed Agreement ends?**

from the breaking up of the Latin Union are calculable, but those resulting from the expiration of a bimetallic treaty are incalculable.

Mr. Boissevain (the Netherlands) said that if we were to credit the speech of Mr. Weber we should be compelled to ask what we have come here to do. Mr. Weber had dealt with the fall of prices, but he had not noticed the vast distinction there is between plentiful supplies and a fall of prices. Plenty results from improvement in the conditions of production and transportation. But how is the existence of plenty to be established if not by an increase of prosperity? Has there been any increase of general prosperity in recent years? Have we not, on the contrary, had a great depression of trade? Nobody could prove that we have passed through a period of prosperity, and yet prosperity ought to have been the result of plentiful supplies of products.

**Mr. Boissevain on the Fall of Prices.**

Seventh Session, December 10. Mr. Simonelli (Italy) said that the withdrawal of state notes of ten and five francs by Italy would not make room for any more silver in that country since the notes were already represented by silver five-franc pieces circulating beyond her borders, which would return home at once if the small notes were withdrawn.

**Other Opinions.**

Mr. Sainctelette (Belgium) said that the United States were wrong in supposing that they could remedy the accumulation of silver by creating a purchaser without there being any real needs to be satisfied. In his opinion the purchases already made had only stimulated the production of silver.

Mr. Forssell (Sweden) considered the ratio between gold and silver the first and last problem to be decided in taking

up the question of universal bimetallism. He therefore desired to ask the delegates of the United States as a whole what ratio they would consider the most practical and equitable, whether 15½ or 16 to 1, or a ratio nearer the market value of silver.

**What ought the Ratio to be?**

Mr. Allison replied that the delegation had had no conference on the subject. They would, of course, prefer their own ratio of 16 to 1, but they would accept that of 15½ if it were more agreeable to those countries which had the largest amount of silver. He agreed that the question of ratio was a fundamental one, but he thought that a more important one was the question how many countries would join in a bimetallic treaty at any ratio.

Mr. Forssell said that the interesting reply of Mr. Allison led him to ask what number of states would be necessary to make a bimetallic treaty effective. In the way of rendering the discussion practical, a reply to this question would be of great value.

**How many Countries are Necessary.**

Mr. Tirard (France) said that France had no cause to complain of the present monetary situation and that she did not complain. She had endeavored to come to an agreement with the United States at the conference of 1881, which was a sort of continuation of that of 1878. Later, in 1889, a monetary Congress was held in Paris during the Exposition, but nothing came of it. France is the country of all others which has the largest quantity of metallic money, both gold and silver. This was due to the minute subdivision of properties and employments, which being very small were not adapted to the use of bank checks to the same extent as countries where industry is more consolidated and centralized. The French people, therefore, require a larger amount of coin.

**The Position of France.**

France was bimetallic in fact.[1] She ceased to coin silver because she was confronted with an ever-increasing volume of that metal. "We ceased to coin it and I think our course was perfectly right." Why should France permit the free coinage of silver when she is already amply provided with it? She alone possesses as much as all the other states of Europe put together. The Bank of France holds as much as all the other banks together. "Consequently I have the right to say that she has quite enough." Still France would perhaps consent to do what was asked of her if those Powers which are wedded to monometallism should decide to adopt the free coinage of silver. He would never advise his government to take that step on other terms. We have heard the Minister of Germany, the Minister of Austria-Hungary, and Sir Rivers Wilson declare that their countries had no intention of modifying their monetary system, with which they declared themselves satisfied. Hence the question of free coinage is decided so far as France is concerned. He then replied to the remarks of Mr. Van den Berg touching the defensive premium sometimes put on gold at the Bank of France. It was not true that the Bank ever exacted a premium when gold was required to satisfy a legitimate demand for export. "The Bank of France, when it finds itself confronted by a real necessity, does not hesitate to place at the disposal of importers all that is necessary for the purchase of the raw materials and food needed to feed the people and to maintain national industry." The Bank

**Does not want any more Silver.**

**And will not have Free Coinage unless Germany and England join.**

[1] Mr. Tirard here repeats the error, in the use of the word "bimetallic," that Mr. Allard had already made. In a subsequent debate Mr. Tirard made a distinction between "bimetallic" and "absolutely bimetallic," which shows that he was not very careful in the use of words.

merely puts a barrier to the speculations of brokers who think less of the interest of their country than of their personal profit. In this he considered that the Bank was doing its duty.[1] In regard to the Moritz Levy plan he said that France had little interest in it, having no bank notes smaller than fifty francs. Her five-franc gold pieces had disappeared. If it were proposed to withdraw those of ten francs, there would be opposition on the part of the public, who were accustomed to the use of them, and who would not like to handle two five-franc pieces instead. But if that difficulty were overcome, there would still be no room in France for ad-

**Policy of the Bank of France regarding Gold Exports.**

[1] The Bank of France is a private institution, although its governor and two deputy governors are appointed by the head of the state. Its situation, as regards the silver five-franc pieces, is in no wise different from that of any other corporation or person. It did not create these pieces, but it must receive them from its customers as deposits or in payment of dues to itself and it may pay them to its customers. Accordingly when depositors want gold for exportation, the Bank is enabled to charge a premium for it, the alternative being payment in silver, or half silver and half gold. The premium is a source of profit to the shareholders of the Bank. The limit to the possible premium is the cost of collecting gold coins, of which there is always a large amount in circulation and which brokers are ready to supply, if they are paid for their trouble. Sometimes the Bank charges no premium; at other times it charges a fraction less than the cost of obtaining gold from brokers. If it should charge more, the public would sell their gold to brokers and deposit only silver at the Bank. M. Tirard's remarks imply that the Bank has some private means of knowing what demands for gold are legitimate and what are speculative, but people who are not in the secret will have doubts on that point. The true interest of Jacques Bonhomme is to pay his debts to foreigners as cheaply as possible, but Jacques is easily deceived by high-sounding phrases about the national industry, and the interest of the country.

**The Bank of France's Premium on Gold.**

**A Profit to the Shareholders.**

**Limit to the Premium.**

ditional silver, since the Bank of France had more than a thousand million francs in five-franc pieces, which would flow into the circulation, taking the place of the small gold coins. In his opinion, silver should not be coined for the account of private persons. It should be coined to as limited an extent as possible, so that it suffice to bring that metal into the daily exchange of life, and to make it a national, not an international, money.

**Silver ought not to be International Money.**

Mr. Allison, replying to Mr. Forssell, said that after the declaration made some days since by Germany, afterward that of England, and afterward that which had just been made by the State which was at the head of the Latin Union, he felt that a reply to the question which the delegate of Sweden had put, before Mr. Tirard began speaking, might be deferred.

Mr. Cannon (the United States) was surprised by the speech of Mr. Tirard. The people of the United States had supposed that France and the Latin Union, being the largest holders of silver in the world, were very friendly to that metal as money, but we find that while they are glad to be present at the conference they are not inclined to join in any agreement as to the better use of silver as money; and we find to our surprise that England, without any silver of consequence, suggests its purchase and use as a money metal. In spite of this apparently opposite state of affairs he hoped that something might yet be accomplished. Mr. Tirard had said that France was not specially interested in palliative measures to increase the price of silver, being able to maintain her own positition. The United States was in the same position; still he thought it would be better if some international arrangement could be made to use both gold and silver for foreign and domestic payments at some ratio

**Mr. Cannon is surprised at the Speech of Mr. Tirard.**

to be agreed upon. He could not consider the purchase of thirty million ounces of silver per annum by European Powers a mere palliative. It was possible that this purchase, added to other demands, might be the bridge to join the money metals together at some parity. The United States government had been able to maintain parity between its gold and its silver money and would continue to do so. If, however, silver was to be further dishonored and used only as subsidiary money the United States was in an excellent position to take advantage of that state of affairs.

Mr. Tirard replied that he had not said that France or the Latin Union was less favorable to bimetallism than England. On the contrary he had said that France was already bimetallic in fact, and if she would not resume the free coinage of silver and become absolutely bimetallic it was only because England and other countries had said in the most formal way that they intended to remain monometallic. He was sorry that the Rothschild proposal had been withdrawn, because he would like to know from the discussion of it how the European silver purchases were to be distributed. He was convinced, without having any information on the point, that France, which already had as much silver as all the rest of Europe combined, would be given the largest share. It was just this situation which France could not accept.

**Mr. Tirard explains.**

Eighth Session, December 13. Sir G. Molesworth (British India) regretted the hasty and premature declaration of Sir Rivers Wilson, of uncompromising hostility to the double standard, thus prejudging the whole case before an opportunity was allowed for fair discussion.

Sir Rivers Wilson said that as his government could not admit that the maintenance of its monetary system could be brought into question, he had made that declaration, in behalf of Sir

**Position of Great Britain.**

Charles Fremantle and himself, purely out of respect for the delegates and in order to shorten their labors as much as possible. He was authorized by Mr. de Rothschild to say that he wished to be associated in those remarks.

Mr. Forssell (Sweden), adverting to the remark of Mr. McCreary that bimetallism was no new theory, said that what was absolutely new and unknown, both in theory and practice, was the double standard and free coinage together imposed upon states by mutual international obligation. There was no precedent for that. Everybody distrusts silver, everybody seeks to keep his gold; and it is at this very moment that everybody is asked to coin the disliked silver in unlimited quantities, while remaining free to get or keep his gold as best he may. Whatever might be said about the marvelous stability of 15½ to 1 under the old *régime* the historic fact is that the actual market ratio was never and nowhere invariably in accord with the legal ratio. The most recent historic fact and the most conclusive is that the divergence between the two has sufficed to render free coinage impossible. Now an ingenious process has been imagined of forming a reservoir so large and so extended that beyond it there would be no country capable of attracting gold and hence that the yellow metal would not flow out; that thus the stability of the ratio would be guaranteed and a premium on gold rendered impossible. In speaking of the value of silver we always think of gold. Everybody recognizes the supreme danger of a premium on gold. Hence the touchstone of the bimetallic system is its ability to guarantee us against that vital danger. Probably the aim would be to unite all the specie-paying countries of America and Europe. It would not be possible to bring in the paper-money countries or those of the far East which have the single standard

**Mr. Forssell opposed to Bimetallism in every Way.**

**How it would not work.**

of silver. But whatever is outside of the agreement must be reckoned with, because everything outside will exercise an attraction on the depreciated gold of Europe. What would happen if one member of the union should denounce the treaty? Moreover, the industrial consumption of gold would always underlie the treaty and this consumption would be quickened by any depreciation of gold. There would always be a drain out of the reservoir. Then the question is: What should be the size of a hogshead to contain a certain quantity of liquid when there is no possibility of stopping the bunghole?

**The Hogshead and the Bung-hole.**

Again, nobody wants more than a few ounces of silver in his pocket or his till. Bimetallism obliges people to take it in unlimited quantities; *i.e.*, it assigns to silver a legal monetary function in excess of its natural monetary function. Suppose silver were made legal tender under universal free coinage, what would be the quantity of silver money discharged upon the world? As long as there was an existing debt to be paid the price of silver would rise. It would probably advance at one bound 30 or 40 per cent. The advance in price would stimulate the production and also check the industrial uses. But the preferences of people would not be changed by the torrent of silver money flowing from the mints. They would not want to carry it, or to house it, any more than before. Hence it would flow to the banks which could not refuse it. Their vaults, however, are not unlimited, nor can they relieve themselves of the necessity of making large payments of metallic money to each other. The same reasons which have caused them to prefer gold for this purpose would remain in full vigor. The consequence would be that the banks which had to receive the large payments would pay something to get gold. This would be a premium on gold following infallibly upon the

**What would the Banks do with their Loads of Silver?**

new system. But a premium on gold, however small, is the upheaval of the system itself and the downfall of universal bimetallism. Each nation would seek to protect itself, the treaty would be denounced, free coinage would be suspended and liquidation would begin. That liquidation is the translation into prose of the poetry of bimetallism. The states of the Latin Union entered one fine day under the arches of a bimetallic system supported by pillars of gold and silver harmonized at 15½ to 1. Silver fell, the white pillars became walls which barred the outlet. The inmates were imprisoned. In prison tempers are easily soured, and the Latin Union states no longer bless the treaty of 1865. How can the European states, in the face of these facts, enter into engagements from which there would be no retreat? The declarations made by them in this conference (to which he would add that of Sweden), sufficiently prove that the European states refuse to do so. If the conference of Brussels contributes to establish and fortify the conviction that an international agreement for the free and unlimited coinage of silver is not only rejected for the moment, but is inadmissible for the future, it will have reached a very important result.

**A Premium on Gold Inevitable.**

**Which would be the Upheaval of the System.**

Mr. Jones (the United States) occupied the greater part of this and the following (ninth) session with an academical discussion in favor of bimetallism, which fills fifty large folio pages. He was followed by Mr. Allard (Belgium) on the same side in an argument of nine pages.

Mr. Bengesco (Roumania) commended to the consideration of the conference the question of an international gold coin of 25 francs, showing how great an advantage it would be to commerce and how slightly it would vary from the English sovereign and the German 20-mark piece. His gov-

**Roumania favors an International Gold Coin.**

ernment had instructed him to bring the subject to the attention of the conference.

**Mr. de Osma asks whether the United States wishes a Vote on the Question.**

Mr. de Osma (Spain) thought that the debates of the conference had been of great value, but he thought also that the moment had not arrived for reaching an agreement. He would therefore ask the delegates of the United States whether they deemed it necessary to press the discussion to a point where the doctrinal differences of delegates must be expressed in a vote.

Mr. Allison replied that it was not the purpose of his colleagues and himself to press a vote on the main question at this time. He appreciated the cordiality of expression of all the delegates. It had been proposed to postpone the conference to a future day. He hoped that the studies here begun might receive the thoughtful attention of the governments during the interval. If it should be found impracticable to form a monetary union and if the European states were to continue their present policy, then the United States would doubtless establish a permanent policy of its own, and in the struggle for gold, if there be such a struggle, with its rapidly growing population and wealth, would find ample resources to sustain its policy, whatever it might be.

**Mr. Allison favors a Postponement.**

The Examining Committee, which had previously reported on the Rothschild and Moritz Levy plans, made their final report on all the remaining plans, viz., those of Mr. Tietgen (Denmark), Mr. Allard (Belgium), Mr. Houldsworth (Great Britain) and Mr. de Foville (France). The Tietgen plan proposed the coinage of silver on government account under international agreement beginning with the market ratio to gold, the coins to be legal tender within the

**Other Plans suggested. Mr. Tietgen's.**

countries coining the same. In case of a decline of silver by as much as 5 per cent, a commission, to be appointed, might summon an international conference to decide whether there should be a recoinage. All banks of issue to receive those coins on deposit from all the countries composing the union and to have the right to demand from the issuing countries redemption of their silver coins in gold.

**Mr. Houldsworth's.**

Mr. Houldsworth explained that his plan contemplated that the receipts for deposited silver bullion should be legal tender in the issuing countries, and that the loss, if any, arising from the depreciation of silver should fall on the last holder.

**Mr. Allard's.**

Mr. Allard's plan provided for the issue of international notes based on the deposit of silver, on which the issuing governments should indicate the gold value at the time of issue, the notes to be legal tender and to be redeemed by the governments in gold at the indicated value out of a common fund. In other words, the loss, if any, would fall on all the governments in proportions to be hereafter determined. If silver should rise after the issuing of the notes, the gain would accrue only to the government issuing the same.

**Mr. de Foville's.**

Mr. de Foville suggested that the governments receive silver bullion on deposit and issue certificates therefor according to weight, these certificates not to be legal tender but to be redeemable in the same quantity of silver at the mint or warehouse of any participating government, the object being to facilitate the transfer of silver without actually carrying it from place to place. Mr. Raffalovich suggested that the same arrangement might be usefully made with gold bullion. Mr. Forssell called attention to the agreement between the three national banks of Sweden, Denmark, and Norway, by virtue

of which each bank can make drafts on any other, at any time, for commercial purposes, whether it has a credit balance there or not, on condition of paying all such debts on demand.

The Examining Committee made no recommendations.

Tenth Session, December 17. The President testified his gratitude for the efforts of delegates to facilitate the work of the conference. A motion would be made by Baron de Renzis (Italy) that the conference suspend its labors and take them up at a fixed date in the future.

**Proposed adjournment to May 30, 1893.**

Baron de Renzis submitted a motion that "the conference suspends its labors and decides, should the governments approve, to meet again on the 30th of May, 1893." Mr. Allison seconded the motion.

Mr. Currie (Great Britain) thought that as this was the third conference that had assembled for this purpose and had separated without accomplishing or even advancing the object in view, it would be wiser to declare plainly to our bimetallic friends that the task they had undertaken was impossible. He had been impressed by the words of Mr. Tirard, that France would be required to take a large amount of silver which she could not get rid of. It was a matter of indifference to the seller of goods whether he was paid in paper, or gold, or silver, provided the next man would take it from him at par and without objection. Tried by this test silver had broken down. Nobody wants it for himself; everybody tries to pass it on to his neighbor. After the repeated declarations of the delegates of France, Germany, and Great Britain we should only delude ourselves if we did not admit that the question is closed.

**Mr. Currie opposed to a Future Meeting.**

General Strachey (British India) said that his government would hold itself absolutely free to act as it might

deem necessary on the monetary question during the adjournment of the conference.

**All Countries Free to act during the Interval.**

Mr. Allison replied that no government was bound in the least, as to its monetary policy, during the adjournment.

Count Alvensleben (Germany) said that his instructions did not permit him to take part in the resolution for the adjournment of the conference to May 30, 1893.

**Adjournment. The Conference does not reassemble.**

The resolution was then adopted, and the president declared the conference adjourned. It did not reassemble at the time agreed upon, and no reason for its failure to do so has been made public.

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## CHAPTER V.

### GENERAL CONCLUSIONS.

THE foregoing historical sketch points to a physical reason for the world's adoption of the gold standard. The impossibility of keeping the two metals in circulation simultaneously at a fixed ratio having made the choice of one of them necessary, gold was chosen rather than silver because it was sixteen times easier to handle. As a labor-saving machine it stood at the ratio of 16 to 1. As this physical property cannot be altered, the preferences of mankind for gold cannot be changed. On this point the argument of Mr. Forssell in the Brussels Conference is perfect. Even the most elaborate system of paper exchanges leaves a residuum of payments to be made by the transfer of metal, and here the question of avoirdupois becomes decisive. A premium on gold of one-quarter of one per cent would upset any international agreement that could be made.

**Physical Reason for the Gold Standard.**

The question of ratio, regarded as a numerical quantity, is generally adjourned by the bimetallists to the Greek kalends. The present market ratio is about 32 to 1, but there has been no proposal in this country for a legal ratio higher than 20 to 1. Most American bimetallists cling to 16, although they would accept 15½. But if anything materially different from the market ratio is chosen, there will be an immediate grab for gold and bimetallism will be dead before it is born. It is asked, what could anybody do with gold except to pay his debts with it? He could use it to make new bargains on a gold basis. It is admitted that the law can compel people to take silver or copper or anything else for past debts, but it is firmly denied that the law can compel people to make future bargains in silver if they prefer to make them in gold. Mr. Edward Atkinson says that under international bimetallism, if we can conceive such a thing possible, bills of exchange would be drawn for so many ounces and grains of gold instead of so many dollars or pounds sterling. He is quite right. Not even international bimetallism would cause merchants to draw bills of exchange in terms of a metal which they distrust. Everybody must cherish a suspicion of a kind of money which requires elaborate international arrangements, committees, treaties, statutes, sheriffs, and constables to keep it going, and when any mistake or misunderstanding among fallible mortals is liable to bring the whole thing down by the run. For all purposes of international trade, bills of exchange drawn for ounces and grains of gold would be as satisfactory as bills drawn for dollars or pounds sterling. A familiar example of this kind of trading is furnished by our own government, which lately made a contract for the purchase of 3,500,000 ounces of gold coin, which contract is now in the course of fulfillment.

**An International Ratio.**

**A Dangerous Predicament.**

Unless you can conquer people's preferences for gold, you cannot bring any more silver into use after bimetallism than before, except for the single purpose of paying past debts. This, as everybody knows, is a limited, not an unlimited, demand. Therefore, all talk about creating an unlimited demand for silver by artificial means is baseless and visionary.

If we find a movement of civilized mankind going on steadily for a hundred years, working out in different countries uniform results which commend themselves to successive generations, the presumptions are all in favor of that movement being beneficial. I am so well convinced of the benefits of the single gold standard that if all power were placed in my hands I would not introduce anything different from it. I should consider it presumptuous to attempt to interfere with an obviously natural evolution in human affairs. I should know, moreover, that such an attempt would be futile, because the first step to be taken would be to alter the preferences and likings of individual men. Society consists of aggregations of individuals, who in their private business prefer one ounce of gold to sixteen ounces of silver, or thirty-two ounces, as the case may be. Unless I can change this preference and liking I cannot alter the monetary standard of Christendom. It is this preference which paralyzes all the international monetary conferences. The secret thought of the delegates in the Brussels Conference was something like this : "What would happen the day after international bimetallism if people should continue to prefer one ounce of gold to sixteen ounces of silver?" Any responsible minister of finance must recoil before that query.

**A Natural Evolution.**

If the successive steps that we have described, whereby the nations have arrived, one by one, at the single gold standard, had been the result of a hundred years' conspiracy against the "debtor class," instead of being a natural

evolution beneficial to all classes, I should still be unable to see any advantage in changing back. Whatever mischief appertains to this evolution has been done, and now belongs to the remote past. Those books are closed. To retrace the steps would merely double the wrong, inflicting it upon a new lot.

**No Steps Backward.**

Who are the "debtor class"? All men who are not bankrupts are creditors. Every man who has a crop in the ground is a creditor. Every man who has a week's wages due to him is a creditor. Every man who has a deposit in a savings bank is a creditor. Every man who has got ahead in the world is a creditor. He may owe something, but his ability to obtain credit is presumptive evidence that he has more coming to him than he owes, and this fact puts him in the creditor class. I take it that we are not legislating specially for bankrupts. Certainly it would not be wise to change our standard of value for their accommodation. Such a change would produce a great many new bankrupts and would not save any old ones.

**The "Debtor Class."**

It is said that the single gold standard has produced a disastrous fall in the prices of commodities. Prices of commodities must be either advancing or declining or stationary. The world has no experience of stationary prices and probably never will have. Therefore, those who cry out against declining prices must be in favor of advancing ones, but how far they would push the advance they do not say. Is there any limit to the desirable advance? If so, what is to be done when it is reached? As prices cannot be stationary there must then be a decline. So we do not avoid misery by gratifying the bimetallists. We only postpone it.

**Alleged Fall of Prices.**

If it could be shown that the single gold standard had caused the decline in prices which has taken place since

1873, I should consider that fact its best title to be considered a benefit; because it is demonstrable that wages have advanced during the same period, with the result of giving to the great mass of the people more comforts for their labor than they could command before. This is clearly shown by the Report on Wholesale Prices, Wages and Transportation made by the Senate Committee on Finance, March 3, 1893, — a work which has never been surpassed in this or any other country in fullness, thoroughness and impartiality.

**Beneficial to Mankind.**

After examining this report, Professor Taussig says: "All in all, the figures show that the purchasing power of money wages has been rising steadily for at least twenty years, and that the decline in prices since 1873 and especially since 1882 has been a source of prosperity and not of depression to the community at large."[1]

In the daily business of life nobody imagines that he is promoting the general interests by charging higher prices for his goods, or by contriving means for a general rise of prices. All who advertise in the newspapers proclaim low prices. They seek to attract customers in that way. Is it possible that these advertisers misconceive the public interests? Is it possible that the public misconceive their own interests? Why then do we hear so much complaint about low prices? Because the producers are the only ones who make any complaint. The consumer, when he goes into the market, accepts low prices with quiet satisfaction, but he too can make a clamor when prices are rising. Add fifty cents per ton to the price of coal and you can have plenty of noise on the other side of the house.

**And generally Acceptable.**

[1] Results of recent Investigations on Prices in the U. S. By F. W. Taussig. A Paper read before the International Statistical Institute at Chicago, 1893.

It cannot be shown, however, that such decline in prices as has taken place in recent years has been due to an appreciation of gold. Mr. David A. Wells, in his work entitled "Recent Economic Changes," accounts satisfactorily for the decline in price of all the staple articles of commerce which have really declined since 1873, by new inventions and facilities for producing or transporting the same. Mr. Wells takes up each article separately. He shows that some articles have risen in price during the period named and some have remained nearly stationary, while among those that have declined the widest variations exist as to the percentage of decline, all the changes being traceable to known conditions of supply and demand.

**Mr. Wells's Investigation.**

It is said that the burden of mortgages and of national and state debts has been increased by the appreciation of gold. Here we have again the unproved assumption that gold has appreciated. This is assumed because a larger amount of the things serviceable to man can be obtained with a given quantity of it than could be obtained twenty years ago. On the other hand it requires a larger quantity of gold to buy a given amount of labor than it did twenty years ago. As the dollar will buy less labor but more goods the difference must lie in the greater efficiency of labor. This has all the force of a proposition in mathematics.

**Mortgages and National Debts.**

As to mortgage debts, I have learned by inquiry of the principal lending companies in New York that mortgages are generally made for the term of five years, and that about 25 per cent of them are paid at or before maturity. Consequently, any wrong which mortgageors are now suffering, in consequence of the gold standard, must have accrued since 1890. To redress their supposed wrongs we are asked to turn the whole business of the country upside down and

change the rating of all other contracts 50 per cent. But the average duration of mortgages is considerably less than five years. The Topeka *Capital* newspaper made a special investigation of the records of a number of agricultural counties in Kansas a few years since, and found that more mortgages were paid off than were put on within the period covered by the investigation. I am aware that many mortgages are allowed to run for indefinite periods after they fall due, but these are call-loans on real estate security. I am not aware that borrowers on call are complaining of the gold standard. At all events, if they are oppressed by reason of that standard they can relieve themselves at any time by paying up. If they do not pay and are solvent, it must be because they find it to their advantage to endure these so-called oppressions a while longer.

Suppose it were true that national and State debts were enhanced in the manner alleged, would that be a reason for changing the standard of value for the countless daily transactions of business? The bank clearings of the United States average one thousand million dollars weekly, a sum considerably larger than the interest-bearing debt of the Nation. Add to this the payments over the bank counters, that do not figure in the clearings, and the retail transactions of the people, and then multiply the whole by the fifty-two weeks of the year, and it may be seen how large a cannon it is proposed to load to kill a mosquito, and what a tremendous recoil it must have.

**A Remedy worse than the Disease.**

General Francis A. Walker says, in a recent tract, that "no bimetallist nowadays makes the concurrent circulation of the two metals in the same country a necessity of that system. If it results only in establishing an alternating circulation, the chief results of bimetallism will still be achieved." This, as Professor Farnam has pointed out,

makes no provision for a continued decline in silver, which would land all the concurring nations on the single silver standard.[1] Now the single standard of one metal is not to be preferred to the single standard of the other, on any theory of bimetallism. Those who favor an alternating standard are bound to show that it actually would alternate.

**A Supposed Alternate Standard.**

We hear much about the "scramble for gold." What is meant by this phrase? Generally a thing is not scrambled for unless it is desirable. The simple truth is that gold is the only money of civilized nations. We are all aiming as individuals to get as much money as we can. As nations are composed of individuals it is no mystery that nations appear to be doing the same. Calling it a scramble serves only to create prejudice among the unthinking, because a scramble usually takes place in the dirt and is attended by the display of evil passions.

**The "Scramble for Gold."**

It is said by some that the losses incurred by the want of a par of exchange between silver-using and gold-using countries are very serious, and that this evil can be cured by bimetallism. Whatever this trouble may have been in the past it cannot be considered serious now, since the only silver-using countries are China, the Straits Settlements, Mexico, and a few of the lesser republics of Central and South America. In China, however, silver passes by weight, not by tale. Therefore the par-of-exchange trouble does not exist there.

It is said, finally, that there is not gold enough in the world to do the business of the world. This statement would be of no consequence, even if it were true, since the real question is whether there is enough for the gold-using portion of the world, which question may be answered in

[1] *Yale Review*, August, 1894.

the affirmative, as this portion of the world is giving ocular proof of the fact every day. As regards the future, there is every prospect that the increased supply will keep pace with any increase of demand, the production during recent years having advanced by leaps and bounds. According to the reports of the United States mint the world's output of gold during five years has been as follows :

**Plenty of Gold and More coming.**

| | |
|---|---|
| 1890 . . . | $118,849,000. |
| 1891 . . . | $130,650,000. |
| 1892 . . . | $146,297,000. |
| 1893 . . . | $157,228,000. |
| 1894 . . . | $181,510,100. |

# PART II.

# REPRESENTATIVE MONEY.

# BOOK I.

## *FIAT MONEY.*

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## CHAPTER I.

### GENERAL CHARACTERISTICS.

REPRESENTATIVE money is anything promising to pay money which circulates as a common medium of exchange. It is usually made of paper, but sometimes of a cheap metal.

**Always a Promise to pay Real Money.**

Usually the promise to pay money is printed on it, but sometimes it is merely expressed in the laws. Representative money may be put in circulation by governments, by incorporated companies or by individuals. It may be redeemable or irredeemable. It may promise to pay money on demand or at a future time, and in the latter case it may or may not draw interest. It may or may not be legal tender between individuals.

When it is issued by a government, and is legal tender, it is called fiat money. This phrase is colloquial in the United States.

Money, as we have seen, is an instrument of exchange.

**Equilibrium of Money and Goods.**

There may be too many or too few of these instruments at any time or place, as there may be too many or too few carts or wheelbarrows. When the money is a commodity of general use in the world, like the precious metals, then if any country has more than it needs there will be an exportation of

the surplus, if less there will be an importation. This movement is automatic. It is as certain to take place as an exportation of grain when there is a surplus or an importation when there is a shortage. Nobody, not even the Government, can prevent it.

Now let us see what happens when the Government forces its own notes into circulation. Suppose that one million dollars was just enough before, and that the Government adds one hundred thousand. If the conditions of trade and industry remain the same, there will now be one hundred thousand too many instruments of exchange and the surplus will be exported. Since foreigners will not take the paper, the exported instruments will be the metallic ones. These are a part of the capital of the exporting country and they will bring in other capital in exchange, or pay preëxisting debts for which other capital would need to be exported. Suppose that the Government continues to issue its paper notes until one million are out. All the specie will have passed out of circulation. It usually happens in such cases that a portion of it is hoarded or kept on hand for speculation. Now although there are no more instruments for exchange than there were in the beginning, there will be some depreciation, because those in use are lacking in some of the elements of good money. They are not available for remittances abroad. Their value is not regulated by supply and demand. There is no cost of production to paper money. There is no use for it in the arts. Therefore it cannot command entire confidence. But the depreciation, up to this point, will be slight.

**Disturbances of the Equilibrium.**

**Exportation of Specie.**

Suppose that the Government issues one hundred thousand dollars more. The surplus cannot be exported because foreigners will not take it. The goods and property in circulation were formerly measured by one million dollars.

They are now measured by eleven hundred thousand. Prices will rise. This means that the currency is now depreciated. It will probably be depreciated rather more than the quantity would indicate, because people will expect further issues and will anticipate them by charging more for their goods. Those who are receiving fixed incomes, whether wages, salaries or interest, will be cheated, because the things they buy will cost more, while their receipts will be no greater. Uncertainty will be introduced into business. The investment of capital will, for this reason, be retarded, while speculation will be promoted.

**Depreciation of the Currency.**

Barring public alarm and apprehension, the value of the currency will be governed by the law of supply and demand, *i.e.*, the supply of, and the demand for, instruments of exchange. How are we to know what the value is at any time? By the rate of exchange with countries which are on the specie basis. For example, Italy is on a paper basis; France is on the gold basis. The monetary unit of both is the franc. The two countries have a common boundary. One hundred paper francs of Italy will buy goods on that side of the line that will bring only 94½ francs on the French side, but these are gold francs. This rule holds good as to all parts of France and Italy. If we go away from the boundary we must add charges for freight and other expenses, but it comes to the same thing. At Rome, Florence, Naples, etc., exchange on Paris is at 5½ per cent premium. Italian paper is depreciated in that ratio.

**Its Value regulated by the Law of Supply and Demand.**

This seems a very simple proposition, yet in the year 1810 a Parliamentary investigation was needed to prove it. Great Britain was then on a paper basis and gold was at a premium of 15 per cent. A majority of the merchants and statesmen of the day believed that gold had increased in value instead

of bank notes depreciating. The Governor and ex-Governor of the Bank of England were of this opinion. Parliament appointed a committee to investigate the question. They made a very thorough examination and submitted their conclusions in the celebrated "Bullion Report." They proved, with as much certainty as any proposition in Euclid, that gold had not advanced, but that the paper currency had depreciated and that the depreciation was due to its redundancy.

**The "Bullion Report" of 1810.**

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## CHAPTER II.

### COLONIAL PAPER MONEY.[1]

THE first government paper money in this country was issued by the Colony of Massachusetts in 1690 in order to pay soldiers who had returned without their expected booty from an expedition against Canada. The public treasury was empty, and the soldiers could not or would not wait for the collection of taxes to meet their demands. The General Court accordingly issued £40,000 in due bills which were made receivable for taxes and exchangeable for any commodities in the treasury. These were issued to the soldiers in anticipation of the tax collections; they were not payable at any particular time; they did not bear interest, and they were not legal tender. They did not pass for more than 12 or 14 shillings in the pound. The soldiers lost two-fifths of their dues. In 1692 the bills were made legal tender in all

**First Massachusetts Paper Money.**

[1] In this treatise the word "bills" will be applied exclusively to bills of credit, the word "notes" to the issues of banks. This seems necessary for purposes of distinction, although in common parlance we speak of bank bills and bank notes indiscriminately.

payments and receivable for taxes at 5 per cent better than silver and redeemable in silver at the end of twelve months. These provisions made them equal to silver.

It was a fatal experiment. Its apparent success as a means of postponing taxes led to disorders far worse than the commodity currency of the earlier period. It spread to the other colonies like an epidemic. No kings, however tyrannical, ever debased the money in circulation so recklessly, persistently, outrageously, as the colonial assemblies.

**Rapid Spread of the Epidemic.**

It would seem that no lessons of experience were of any value to prevent repetitions of the same offense. In so far as they were saved from the worst consequences of their folly they were saved by the mother country, with which they were at bitter strife on the subject of legal tender acts and depreciated paper, for three-quarters of a century. Loyal and obedient on most matters, and ready to take up arms in England's quarrels, they were rebellious and intolerant of restraint on this subject.

Nearly all the colonial Governors were in hot water with their legislatures concerning bills of credit. Acting under instructions of the Lords of Trade they repeatedly vetoed the paper-money bills. Then the legislatures refused to provide for the support of the local governments. They stopped the salaries of the Governors and allowed the public buildings and barracks to go to decay. This source of irritation against the mother country has been grossly neglected by historians in general, but not by Mr. Felt, the historian of Massachusetts currency, who assigns it its proper place among the causes which led to the separation.

**Strife with the Mother Country.**

In South Carolina in 1719 the people deposed the Proprietors' Governor because he would not assent to bills of credit and the King connived at this act of insubordination

in order to get the province under his own authority. At a later period the Legislature of this colony, being at loggerheads with the royal Governor on the same subject, adjourned for three years, making no provision for the support of the government meanwhile. The same thing happened in New Hampshire. Her representatives for five years preceding the year 1736 refused all supplies. New Jersey did the same for four years, for the same reason. The Governors complained to the home authorities; and the latter insisted that the colonies should provide a permanent instead of an annual support for the local governments, which they flatly refused to do. In almost every case the Governors were at last worn out and compelled to yield. As Mr. Felt says, "The Briareus of paper money was too strong for them."

**And with the Colonial Governors.**

The Colonies had agents in London to look after their interests and to give them early warning of danger. Their activity was largely engaged in opposing measures to restrict bills of credit. The mother country would have taken earlier and more decisive steps against these swindling acts but for the frequent wars with France and Spain. Whenever a war broke out, and the colonies were called upon to take up arms, bills of credit were voted, and then the home government could only acquiesce, but it always insisted that the bills should be sunk by taxes within five years.

Petitions against bills of credit from the mercantile classes in the colonies, and from London merchants, at last prevailed on Parliament to take action. In 1751 a bill was brought forward to prohibit paper money in the four New England provinces where the trouble was greatest, but before it was passed the agents of the colonies managed to get exceptions in case of great emergencies and of war. Even in these cases the

**Prohibitions by Parliament.**

bills were not to be legal tender between individuals. Remonstrances against the act by the colonial assemblies were numerous, and some of them took the ground that it was an infringement of the liberties of all Englishmen. The agent of Massachusetts, although this colony had just returned to a specie basis by repudiating nine-tenths of her outstanding paper, was very urgent that the liberties of the people should not be infringed upon by an act to prevent them from doing the same thing over again. In 1763, Parliament passed another act much more stringent, and applicable to all the colonies.

Contemporary historians tell us that these sins were not committed through ignorance. It was not through ignorance that Massachusetts, for example, watered her currency till one pound sterling would buy eleven pounds of paper money and then repudiated all but one-tenth of it. This process was going on gradually for fifty years. The better classes were outvoted; they were benumbed and powerless. They were a prey to an active speculating class and a shiftless debtor class who controlled legislation from year to year in the way that we have had examples of in more recent times.

**"Populists" of the Colonial Period.**

A pamphlet of 1743 [1] speaks of the bills of credit in New England issued on loan "to themselves, Members of the Legislature, and to other Borrowers, their Friends, at easy and fallacious Lays, to be repaid at very long Periods; and by their provincial Laws made a Tender in all Contracts, Trade and Business, whereby Currencies, various and illegal, have been introduced which from their continued and depreciated nature in the Course of many Years have much oppressed Widows and Orphans and all other Creditors." This writer gives special attention to the colony of Rhode

[1] Quoted in "A Letter from a Gentleman in Boston to his Friend in Connecticut." In the Ford Library, Brooklyn.

Island, which had "defrauded more in a few years than any the most wicked administrations in the several nations of Europe have done in several centuries. A contract made 30 years ago for £100 sterling in value (that is, silver at 8*s.* per oz.) is at present reduced to a nominal 32*s.* per oz. . . . This expedient of depreciating their Government bills, by their laws made a Tender and Currency, is promoted by the fraudulent Debtors and desperate part of the Colony in order to pay former contracts with a much less value than was contracted for and more especially to defraud British merchants in their outstanding debts. The paper money promoters are the desperate and fraudulent, these being vastly the Majority in the colony, carrying all elections; both legislative and executive parts of their government are annually elective. Thus Government is perverted and become worse than a State of Nature. If by chance any of the elected opposes the emission of any of those fraudulent bills he is drop'd next election as a professed enemy to the Interest of the Colony. . . . This poor small colony, from a late exact Perlustration, contains not exceeding 20,000 men, women and children, whites, Indians and negroes, have extant about £400,000 paper money. And of this about three-quarters is in the Possession of people of neighboring Colonies." The writer of the "Letter" was not opposed to bills of credit. His motive in writing was to show that an act of Parliament prohibiting the emission of bills in New England generally, because of the excesses and frauds of Rhode Island and New Hampshire, would be an act of injustice to Massachusetts and Connecticut.

**Rhode Island an Awful Example.**

"All our paper-money making legislatures," says the contemporary writer Dr. Douglass, "have been legislatures of debtors, the representatives of people, who for incogitancy, idleness and profuseness have been under the necessity of

mortgaging their lands." To the same purport writes Hutchinson.

Thomas Paine has drawn the portrait of the group. Writing in 1786, he tells us how the speculators and debtors were then working for bills of credit. He says :

**Testimony of Thomas Paine.**

"There are a set of men who go about making purchases upon credit, and buying estates that they have not wherewithal to pay for ; and having done this their next step is to fill the newspapers with paragraphs of the scarcity of money and the necessity of a paper emission, then to have legal tender under the pretence of supporting its credit, and when out, to depreciate it as fast as they can, get a deal of it for a little price and cheat their creditors ; and this is the concise history of paper-money schemes." [1]

In this essay Paine says that any member of the legislature who proposes a tender law ought to be put to death.

"Usurers" were then, as now, unpopular. Any means of circumventing them was hailed with satisfaction, and no method was more obvious than that of furnishing loans at the public treasury to those who could not borrow elsewhere, or who wanted to borrow at less than the market rates, or who wanted to borrow from the colony at low rates in order to lend again at high rates. Anybody who had a "pull" could do this. In Rhode Island it was the custom of the favored ones to sell their privileges, as "rights" are sold on the Stock Exchange. The first issue of bills of credit for a loan was in South Carolina in 1712. From this example, says Bancroft, "the passion for borrowing spread like flame on a dry prairie."

**Loans from the Treasury.**

There were three main causes or excuses for the issue of bills of credit : (1) war expenses ; (2) loans to individuals ;

[1] Writings, vol. ii, page 178.

(3) ordinary expenses of government. There were other pretexts. One of the most common was the replacement of old and worn bills, which always left a margin over for general expenses, and sometimes a very large margin. Of £46,000 Connecticut bills authorized for this purpose between 1713 and 1732, £29,885 went to the payment of colony debts. In this case the General Court did not wait to see what margin would be left after replacing the old and worn bills, but dipped into the reservoir to meet current charges, because it was handy. Maryland once issued bills of credit as a sheer gift to a portion of the inhabitants — "the taxables."

**Other Pretexts for Bills of Credit.**

Colonial bills of credit were of several different kinds, viz., (1) interest-bearing, not legal tender (these were unobjectionable); (2) the same, legal tender for the principal and sometimes for the interest also; (3) non-interest-bearing, legal tender for all purposes; (4) the same, legal tender for future but not for past debts; (5) the same, not legal tender between private persons but receivable for all public dues.

**Different kinds of Bills.**

Interest-bearing bills were soon abandoned and the tendency in all the colonies was to make the bills legal tender for all purposes. But for the restraints imposed by the mother country probably all would have been legal tender for all purposes, and the issues would have been much larger in amount than they were. Dr. Bronson says that Connecticut was more prudent than her neighbors in the matter of legal tender acts because she had a precious charter which she did not wish to put to risk by offending the home government. No such consideration restrained Rhode Island.

**Mostly Legal Tender.**

Reports were made from time to time to the home government in response to inquiries as to the amount of bills out-

standing. Often these were ingeniously prepared to convey false impressions. The New York Assembly had the assurance to repeal all safeguards against the re-

**False Reports.**

issuing of bills of credit that had been redeemed, and when the Governor disallowed the act the Treasurer reissued the bills nevertheless. The Governor so reported to the Lords of Trade, and added that the Treasurer refused to let him know the amount of bills outstanding when requested to do so.

In addition to legal tender there was a great variety of laws to compel people to sell their property at the same price for bills of credit as for silver. The "debtor class" were not satisfied with forcing depreciated

**Forcing Laws.**

paper upon creditors for past obligations. They insisted that they ought to be able to buy as much property with the paper as with specie. Those who had been forced to take the paper for past debts naturally joined in this demand. The legislatures agreed with them. Hence we find in nearly all the colonies severe penalties on those who charged more for their goods, lands or services in bills of credit than in hard money. In some cases the penalty was a fine, in others imprisonment, in others confiscation of the property offered. There is no recorded instance in colonial history where the penalties had any effect to reduce the prices of property, or to equalize paper prices and silver prices, although there are many cases where individuals were outrageously robbed.

The usual course of events where bills of credit were issued (but with some variations) was as follows: (1) Emis-

**Usual Career of Bills of Credit.**

sion; (2) disappearance of specie; (3) counterfeiting; (4) wearing out of bills; (5) calling in and replacing worn and counterfeited issues with new ones; (6) extending the time for old ones to run, especially those that had been placed on loan; (7) depreci-

ation; (8) repudiation of early issues in part and the emission of others called "new tenor."

**Various "Tenors."**

Dr. Douglass says that Massachusetts had at one time "old tenor, middle tenor, new tenor first, new tenor second." Rhode Island had an indefinite number of tenors like a succession of manure heaps of different degrees of rottenness.

**Extending Time for Redemption.**

In all cases except where the bills were placed on loan, taxes were laid to sink them at some time, near or remote. This was necessary to give them any credit at all, but it was very easy to extend the time. Consequently postponements were frequent. When Parliament took hold of the subject it prohibited all extensions and deprived the bills of their legal tender character after the allotted time had expired. This was a great grievance. The New York legislature resolved that bills not tenderable were useless.

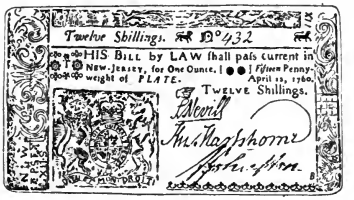
**Counterfeiting.**

Counterfeiting and wearing out were invariable and very trying evils. The former was punishable with death in all the colonies except one or two, — Bronson says in all except Connecticut, — but although there were many convictions the extreme penalty was hardly ever enforced. The expulsion of specie which followed very soon after the first emission of bills of credit left the people without small change. Then the practice of halving and quartering the bills came into vogue, and this opened a new door to fraud. The counterfeiters halved and quartered their own bills and united the parts to the corresponding parts of genuine ones and sometimes attached the half of a five-pound note to the half of a ten. There was no end to their tricks. Some bills of small denominations circulated after they were known to be counterfeit.

Worn-out bills were an ever recurring nuisance. All sorts of opprobrious epithets were heaped upon them. They

# COLONIAL BILLS OF CREDIT.

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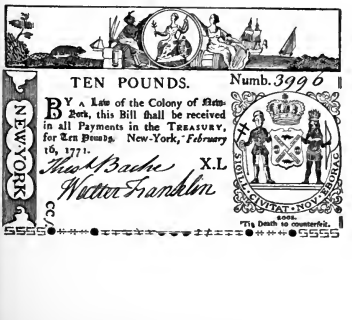


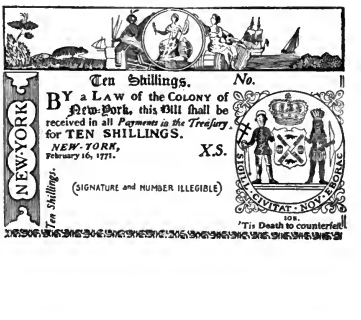










were called, in various statutes, old, worn, torn, tattered, shattered, ragged, mutilated, defaced, obliterated, illegible and "unfit to pass." I have some in my possession to which all these epithets might be justly applied.

**Wearing out.**

The depreciation of the bills varied in the different colonies. In Massachusetts the maximum depreciation was 11 for 1 (the standard being Proclamation money). In Connecticut it was 8 for 1. In 1763 the value of the New Hampshire shilling was a little less than a half-penny; in 1771 it vanished altogether. Rhode Island old tenor bills in 1770 were worth 26 for 1. Those of North Carolina were 10 for 1; of South Carolina 7 for 1. The bills of the middle colonies were kept within reasonable bounds — a result due mainly to the stubbornness of their Governors. The maximum depreciation in New York was only 25 per cent in comparison with proclamation money.

**Depreciation.**

In 1768 the colony of New York fell into the predicament of having no legal tender money. The old bills of credit had run out and the act of Parliament prevented the issuing of any more. Spanish dollars were current at eight shillings, but under the Proclamation act of Anne they were not legal tender for more than six. The Legislature passed a law making gold and silver legal tender "at the rates they passed in business." Governor Moore vetoed it because it was in conflict with the Proclamation act.

**A Queer Predicament.**

The Legislature next passed a bill for emitting £120,000 in bills of credit to be loaned at 5 per cent interest for fourteen years. These were not legal tender but were receivable for all public dues. When this measure came before the Lords of Trade they referred it to the Privy Council for an opinion whether the making of the bills legal

tender at the public treasury was in conflict with the act of Parliament of 1763. The matter was referred to the law officers of the Crown, who decided that it was in conflict with that act. Lieutenant-Governor Colden was now in the executive chair. Notwithstanding the adverse decision of the home government on the last-mentioned bill he gave his approval in 1770 to another bill of the same kind. For this he was severely censured by the home government and the bill disallowed for the same reasons as before. Parliament, however, passed a special act authorizing the colony to issue £120,000 in bills, which should be receivable at the treasury, but not legal tender between individuals. These bills were issued and were outstanding at the beginning of the Revolution.

**A Legal Tender Decision in 1769.**

The pamphlets and records of the colonial period are filled with accounts of the distress and demoralization caused by depreciated paper money made legal tender. The accumulations of age and the inheritances of orphans were swept away by this remorseless demon. So too were the earnings of the wage-worker. In order to avoid the losses from a depreciating standard of value, resort was had by workingmen to "store pay" and here they were generally cheated 25 per cent. Trustees and executors having money in their hands belonging to other people, seeing how things were going, often postponed payment on frivolous pretexts, since each delay enabled them to settle their accounts with less value, thus "devouring widows' houses." Not only was bad blood stirred up by the resistance of the royal Governors, but a spirit of lawlessness was engendered against the local assemblies if they showed a disposition to resist the demands of the greenbackers of that day. Even after the Revolution the Legislature of New Hampshire was mobbed because it refused to issue

**Swindling.**

**Mob Law.**

legal tender bills. One of the demands of Shays's rebellion in Massachusetts was for more paper money. In Rhode Island after the Revolution a general system of repudiation of debts, public and private, was undertaken and carried through by means of legal tender paper in spite of the decisions of her courts.

**Repudiation.**

This teaches that a popular government when once started after the *ignis fatuus* of irredeemable paper cannot stop itself. Those who are behind push those who are in front over the precipice. Our own history during the civil war is almost the only example of a successful resistance to the last desperate plunge which ends in financial ruin. The South did take the plunge.

**Haec Fabula docet.**

Now let us inquire what happened when colonial bills of credit were issued as loans to private individuals. What the borrowers wanted was circulating capital. They did not borrow the bills in order to look at them, but to spend them for store goods, provisions, building materials, labor, etc. The wages they paid to laborers were expended for store goods, provisions, etc.; so we may say that the borrowers of the bills of credit aimed to get control of the useful things that were on sale in the community, and that they succeeded in doing so. Now, whether the bills depreciated or not, it is evident that the borrowers got an advantage over their neighbors, because they obtained control of this circulating capital at lower rates than others had to pay. This was precisely the reason why they wanted the loan bills to be issued. If they could have borrowed at the same rate in the open market, there would have been no reason for borrowing from the Government. But the injustice did not stop there. Whatever they took out of the loan market in this way caused a scarcity, and a rise of the rate of interest, for other bor-

**Economic Effect of the Loan Bills.**

rowers. One of the most observing pamphleteers of the day tells us that the rate of interest on "natural loans" always advanced after a public loan. This was due in part to the withdrawal of loanable capital, and in part to the fear of lenders that the bills would depreciate in consequence of the new emission. Most commonly they did depreciate.

**A Conspiracy of Landowners.**

The borrowers were for the most part landowners. Only two kinds of security were allowed by law, land and plate. Very little plate was ever offered at the loan offices. The landowners controlled the legislative assemblies everywhere. Thus the emission of bills of credit on loan was a conspiracy of needy landowners against the rest of the community.

The effect of a depreciating currency is similar to that of clipped coin. If all the money in the country were metallic, and if each man, upon receiving a piece, should be privileged to shave off one per cent before passing it, and if the law required everybody to accept the remainder at its face value,

**Effects of Depreciating Paper.**

the consequences would be like those which followed the emission of colonial bills of credit. In the course of time the whole coinage would be reduced to a fraction, say one-tenth, of its original weight. If the rulers of the people should then decree that the pieces should pass only for their actual value, and that new coins should be struck at the mint of full weight, but that clipping might go on as before, we should have old tenor and new tenor just as they had in New England in the 18th century. There is one difference, however, in favor of clipped coin. Nobody loses anything by merely holding it. Nobody can shave off any part of it except the owner. In the case of a depreciating currency, the longer you keep it, the more you lose.

Bills of credit caused a distribution of property different from that which would have taken place under ordinary con-

ditions. Was this distribution better than the ordinary one? The question may be answered on grounds of justice and on those of expediency.

**On the Distribution of Property.**

It seems to be consonant with justice that property should belong to the person who earns it. Society has advanced to its present stage on that belief. There is a theory afloat that the state, by taking sufficient pains and by having the wisest and best men always at the head of affairs, might make a more equitable distribution of the gains of the community than by allowing each man to have what he earns. Whether this theory be sound or not, it implies an elaborate design, and great care in its execution. Haphazard is no part of the conception; but haphazard was the main element of distribution by bills of credit, and must be the main element of any similar scheme. Justice has no place in it.

**Retards the Formation of Capital.**

Usually that which is just is also expedient. It is certainly expedient that capital be accumulated, since this alone stands between mankind and every form of misery. Capital is food, shelter, rest, recreation, instruction and improvement. That which tends to the growth of capital, tends to the upbuilding of the human race. Capital is the result of industry and saving. It is the difference between total production and total consumption. Nothing is more discouraging to industry and saving than uncertainty as to the rewards thereof. If it is reasonably certain that what a man earns shall belong to himself and his children, he has an incentive to work and save. Bills of credit brought uncertainty into all business affairs and to that extent discouraged the formation of capital. Our ancestors had a new country and a virgin soil, so that they must have made some progress even with bad money. It is impossible to say how much they were kept back by their wretched bills of credit,

but it cannot be doubted that the growth of capital was retarded. We know, too, that public morals were corrupted and the sense of right and wrong deadened.

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## CHAPTER III.

### CONTINENTAL MONEY.

BAD as the colonial fiat money was, that of the revolutionary period was worse. Our ancestors went to war without being prepared. They had no money and no system of taxation.

Nevertheless they understood the nature of fiat money. The experience of the past had not been forgotten. Even Franklin, who had been a pronounced greenbacker in earlier times, now recoiled. When the first paper money was proposed in the Continental Congress (June, 1775) he urged that the bills should bear interest, in order to prevent depreciation. When the second issue was proposed he urged that Congress should borrow on interest the bills already authorized. Both of these plans were rejected. The third issue bore interest, and now Franklin urged that the interest should be payable in "hard dollars." This was voted to be impracticable.

**Franklin's Warnings.**

There was much confusion of ideas concerning details. While taking time to consider them it was voted in July, 1775, to issue due bills for two million Spanish milled dollars to be sunk by taxes in four successive years, beginning November 30, 1779, the taxes to be levied and collected by the States in proportion to their population. The bills were not legal tender. The Congress had no power to make them legal tender, but in January, 1777, it recommended that the States should do so; and this they did, one after another, in one

**First Issues.**

way and another. Before the two millions were issued another million was wanted, and was authorized, together with three millions more before the end of the year. Nine millions more, or fifteen in all, were out before independence was declared. It was called continental currency to distinguish it from the issues of the separate States.

From this time the demon of fiat money had possession of the country and worked its will on the inhabitants. The issues ran on, in an increasing volume, till they amounted to two hundred and forty-two million dollars in the year 1779. In 1781 the whole mass became worthless. The essays of Pelatiah Webster on this subject have become classic. Mr. Webster was a merchant of Philadelphia and an ardent patriot. He wrote while the paper money experiment was going on. We can readily believe him when he says: "We have suffered more from this than from every other cause of calamity; it has killed more men, pervaded and corrupted the choicest interests of our country more, and done more injustice than even the arms and artifices of our enemies."

**Pelatiah Webster.**

In his first essay (October 5, 1776) Mr. Webster says that he cannot discern any depreciation as yet, or any advance in the prices of goods beyond what a state of war would occasion even if the currency consisted of gold and silver exclusively. On the other hand Professor Sumner has collected evidence showing that at some places goods were sold at lower prices for silver than for bills even before the Declaration was signed.[1] It is certain that committees were at work early in 1776 attending to the cases of persons who discriminated

**Early Depreciation.**

[1] There are several histories of the continental currency. That of Professor Sumner in his *Financier and Finances of the American Revolution* is much the best. Mr. A. S. Bolles, in his *Financial History of the U. S.*, has been an industrious collector of facts.

against paper money. The most common punishment for this offense was seizing some portion of the offender's goods and declaring him an enemy of his country. That this was no trifling penalty is attested by the fact that nearly every one recanted, and promised amendment. Nevertheless the number of offenders increased continually. In Philadelphia in the latter part of 1776 one of the penalties was the closing of the shops of the guilty parties. This caused prices to rise by giving a monopoly to the others. When this effect was observed the first culprits were allowed to reopen.

Early in 1777 the depreciation had become too great to be ignored. Committees were appointed in nearly all the States to prevent engrossing and forestalling. One way was to buy all the goods of a particular kind in sight for the use of the army and to require the owners to accept continental money for it. This involved the necessity of deciding how much the owners were entitled to retain for their own use or to meet engagements previously made. It was necessary also to fix the rate of wages of labor. At a later period the depreciation was so rapid that Professor Sumner says a man might lose his whole wages while earning them.

Price conventions were the next resort. The first one was held at Providence. It was composed of delegates from the four New England States. It fixed the prices at which imported goods might be sold, but an exception was made of arms and ammunition in order to encourage their importation. Retailers were not to charge more than 20 per cent advance. The regulation of prices of domestic products was left to the States, as was also the penalty for overcharging. Rhode Island enacted, in addition to other penalties, that if anybody withheld from sale any goods required for the army or navy the State officers might seize them and if necessary break open buildings. A little later it was enacted that

**Price Convention in New England.**

buildings containing any goods needed by the community and withheld by the owners might be broken open and the contents sold at the statutory prices. An exception was made of salt as being, like arms and ammunition, an indispensable article. The effect of these laws was to discourage importation. Nobody would bring in goods to be exposed to legal depredation. Accordingly the Rhode Island laws against engrossing were repealed after a few months. The course of proceedings in Connecticut was substantially the same. This State, however, had a law to prohibit persons from buying any more goods than the selectmen should judge to be necessary for the use of their respective families. Anything like prudence in laying in supplies was forbidden.

**Burglary legalized.**

A price convention of the six Middle States was held at York, Pa., in March, 1777, but was unable to agree upon a single point. Three States voted that maximum prices should be fixed, that sales by auction should be forbidden, and that importation (which had fallen off in consequence of the disorderly proceedings of committees) should be encouraged by bounties. Three voted against these propositions, believing that they would only aggravate the evils. The subject was accordingly referred back to the States, but the execution of the price-limiting laws was oftener in the hands of mobs than of the constituted authorities. In Albany two persons who had sold rum for more than the established price were taken to the market place and put on a scaffold, when they fell on their knees, acknowledged themselves guilty, and promised to observe the law and help to enforce it upon others. Every method of evasion, such as trade by barter, subjected persons to suspicion. Richard Henry Lee commuted his rents to payment in produce.

**Price Convention of the Middle States.**

For this he was denounced as a Tory and left out of Congress at the next election.

Mr. Webster, in one of his essays, said that not more than one man in ten thousand was capable of understanding the subject. The greatest man of the period did not understand it. December 12, 1778, Washington wrote to Reed, the President of Pennsylvania, commending his zeal "in bringing those murderers of our cause, the monopolizers, forestallers and engrossers,[1] to condign punishment. It is much to be lamented," he continued, "that each State, long ere this, has not hunted them down as pests to society and the greatest enemies we have to the happiness of America. I would to God that some one of the more atrocious in each State was hung in gibbits upon a gallows five times as high as the one prepared by Haman." Yet he had written, more than a year earlier (September 28, 1777), to John Parke Custis, directing him to see that the rent of certain land and slaves should be so arranged that the payments should have a relative value to the currency. "I do not mean by this," he says, "that I am unwilling to receive the paper money. On the contrary I shall with cheerfulness receive payment in anything that has currency at the time of payment, but of equal value then to the intrinsic worth at the time of fixing the rent." Again (October 10, 1778), only two months before he wrote to Reed about hanging monopolizers, forestallers and engrossers, he wrote to Custis advising him not to accept money for a piece of land he was about to sell, but to take other land in exchange for it, because the money might lose its value. This was just what the monopolizers, forestallers and engrossers apprehended.

**Washington's First Views.**

Washington was an honest man. It never occurred to

[1] Forestalling is buying goods before they reach the market, in order to sell them at a higher price. Engrossing is the same as monopolizing.

him that he was doing with his land and slaves exactly what the others were doing with their provisions and store goods. But, a year later, his eyes were wide open. In August, 1779, he wrote to his agent, Lund Washington, that he would no longer accept continental money on contracts made before the war, unless other people did the same. "The law," he says, "undoubtedly was well designed. It was intended to stamp a value upon, and to give a free circulation to the paper bills of credit, but it never was nor could have been intended to make a man take a shilling or sixpence in the pound for a just debt, which the debtor is well able to pay, and thereby involve himself in ruin. . . . If sacrificing my whole estate would effect any valuable purpose I would not hesitate one moment in doing it. But my submitting in matters of this kind unless the same is done by others is no more than a drop in the bucket. In fact, it is not serving the public but enriching individuals and countenancing dishonesty, for I am sure no honest man would attempt to pay twenty shillings with one or perhaps half of one. In a word I would rather make a present of the bonds than receive payment for them in so shameful a way."

**Subsequently Changed.**

After the Revolution and to the end of his life, Washington was an inflexible opponent of bills of credit, and he had need to use all his influence against that form of debauchery in Virginia.

With the mass of the people nothing could be done. All of them, the wise and unwise together, were hurrying to a cataclysm. "The fatal error," says Webster, "that the credit and currency of the continental money could be kept up and supported by acts of compulsion entered so deep into the mind of Congress and all departments of administration through the States that no considerations of justice, religion, or

**The Final Cataclysm.**

policy, or even experience of its utter inefficiency could eradicate it. It seemed to be a kind of obstinate delirium, totally deaf to every argument drawn from justice and right, from its natural tendency and mischief, from common sense and even common safety. This ruinous principle was continued in practice for five successive years, and appeared in all shapes and forms, *i.e.*, in tender acts, in limitations of prices, in awful and threatening declarations, in penal laws with dreadful and ruinous punishments, and in every other way that could be devised, and all executed with a relentless severity, by the highest authorities then in being, viz., by Congress, by assemblies and conventions of the states, by committees of inspection (whose powers in those days were nearly sovereign), and even by military force ; and though men of all descriptions stood trembling before this monster of force, without daring to lift a hand against it, during all this period, yet its unrestrained energy ever proved ineffectual to its purposes, but in every instance increased the evils it was designed to remedy, and destroyed the benefits it was intended to promote ; at best, its utmost effect was like that of water sprinkled on a blacksmith's forge, which indeed deadens the flame for a moment, but never fails to increase the heat and force of the internal fire. Many thousand families of full and easy fortune were ruined by these fatal measures, and lie in ruins to this day, without the least benefit to the country, or to the great and noble cause in which we were then engaged."

When the price conventions failed of their object new ones were held fixing new limits, as for example fourfold the prices of 1774, then eightfold, then tenfold, then twenty-fold, terrorism being applied in each case to enforce the decrees. Country folks accused town folks of extortion and threatened to come in and take what they wanted by force. Town folks accused country folks of withholding their

produce. Laws were enacted against withholders. Anonymous handbills and broadsides were circulated threatening vengeance on merchants. Turmoil was everywhere. Society was like a train of Eskimo dogs when the driver hits the leader with the whip and he turns and falls upon the dog behind him, and presently the whole pack are piled together in battle, nobody knowing what it is all about. In October, 1779, Boston was on the verge of starvation; money transactions had nearly ceased, and business was done by barter.

**Social Terrorism.**

In May, 1779, two regiments of Connecticut troops revolted on account of their bad pay. In January, 1781, the Pennsylvania line broke into mutiny for the same reason and killed a captain who tried to bring them to submission. A soldier's pay had dropped by depreciation from $7 per month to 33 cents, although it had been twice raised by Congress. Washington could not move his army to Yorktown till Robert Morris had borrowed hard money from Rochambeau for their back pay.

**Mutiny of Soldiers.**

In March, 1780, Congress tried the colonial experiment of "new tenor" in a very awkward and roundabout way, and declared old tenor to be worth forty for one, the actual depreciation being sixty for one. As it was supposed that $200,000,000 of continental money was now out, this was a repudiation of all but $5,000,000 of it. The depreciation then went on more rapidly than before. The new tenor bills started at a depreciation of 2 for 1, which became 3 for 1 before they reached the army and dropped to 6 for 1 in a few months. Old tenor went at a galloping pace down to 500 for 1 in Philadelphia, when it ceased to circulate. In the remoter districts of the South, it continued in circulation nearly a year longer, and until the depreciation had reached 1,000 for 1. The Southern people, when they learned that they

**"New Tenor."**

had been using the stuff long after it had become worthless in the North, thought that they had been cheated by the Yankees.

Counterfeiters had been at work all the time and with so much success that Congress was obliged to call in the entire issues of certain dates and declare them uncurrent after a fixed period. The issues thus branded fell 25 per cent as compared with those not branded. Still, counterfeiting only hastened the impending crisis, and in that respect, it was a public advantage; for, as soon as paper money was dead, hard money sprang to life, and was abundant for all purposes. Much had been hoarded and much more had been brought in by the French and English armies and navies. It was so plentiful that foreign exchange fell to a discount.

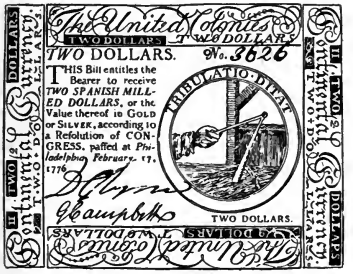
**Counterfeiting.**

When the paper had become clearly unmanageable, early in 1779, Congress bethought itself of "specific supplies" as a means of feeding the army. Under this plan requisitions were made upon the States for beef, pork, flour, corn, forage, etc. Contrary to expectation this was found to be the worst device of all, since it needed a vast new system of transportation, warehousing and accountability, and opened the door to innumerable frauds. Robert Morris, the Superintendent of Finance, protested against it in the beginning as the most wasteful method of supplying the army, but his protest was unheeded. Nothing would open the eyes of Congress but an experiment. Instantly, there was a tangle of the public accounts which nobody could unravel. In some cases flour collected for the army was not forwarded because there was no money to pay teamsters. It remained at the place of collection till it was spoiled. Other consignments, which were actually sent, arrived too early or too late, and were left on the ground exposed to the weather. Cattle forwarded

**Specific Supplies.**

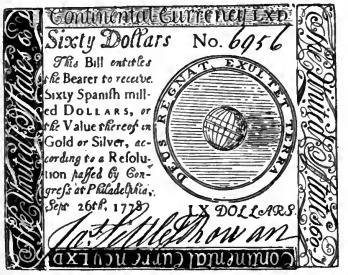
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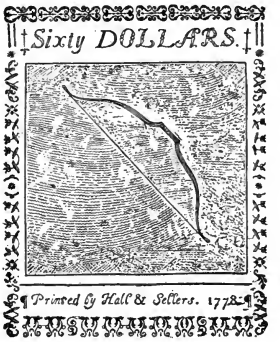
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for beef were allowed to wander away. Collections were made and not reported, and were discovered afterwards by accident. In August, 1780, Washington was obliged to send word to a body of militia, who were about to march to his aid, not to come because he could not feed them. Communicating this fact to Congress he said, "The present mode of obtaining supplies is the most uncertain, expensive, and injurious that could be devised." He said that it had made impressment necessary, and that impressment could not last long. Many of Gen. Greene's soldiers could not leave their tents because they were naked. The experiment of specific supplies was an attempt to carry on government without any medium of exchange. It was a flat failure.

**A Complete Failure.**

Impressment, somewhat disguised, had been resorted to from the time when continental money began to depreciate. To seize a man's goods and tender him irredeemable paper, at a rate that he could not replace the goods for, was confiscation of the difference between paper and specie. All the price conventions were impressment conventions under another name. Congress recommended the impressment of horses and wagons "at a reasonable rate" as early as 1775. Impressments of this kind were not unknown to the colonies. New York had resorted to them in the old French wars and South Carolina in her Indian wars. Lists of articles impressed, with the prices attached, are of frequent occurrence in colonial statutes. These, however, implied payment in full measure, not long deferred.

**Impressments.**

When the continental money began to go down hill fast, impressments became more frequent. In Pennsylvania so many horses and wagons were impressed that the country people stopped bringing fuel to the towns. This led to an exception, by the Council of Safety, of teams engaged in

hauling wood or provisions. In Virginia impressments were so numerous that the people sent their teams over the mountains or into North Carolina for safety. Others made a practice of removing and hiding a wheel or some indispensable part of a wagon, so that it might be useless when the impressing officers came. When Washington arrived in camp at Yorktown ample supplies of bacon had been collected and stored for the army, south of the James River, but they could not be moved because the impressing officers could not find any teams to haul them, in the oldest settled part of America. Teamsters, who had been impressed, threw out their loads at the wrong places. Others ran away with them and did not return. Hamilton wrote to Greene that public credit was so totally lost that nobody would furnish aid even in the face of impending ruin. All this was at the very crisis of the war, while the fleet of De Grasse was sailing into Chesapeake Bay. But for that fortunate conjuncture the war could not have been continued, so greatly had the people been alienated by bad money and the harsh treatment which it led to.

**Also a Failure.**

In May, 1781, Congress recommended that the States should repeal their legal tender laws. Some of them had already done so, and now the rest followed suit. All of them adopted "scales of depreciation" for the settlement of debts. These were tables showing how much the money was worth in specie at various times, and how disputed accounts should be settled. The tables were notoriously incorrect. The one recommended by Congress placed the currency at par in September, 1777, whereas it was worth at that time only 33 cents on the dollar. New confusion and new wrongs were introduced by the new policy. "The courts could not do justice," says Prof. Sumner, "because depreciation intro-

**Scales of Depreciation.**

duced a fraud into the very essence of the case, and the agent of the fraud was almost always innocent, so far as his intention was concerned. If, therefore, the court undertook to release the victim of the fraud from all effect of the fraud, the injury was simply thrown back on the perpetrator, who being innocent, suffered as much wrong as the victim would have suffered if nothing had been done."

Continental money was now an object of execration and afterwards of derision. "Not worth a continental" became a synonym for absolute worthlessness. In the act of Congress approved August 4, 1790, authority was granted for funding the bills in 6 per cent bonds "at the rate of one hundred dollars in the said bills for one dollar in specie." Only $7,000,000 turned up to take advantage of this provision.

**"Not Worth a Continental."**

When the final catastrophe came, some of the wise men of the period exclaimed that the continental money was simply a form of taxation, and that it had been paid and cancelled. Franklin consoled himself with this idea, saying that the bills clothed and fed the army and that they operated as a tax, bearing most heavily on the rich, as was proper, since the rich had the most money. Strange that so great a man could have been so deceived. If the continental money was a tax it did not bear heaviest upon those who had the most, but upon those who kept it longest. Those who had money due them at fixed times and could not hasten the payment were *taxed* not in proportion to their wealth but in proportion to the time the debts had to run. All who depended upon regular interest payments — and most of the charitable and educational institutions of the day were in this category — were taxed at various rates up to 97½ per cent of their entire income. It is a complete subversion of ideas to call this a tax.

**Continental Money considered as a Tax.**

The word tax is from the Latin *taxare*, to value or appraise. It presumes a methodical arrangement of the taxable persons so that justice shall be done and each shall know what he has to pay. Taxation is the opposite of confiscation. It was adopted in order that confiscation might be avoided. Confiscation, however, has the merit of enabling the government and people to know how much has been taken, and from whom, so that when more propitious times come, or a higher sense of justice prevails, restitution may be made. The kind of confiscation or taxation that continental money produced was a hurly-burly. The government plundered right and left, and instead of keeping an account of persons and things it told the victims to rob the next ones they came to.

**Or as Confiscation.**

Another euphemism, which still lingers, is that "the continental money fell gently asleep in the arms of its last possessor." I have seen this in a newspaper the present year. Innocent babe! A truer figure of speech would be that it passed out of the world like a victim of delirium tremens.

It may be asked what else could have been done. If the continental money was a disguised tax, certainly an undisguised one would have been better. What the Government required was army supplies. These were partly the products of the country, and partly imported, the latter being paid for with the products of the country. The people did not avoid the necessity of parting with their products by the device of issuing paper money. Except what was borrowed and begged abroad, the whole cost of the war was paid by the thirteen States out of their annual produce. Therefore it was a question merely of how the contributions should be levied. Regular taxation is always better than confiscation, because

**The Alternative.**

it is more economical and because it conserves the public morals, the confidence of the citizens in their own government, and the respect of the world.

**Display of Luxury during the War.**

One of the striking phenomena of the Revolution was the great display of luxury. Franklin wrote in 1779: "The extravagant luxury of our country in the midst of all its distresses is to me amazing." Another writer says: "Every form of wastefulness and extravagance prevailed in town and country, nowhere more than in Philadelphia under the very eyes of Congress, — luxury of dress, luxury of equipage, luxury of the table."[1]

This is not hard to understand. If a man owed $1,000 gold value and was enabled to pay it with $100, he had $900 disposable for other purposes. As this money had not come by hard knocks he would naturally be somewhat free in spending it. He would give good dinners, drive fast horses and buy fine clothes and jewelry for his family. It was the transfer of property from frugal persons to spendthrifts. While it continued it gave a deceitful appearance of prosperity. Like conditions prevailed during the civil war, both North and South.

**Post-Revolutionary Bills.**

After the war seven States (Rhode Island, New York, New Jersey, Pennsylvania, the Carolinas and Georgia), plunged into paper-money debauchery afresh. There were also severe struggles over the question in New Hampshire, Massachusetts, Maryland and Virginia.[2]

Judge Story, referring to the revolutionary and post-revolutionary legal tender laws, says:

"They entailed the most enormous evils on the country

[1] Greene's Historical Review of the American Revolution.

[2] See the first volume of McMaster's History of the People of the United States, where these movements are well described.

and introduced a system of fraud, chicanery and profligacy which destroyed all private confidence and all industry and enterprise." [1]

## CHAPTER IV.

### THE GREENBACKS.

THE historian Ramsay, commenting on an act passed by the Legislature of South Carolina in 1736 for an emission of bills of credit, says:

"It is remarkable that though the American Revolution took place only forty years after these events, they were so little known as to be never referred to in the debates relative to paper money. In the interval a new race had sprung up, who had no personal knowledge of them. Tradition was obscure. History was silent. Newspapers gave no information. Old official records were seldom or never referred to. From these causes the Carolinians of 1776 had little knowledge of what their forefathers had done in 1736 or 1719. *It is hoped that in consequence of the present increasing means of diffusing and perpetuating knowledge, the like will not occur again.*"

How far Dr. Ramsay's reliance on "the increasing means of diffusing and perpetuating knowledge" was justified, we shall now see.

**Bills of Credit in the Constitution.**

The United States Constitution prohibited the States from emitting bills of credit or making anything but gold and silver a tender in the payment of debts. Mr. George Bancroft shows, pretty conclusively, that the framers of the constitution intended by this act to prohibit bills of credit altogether, since no power was delegated to Congress to issue them and since all powers not delegated were re-

[1] Story on the Constitution, ii, 1371.

served.[1] Albert Gallatin was of this opinion.[2] This view receives some support from the fact that the power to emit bills of credit was expressly conferred on the general government by the Articles of Confederation, whereas it was now stricken out. Hamilton thought that although there was no express prohibition in the Constitution the spirit of that instrument was adverse, and should be obeyed. Whatever we may think of this question, it is certain that only once was it ever proposed in Congress to issue legal tender notes, until the year 1862.

This single occasion was in the War of 1812 and during the darkest hours the country had seen since Washington's winter at Valley Forge. On the 12th of November, 1814, Mr. Hall, of Georgia, introduced in the House five resolutions on questions of finance, the second of which was in these words:

**Action of Congress in 1814.**

"RESOLVED, that the Treasury notes, which may be issued as aforesaid, shall be a legal tender in all debts due, or which may hereafter become due, between the citizens of the United States, or between a citizen of the United States and a citizen or subject of any foreign State or Kingdom."

The House, by 42 to 95, refused even to consider this resolution. It took up the other four, and after hearing what Mr. Hall had to say for them, tabled them.

The Civil War began in 1861. On the 9th of August, the Secretary of the Treasury, Salmon P. Chase, met the principal bank officers of New York and negotiated from them three loans, of fifty million dollars each, in which the banks of Boston and Philadelphia participated in proportion to their capital. Of the details of these loans only one is now im-

[1] The Constitution of the U. S. of America Wounded in the House of its Guardians, by George Bancroft, Pamphlet, 1884.

[2] Writings of Gallatin, vol. iii, p. 235.

portant. Congress had passed a law, only four days before this meeting took place, suspending the operation of the Sub-Treasury act, so as to allow the Secretary to deposit public money in "solvent specie-paying banks" and to withdraw it at his own convenience and pleasure for the payment of public dues. In short he was permitted to handle the proceeds of the three loans in whatsoever way he pleased. He was strongly urged by Mr. James Gallatin, President of the National Bank of New York, and by the other bankers present, to draw checks on the banks, as an ordinary customer would do, for his various disbursements, and to allow these checks to be settled at the Clearing House. "Coin being the basis of credit," said Mr. Gallatin, "it was only in that way that the increased financial operations of the government could be conducted; for it is impossible to maintain the superstructure of credit when the basis is withdrawn, for in destroying the basis the superstructure is also swept away."

**Secretary Chase and the Banks of New York.**

Nevertheless, Mr. Chase insisted upon carrying away the gold and scattering it through the country by means of the sub-treasuries and the disbursing officers. The amount so scattered was one hundred and seventy million dollars, and it cost a good deal to cart it around. The result was that the banks suspended specie payments on the 28th of December, 1861. The reason assigned by Mr. Chase for this fatal act was a desire on his part to pay the public creditors in a better kind of money than they were willing to accept.[1]

**Forced Suspension of Specie Payments.**

[1] See his letter to Trowbridge in Warden's Life of Chase, page 387: "The banks had constantly urged me to forego the issue of United States notes and draw directly upon them for the sums subscribed and placed on their books to the credit of the government. 'In what funds will my drafts be paid?' I asked. 'We, in New York, are en-

Was this suspension of specie payments necessary? That it was not necessary at the beginning, but was directly caused by Mr. Chase, in the manner described, is not open to dispute. A state of war is not more inconsistent with specie payments than a state of peace. In the War of 1812, the country was in greater straits, and with comparatively smaller resources, yet specie payments were maintained till within a few months of the end. In New England at that time there was no suspension at all. In the great Civil War of England, specie payments were not suspended. During the long Napoleonic wars there was no suspension in France. Yet some people talk as though there had never been a war from the siege of Troy till now, without the use of depreciated paper, whereas this is only a modern device of slovenly financiers.

**Suspension not Necessary.**

At the beginning of the war the amount of gold in the country was unusually large. If it had been left in the banks, it would have served the same purpose during the war as before. Business transactions are no greater in amount in war than in peace, although somewhat different in kind. No more gold would have been needed if it had been used for its proper purpose of bank clearings, *i.e.*, as a touchstone of the paper currency. The banks ought to have made it a condition of their loan that Mr. Chase should draw

**No More Gold Needed in War than in Peace.**

tirely willing to pay in coin,' was the reply. 'But how will it be in Boston? How in Philadelphia? How, if you in New York give a draft-holder a check on Cincinnati or St. Louis, will the check be paid?' 'In whatever funds the holder of the draft or check is willing to receive.' 'That is to say,' I answered, 'in coin, if the holder insists on coin, and the bank is able and willing to pay it, but in bank notes if he will consent to receive bank notes. *I cannot consent to this, gentlemen.*'" To call this perilous nonsense would be to describe it in very moderate terms.

**Mr. Chase's Reasons.**

checks for his disbursements to be settled at the Clearing House in the usual way. They were the masters of the situation. If they had insisted he would have had no option but to yield. Upon this point Mr. George S. Coe, one of the most prominent men in the negotiation, says:

**Mr. Coe's Opinions.**

"In the light which has since been shed upon the act of Congress referred to (suspending the sub-treasury act) it is evident that undue weight was given to the views of the Secretary, and that the banks would have conferred an incalculable benefit upon the country had they adhered inflexibly to their own opinions. But the pressure of startling events required prompt decision and the well known intelligence and patriotism of the Secretary gave to his judgment overwhelming power." [1]

**Legal Tender Bill.**

The Committee of Ways and Means on the 7th of January, 1862, by a majority of one vote, agreed to report a legal tender bill proposed by Elbridge G. Spaulding of Buffalo. Mr. Spaulding was a successful banker, and he had an ardent supporter in Samuel Hooper, a successful merchant of Boston, and both had the coöperation of Thaddeus Stevens of Pennsylvania, the chairman of the committee and leader of the House. Although these three men had the prestige of business experience and party-leadership, they were not able to gain the assent of the committee to the bill, but finally one of the dissenting members (Stratton of New Jersey) voted that the bill might be brought before the house without committing himself to support it. This action produced a great commotion in the world of finance.

A delegation of bankers from New York, Boston and Philadelphia came to Washington to remonstrate against it. A meeting was held at the office of the Secretary of the

[1] Letter of George S. Coe dated October 8th, 1875, published in Spaulding's History. Appendix, p. 89.

Treasury on the 11th of January at which these gentlemen and the members of the financial committees of the House and Senate were present. Mr. Gallatin, in behalf of the bankers, presented a plan of national finance which would, in the opinion of those gentlemen, procure the means for carrying on the war without recourse to legal tender notes. One of the proposals was to "issue six per cent twenty-year bonds, to be negotiated by the Secretary of the Treasury, and without any limitation as to the price he may obtain for them in the market."

**Bankers remonstrate against it.**

Mr. Spaulding took ground at once against this plan. He tells us that he "objected to any and every form of 'shinning'[1] by government through Wall or State Street to begin with; objected to the knocking down of government stocks to seventy-five or sixty cents on the dollar, the inevitable result of throwing a new and large loan on the market, *without limitation as to price.*"

**Mr. Spaulding objects to "Shinning."**

In order to avoid selling government stocks at 75 or 60 cents on the dollar in an honest way Mr. Spaulding initiated a policy which ended in selling those stocks at 40 cents on the dollar in a roundabout way, and cheating creditors, soldiers and laboring men out of more than half their dues in an incidental way. This state of facts he mournfully acknowledges in his book, and he seeks to put the blame on Mr. Chase for too much inflation of the currency.[2] But the man who opens the floodgates has no right to complain of the inundation.

[1] Shinning is a phrase applied to a borrower whose credit is poor, and who has to walk a long distance to raise money.

[2] "He (Chase) left the office with twice as much inflating paper outstanding as ought ever to have been issued and with the promised dollar printed on the face of the greenback worth only 35 to 40 cents in gold." Introduction to second edition Spaulding's Financial History of the War, p. 11.

Although Mr. Chase in his annual report, December, 1861, distinctly rejected the idea of legal tender notes (which was already in the air), on account of "the immeasurable evils of dishonored public faith and national bankruptcy," yet on the 22d of January following he wrote to Mr. Spaulding a qualified approval of his bill. The letter was not satisfactory to all the members of the committee. Consequently a resolution was adopted asking his opinion as to the propriety and necessity of the immediate passage of the bill by Congress. An answer was returned on the 29th. Much unnecessary verbiage was employed to convey the Secretary's assent to the legal tender clause, but he gave his assent and added certain reasons for it which had not been advanced by anybody else. He said that some people gave a cordial support to the government by taking its notes at par while others did not — referring to a previous issue of notes which were not legal tender. "Such discriminations" he said, "should, if possible, be prevented, and the provision making the notes a legal tender, in a great measure at least, prevents it by putting all citizens in this respect on the same level, both of rights and duties." This was very plausible. It appealed powerfully to the spirit of patriotism. Whether Mr. Chase was the victim of his own phrases or not we are unable to determine. The *duties* of the citizen are to submit to the laws of conscription and of taxation, and his *rights* are to be exempt from impressment and confiscation. If others enter the army voluntarily or give their money to the government outright, those acts are over and above duties. They rise to the category of merits.

**Mr. Chase assents to the Legal Tender Bill.**

The bill passed the House, February 6, 1862, by 93 to 59. The legal tender clause narrowly escaped defeat in the Senate. On Mr. Collamer's motion to strike it out the yeas were 17, and the nays 22.

**The Bill Passes.**

Two amendments of importance were added to the bill in the Senate: one making the interest on the government's obligations payable in coin; the other giving the Secretary of the Treasury authority to sell bonds bearing 6 per cent interest at any time, at the market value thereof, for notes or coin.

Mr. Stevens used all his powers of invective and his great personal influence to defeat the coin-interest amendment — the most valuable feature of the bill. Failing in that, he put the House to the severest possible test by offering an additional amendment that the army and navy and the contractors furnishing supplies to the government should also be paid in coin. This amendment was rejected, after which the Senate's coin amendment was agreed to, Mr. Spaulding voting in the negative.

**Senate Amendments.**

The Senate amendment authorizing the Secretary to sell bonds at market value was agreed to. This clause was at first intended to enable the Secretary to obtain gold at some price to pay the interest on the bonds. In the Conference Committee of the two houses an additional plan was devised for this end, by making duties on imports payable in coin. Mr. Stevens afterwards claimed the credit of this suggestion, but his motive was to increase the duties on imports by way of protection to manufacturers, not to get coin for the Government. For gold he had intense scorn.

The bill became a law on the 25th of February, 1862. It provided for the issue of $150,000,000 of notes. On the 7th of June Mr. Chase asked for $150,000,000 more notes. A bill for this purpose was passed with very little opposition.

**Second Issue.**

On the 6th of March, Mr. Stevens introduced a bill to authorize the Secretary of the Treasury to dispose of any bonds or notes authorized by law, for coin, on such terms

as he should deem most advantageous to the public interest. As this law turned up unexpectedly the present year, and was made the basis of what is called the "syndicate transaction," it is an object of interest. After the legal tender act was passed it was remembered that $60,000,000 of demand notes were outstanding, which were receivable for customs duties. If duties should be paid exclusively in these notes, some considerable time must elapse before any coin would come in to meet the interest payments. Mr. Stevens said that it was impossible to sell bonds "at the market value" and that the Secretary of the Treasury had sent down this bill and wanted to have it passed at once. He concurred in the necessity of it since the coin amendment had been adopted by Congress, although that amendment was against his judgment. The bill was passed by the House on the following day and by the Senate March 11th, without a division. In the Senate it was amended so as to read as follows:

**The Coin-Purchase Act.**

"The Secretary of the Treasury may purchase coin with any bonds or notes of the United States authorized by law, at such rates and upon such terms as he may deem most advantageous to the public interest."

In the Revision of the Statutes, which was completed in 1874, this clause was wisely retained among the provisions of law "general and permanent in their nature," for, so long as the Treasury is compelled to maintain the ultimate gold reserve of the country, its power to obtain gold ought to be unrestricted.

When Congress assembled in December, 1862, it found that the most sacred obligation of the government — the pay of the army and navy — had not been met, and that great distress existed among the families of soldiers in consequence. Mr. Gurley, of Ohio, in the House (January 15, 1863) drew a most

**Third Issue.**

harrowing picture of the suffering in consequence of this default. The amount of pay overdue was fifty-nine million dollars.

It is not possible to acquit Mr. Chase of responsibility for this default. The House passed a resolution asking why he had allowed the pay of the army to fall into arrears. He had power under the law to sell 6 per cent bonds at their market value for greenbacks or coin. Why had he not done so? His answer was in these words:

"The Secretary, solicitous to regulate his action by the spirit as well as the letter of the legislation of Congress, did not consider himself at liberty to make sales of the 5–20 bonds below their market value; and sales except below were impracticable."

Only an astute lawyer could have conceived such a reason for not selling bonds and paying the troops. What Mr. Chase meant was that the quoted value of 6 per cent bonds on a particular day — the 3d of January, 1863, for example — was 98 in currency. But if the secretary should offer any large lot, the price would fall below 98. In other words there was no market value for bonds, although there was a market value for every other merchantable thing under the sun. There was much feeling against Mr. Chase among congressmen on account of this interpretation of the law which they had passed to meet every financial emergency.

**Queer Reason for it.**

The Secretary's scruples on this subject led to the third batch of legal tender notes, $100,000,000, authorized by a joint resolution dated January 13, 1863, "for the immediate payment of the army and navy of the United States." The whole amount now authorized was $400,000,000. The price of gold at this time was 142; at the end of the month it was 159. Mr. Spaulding was surprised, at this juncture, to find that there

**Depreciation.**

was a great scarcity of currency. This he attributed, not to the advance in prices which had absorbed the additions to the circulating medium, but to the operations of the army and navy. He did not explain how the operations of a million men fighting and destroying property should call for more currency than the same number engaged in peaceful occupations at home.

Two other kinds of legal tender notes were issued during the war. They were called treasury notes, the former ones being called United States notes, or popularly greenbacks.

**Interest-bearing Notes.**

The treasury notes bore interest, some at 5 and some at 6 per cent, and they had a definite period of payment. The 5 per cents had interest-coupons attached to them. Accordingly they were hoarded until an interest payment was due and then they entered into and became a part of the circulating medium until the accrued interest made it worth while for investors to hoard them again. This feature of alternate expansion and contraction was very embarrassing. Fortunately they had only a short time to run.

The last device in legal tender was the least harmful of all. It consisted of compound-interest notes. These were payable three years from date with interest at 6 per cent compounded semi-annually, the interest being payable with the principal at maturity and not otherwise.

**Compound Interest Notes.**

On the back of each note was a printed statement showing its value at the end of each six months. The ten-dollar note, which was the smallest denomination issued, was worth $11.94 at maturity. The notes were legal tender for their face value only. $226,000,000 were issued on this plan. It is impossible to say to what extent they became part of the circulating medium. A ten-dollar note at the end of six months would be worth thirty cents more than its face or legal tender value. Every holder

would have an interest and a daily increasing interest to keep it, and thus redundancy in the circulation would be held in check.

During the controversies that have raged since the passage of the legal tender act it has been contended by some people that all the legal tender notes, including those which bore interest, all the certificates of indebtedness, and every sort of government obligation which had only a short time to run, and especially those which could be used as bank reserves, whether they were actually so used or not, should be counted as part of the circulating medium of that time — the aim being to show that we had a much larger per capita circulation then than we have now. Obviously there are no data for such an argument, since we do not know how much of these various things was really in circulation.

**Amount of the Circulation Unknown.**

An important change was made by the act of March 3, 1863, in the character of the old legal tender notes. By the terms of their issue, they were convertible into 6 per cent gold-interest bonds at par, and these words were printed on the back of each note. Mr. Chase desired that this privilege should be taken away so that he might reduce the rate of interest on future bond issues. Congress reluctantly yielded to his request, fixing a period a few months distant (July 1, 1863), when the right of conversion should cease. This was an inexcusable breach of contract, and a shocking blunder to boot, for it had the effect of preventing the early resumption of specie payments. Whenever the 6 per cent bonds were above par, the notes would be converted into them and be retired.[1] This operation being perfectly natural, being part of a contract, and coinciding with a popular feeling at the close of

**Another Blunder.**

[1] These bonds were above par in currency at the beginning of 1864 and always thereafter.

the war favorable to specie resumption, would have certainly worked out that result within a brief period. This feeling was expressed by a vote of 144 to 6 in the House on the 18th of December, 1865, in favor of contraction of the currency with a view to early resumption.

In June, 1864, Congress enacted that the whole amount of greenbacks issued or to be issued should never exceed four hundred and fifty million dollars, the last fifty millions being for a temporary purpose. When the war came to an end and the army was paid off and disbanded the amount remained fixed at four hundred millions. Secretary McCulloch in 1865 recommended that the greenbacks be gradually retired by canceling a certain proportion of those received for taxes, and Congress passed a law authorizing such retirement at the rate of four millions per month. This was done until the amount was reduced to three hundred and fifty-six millions, when Congress repealed the law.

**A Few Greenbacks retired.**

Secretary Chase resigned his office June 30, 1864, and was succeeded by Wm. Pitt Fessenden. His last financial feat was the preparation of a bill, which he induced Congress to pass, to "prohibit certain sales of gold and foreign exchange."[1] It prohibited sales of gold unless the person selling it had it in his actual possession and delivered it to the buyer the same day. It prohibited the purchase or sale of foreign exchange to be delivered more than ten days subsequently. It also prohibited loans of coin or bullion to be repaid in greenbacks, and loans of greenbacks to be repaid in coin or bullion. It provided also that no purchases or sales of gold coin or bullion or of foreign exchange should be made except at the ordinary place of business of the seller or purchaser occupied by him individually. The object of this

**The Anti-Gold Law.**

[1] Shucker's Life of Chase, p. 359.

clause was to shut up the Gold Room, where most of this trading was done. Violation of the law was punishable by fine or imprisonment or both, the smallest fine being one thousand dollars. The idea of Mr. Chase and of the Congressmen who voted for the bill was that the Gold Room brokers caused the price of gold to advance, whereas they merely recorded the price, whatever it might be. They imagined that they could stop the advance by an act of Congress. Mr. Chase was firmly of that opinion. Three days after the passage of the law he wrote to Horace Greeley: "The price of gold must and shall come down, or I'll quit and let somebody else try." [1]

**Its Repeal.**

This fatuous measure became a law June 17, 1864. It remained on the statute book only two weeks. On the day it passed gold was quoted at 198. The next day it was 208, the next 230, and at the end of the month 250. At no time before had there been so rapid an advance. Congress repealed the act, in a shamefaced way, without debate, on the 2d of July.

**Legal Tender Act not Necessary.**

Was the legal tender act necessary? Mr. Spaulding says that it was, but that means merely that *he* did not know any other way. Other people did. All those who voted against the act in Senate and House were committed to the belief that there was another way. That way was taxation and loans. We are not left in any doubt as to what might have been done with taxation and loans. In the latter part of 1863 Congress discovered that the issuing of greenbacks must be stopped and the policy of heroic taxation adopted. Laws were passed which yielded in a single year (1866) a clear revenue of $558,032,620, the gold value of which was 70 cents per dollar or $390,622,434. The total expenditures of the government for the fiscal year 1862 were $474,671,819, the

[1] See *New York Daily Tribune*, January 20, 1895.

gold value of which at 90 cents per dollar was $427,285,637, being only $37,000,000 larger than the tax collections of 1866 at their gold value. The tax-paying power of the country was greater in 1862 than in 1866, because it had not been subjected to the drain of four years of war.

**Heavier Taxes the Alternative.**

It has been said that the people would not have submitted at the beginning of the war to the taxation that they bore at the end of it. This is a mistake. If Congress had enacted the taxes the people could not have escaped paying them. Moreover, the popular feeling was all the time in favor of heavier taxes than Congress imposed, and the really heavy taxation was borne without murmuring several years after the war was ended.

**Increase in the Cost of the War.**

It may be said that it was impossible to get the taxing machinery at work soon enough to meet the emergency of 1862. That is true, but it does not follow that legal tender notes were necessary. If the tax laws of 1864 had been enacted and set in motion in 1862 the government's credit would have been such that it could have borrowed all that it needed, at better rates than it actually paid, and the government would have bought its supplies on the gold basis throughout the war, whereas it paid an average premium of 50 per cent on all its purchases from the beginning of 1862 till May, 1865. The total expenditure of the four years was $3,352,380,410, of which it is safe to say that $2,500,000,000 consisted of purchases in the open market where the greenback dollar procured only 66 cents' worth of property. In other words we obligated ourselves for $2,500,000,000 and got $1,630,000,000 in actual value. The difference, $870,000,000, is the unnecessary cost to the taxpayers, caused by the use of a depreciated currency.[1]

[1] See Public Debts, by H. C. Adams, p. 131.

Mr. Spaulding (on page 5 of his book) calls the legal tender act a "a forced loan." This is much too flattering. It had none of the characteristics of a loan. Even a forced loan implies an accounting and repayment. Nothing of this kind was done or attempted. When the government resorted to legal tender it said to A, B, and C: "We will take your property now and eventually we will pay *somebody* for it."

**"A Forced Loan."**

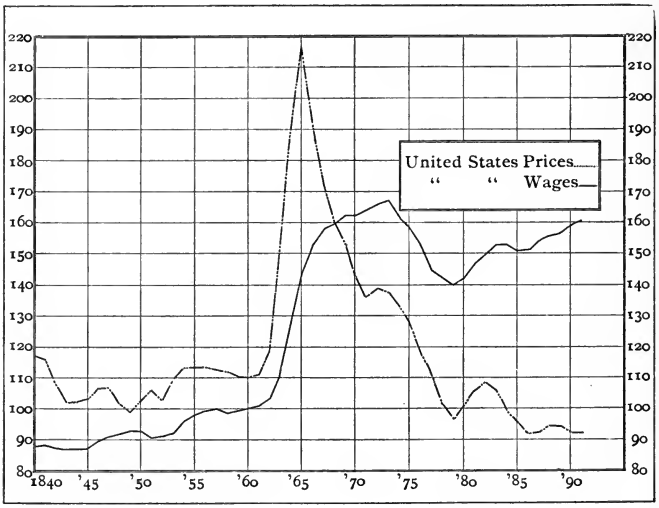
Senator Fessenden opposed the legal tender clause. One of his reasons was that "the loss would fall most heavily on the poor." All tricks of legerdemain with the currency bear most heavily on the poor. Take a concrete case. The government wanted guns. It paid for them with legal tender notes. The manufacturer must pay them to his workmen, who must buy their supplies of all kinds in a rising market. The cost of living followed the gold premium closely throughout the war. Wages lagged behind. Hence labor, voiceless and patriotic, paid a disproportionate share of this so-called "forced loan."

This fact has been reduced very recently to mathematical terms by the joint labors of Col. Carroll D. Wright, U. S. Commissioner of Labor, Professor R. P. Falkner and Professor F. W. Taussig, the Labor Bureau collecting the statistics for the Senate Committee on Finance, Prof. Falkner digesting and arranging them and Prof. Taussig putting them in graphical form. "It will be seen," says the latter, "that money wages responded with unmistakable slowness to the inflating influences of the Civil War. In 1865, when prices stood at 217 as compared with 100 in 1860, wages had only touched 143. The course of events at this time shows the truth of the common statement that in times of inflation wages rise less quickly than prices, and that the

**Effect on Wages.**

period of transition is one of hardship to the wage-receiving class." [1]

PROFESSOR TAUSSIG'S CHART SHOWING THE COURSE OF WAGES AND PRICES OF COMMODITIES.




The value of such a treatise as this, if it have any, must consist in pointing out financial errors, in order that they may be avoided hereafter, not in praising or dispraising public men. It is the prevailing opinion both North and South, that because the Union triumphed over the Confederacy the finances of the former must have been well managed. This is a *non sequitur* and is contrary to the facts. Secretary Chase was not a financier. By financier is meant one skilled in the art of obtaining the means required by the govern-

**Mr. Chase as a Financier.**

[1] Paper read before the International Statistical Institute at Chicago, 1893.

ment from the people in the manner least hurtful to them, and to their posterity. There was no reason why Mr. Chase should have been considered skilled in this art. To do him justice he did not consider himself skilled in it. He did not want the office. After he was appointed, he tried to decline. He was not chosen for any supposed familiarity with finance. He was placed at the head of the Treasury because he commanded the confidence of the country in a large general way.

Criticism is disarmed, however, as well as made superfluous, by the frankness of his acknowledgment of his errors. In his dissenting opinion in the *Legal Tender Cases*, referring to his letter of January 29, 1862, to the Committee of Ways and Means, approving the legal tender bill, he says: "Examination and reflection have satisfied him [the Chief Justice] that this opinion was erroneous, and he does not hesitate to declare it." In the same paper he says that if the greenbacks were convertible into 5 per cent bonds they would be at par. "In other words specie payments would be resumed." He argues strongly that the legal tender quality did not add anything to the value or usefulness of the greenbacks, and he gives them a parting kick in these words:

**And as Chief Justice.**

"The legal tender quality was only valuable for purposes of dishonesty. Every honest purpose was answered as well or better without it."

Mr. Chase's opinion as Chief Justice in the case of *Hepburn vs. Griswold* is a noble and powerful appeal for honesty in men and governments.[1]

[1] The various decisions of the Supreme Court on legal tender are summarized on pages 231–234.

## CHAPTER V.

### CONFEDERATE CURRENCY.

THE treasury notes of the Southern Confederacy were not legal tender. There is no evidence that their value was lessened or their circulation retarded by reason of this fact. If public opinion compels people to take paper as the equivalent of gold a law of tender may be dispensed with. This was the case in the South. The Confederate notes, therefore, must be classed as fiat money.

**Not Legal Tender.**

Secretary Memminger tells us that during the whole of the year 1861 "the government exchanged its own notes for bills on England at par, with which it paid for all its arms and munitions of war."[1] We are informed by the same authority that the Confederate Treasury, at the beginning, did not have sufficient money to pay for the Secretary's writing desk, and that there was not in the whole Confederacy a sheet of paper fit for the printing of treasury notes. The first supplies of bank-note paper and lithographic materials ordered from England were captured on the ocean. It would have been better for the Confederacy if all other efforts to obtain these fatal instruments had likewise failed. In default of materials the Treasury borrowed bank notes to be reimbursed with treasury notes as soon as the latter could be prepared. The bank-note circulation of the Confederacy at the beginning was estimated at $85,500,000, and the banks were in high credit.

**First Year.**

The first issue of treasury notes was made in pursuance of an act dated March 9, 1861. This was for one million dollars, afterwards raised to two millions. The notes were

[1] Capers's Life of Memminger, p. 350.

in denominations of not less than $50. They were payable one year from date, bore interest at 3.65 per cent and were payable to order. They were an ordinary government loan and not currency.

Of a different sort was the next issue, authorized May 16, 1861. This was for $20,000,000, not bearing interest, payable two years after date in specie. They were fundable into 8 per cent bonds, and the bonds were exchangeable for the notes at the holder's option. They were also receivable for all public dues except the export duty on cotton. Secretary Memminger had recommended that the notes of denominations of $20 and more should bear interest not exceeding 8 per cent, so that they might be hoarded and not enter into general circulation, but this recommendation was not adopted by the Confederate Congress. Mr. Memminger had, from the beginning, a clear conception of the dangers of an inflated currency and he always used treasury notes with reluctance. Like Mr. Chase he was always protesting against them yet always using them. The plea of necessity was equally available on both sides of the line, but had more plausibility in the South.

**Non-Interest-Bearing Notes.**

Two acts were passed in 1861 and 1862 for an aggregate sum of $150,000,000, which was soon dissipated. On the 23d of September, 1862, the Confederate Congress authorized a new issue limited only by the amount of its own appropriations. At the end of the year the amount outstanding was $290,000,000. The separate States had also issued treasury notes. So too had many counties, cities, towns, railroad and manufacturing companies and private individuals, but none were legal tender.

**Rapidly Issued.**

The quotations of gold, foreign exchange and commodities were now three times the normal prices, and the Secretary

addressed himself to the task of withdrawing two-thirds of the currency in order to restore the value of the remainder.

**Heavy Depreciation.**

A tentative step had been taken to hasten the funding of the notes by providing that the privilege of funding in 8 per cent bonds should cease on the 22d of April, 1863, after which only 7 per cent should be allowed. Some relief might have been obtained in this way but for the fresh issues that were pouring out all the time.

Inducements to fund the currency having largely failed, the Secretary now proposed "to supply the deficiency by a small portion of constraint." He recommended that a period be fixed after which the issues of treasury notes bearing date prior to December 1, 1862, should cease to be current. The notes were not to be repudiated but branded. They would still be a part of the debt of the Confederacy, and receivable for taxes.

**Failure of Funding Scheme.**

Another plan of Mr. Memminger for retiring the redundant currency was that the separate States of the Confederacy should guarantee a loan for that purpose — as though the parts could be greater than the whole. Virginia, Alabama and South Carolina had already agreed to do this on certain varying conditions. Mr. Memminger thought that with such a guaranty he could sell bonds at 6 per cent interest instead of 8 and realize a large premium besides. Probably it was his idea that a loan guaranteed in this manner would not be exposed to the hazard of a future disruption, and hence would command a higher credit than one bottomed, as the Confederacy was, on the right of the States to secede. This plan failed by reason of the refusal of some of the States to agree to it.

**Failure of State Guaranty.**

Early in 1863 the Confederate Cotton Loan of $15,000,000 was negotiated in Europe by Erlanger & Co. Mr. Capers's

biography of Memminger contains a letter, dated July 4, 1892, from Mr. James C. Gibbes of Charleston, who tells a rather startling story. Mr. Gibbes was sent to Europe in charge of the bonds. He and Mr. James Spence undertook to negotiate them. They found Erlanger & Co., of Paris and Frankfort, willing to undertake the business, but Mr. Erlanger wanted a much larger amount. Mr. Gibbes had no authority to supply a larger amount. Erlanger decided to go to Richmond and present his views in favor of a larger loan, which he said he could easily dispose of. He did go to Richmond and he returned. So much of the narrative is within Mr. Gibbes's personal knowledge. The remainder he derives from Erlanger.

**Confederate Cotton Loan.**

Erlanger told him that Memminger refused to accept more than the $15,000,000, declaring that that sum "would cover all that was then actually needed"; that he (Erlanger) advertised the $15,000,000 loan and received bids on the first of March, 1863, for $525,000,000, at prices averaging 97 cents to the dollar! This was a larger sum than either the Federal or the Confederate Government had been able to borrow up to this time. It was more than half as large as the French war indemnity, which required two years and a half to place. The tale is fit only for the pages of Monte Cristo.

**A Munchausen of Finance.**

The next law (March 23, 1863) cut off the right of funding old treasury notes in any kind of bonds after August 1. Notes were now coming out at a terrible rate, $50,000,000 per month being authorized by this act. These were fundable into 7 per cent bonds until August 1, and afterward into 4 per cents. The rate of interest was of no consequence now, since it was payable in paper which was rapidly depreciating.

**Galloping down Hill.**

Mr. Memminger's report in December following was very

despondent. He said that the currency was now five times its proper volume. The sum of $391,000,000 had been added since the first of January, bringing the total amount to more than $600,000,000. The quotation for gold was 20 for 1. The Secretary considered it imperatively necessary to reduce the volume to $200,000,000. To do this would require $400,000,000 to be derived from taxes or loans, while an equal amount would be required to carry on the war. The Confederate finances had broken down by reason of the blockade. "The specie of the world," he said, "could not flow in upon us, and, when ours was exhausted, we were compelled to pay interest on our bonds in treasury notes. The foundation of the system was thus lost. Paper money rested on other paper, and as both accumulated they acted and reacted on each other, until both have been reduced to the rate at which they now stand."

**In 1863 Gold 20 for 1.**

In addition to his recommendations respecting loans and taxes he proposed "new tenor" notes to the amount of $200,000,000, the faith of the government being pledged not to increase said issues; that all old treasury notes not funded before the first of April should cease to be current or receivable for public dues, but should remain as evidences of debt payable by the Confederate States according to their tenor; that all notes not funded should be sent to the Treasury for registration on or before the first of October and that "all notes not so registered within the said time shall be barred from any further claims on the government." Mr. Memminger tried in vain to reconcile this plan of finance with the principles of good faith, and ended by saying: "No contract, however solemn, can require national ruin, and in such case the maxim must prevail that the public safety is the supreme law."

**"New Tenor."**

February 17, 1864, the Confederate Congress passed a law to carry these recommendations into effect by taxing the notes outstanding after a certain date 33⅓ per cent, the remaining 66⅔ to be fundable till January 1, 1865, but the holders might, at their option, receive new notes at the rate of 66⅔ cents per dollar, except for the $100 notes. All $100 notes not funded at the end of the year were to be taxed 100 per cent, *i.e.*, blotted out.[1] The new tenor notes were to be payable two years after peace.

**Partial Repudiation.**

This was repudiation. The avenging nemesis followed the new notes. Funding went on rapidly, but the prices of commodities continued to advance. It was like the experiment with new tenor continental money. There are many points of similarity between the continental and the Confederate currency schemes. People had no more confidence in the new notes than in the old ones. There was no reason why they should have. All the forces working for depreciation were still in full blast, with the spectre of repudiation added. Of the new tenor notes $283,000,000 were outstanding October 1, 1864, and the gold quotation was 26 for 1.

Mr. Memminger had recommended that the old notes, after a certain time, should be declared not current, but in fact they had never been declared current, and Mr. Memminger had protested in a special communication to Congress against making them legal tender. The notes circulated in the first instance because they were good; that is, not redundant. After they became redundant they circulated because public

**Dismal Fate of Old Tenor.**

[1] In 1793 the French Convention, in one of its spasms with the assignats, demonetized 558 millions, of higher denominations than 100 livres, on the pretext that only aristocrats could hold assignats of high denominations.

opinion backed them and because there was no other currency. Mr. Memminger tried afterwards to tell what he meant by declaring the notes no longer current. The substance of his explanation was that a brand publicly put upon the notes by the legislative power would render them uncurrent in practice. The Confederate Congress found means to reach the same end without using the brand.

Mr. Memminger said in several reports that it was impossible to carry on a modern war by means of taxes alone. This was a mistake. Every country pays the cost of a war at the time of the war. The Southern Confederacy presents an easy illustration of this maxim, because it was for the most part isolated, having little communication with the outer world, and because all of its debts were obliterated at the end of the war. Obviously somebody paid the cost. It was not paid by foreigners (except the trifling sum of $15,000,000 borrowed abroad), nor did it fall from the moon. There being nobody else to pay it, the people of the Confederacy must have paid it, and must have paid it during the time of the war and not a moment later. To levy taxes sufficient to pay the whole of each year's expenses within the year would not have made the burden any greater than it actually was. The Confederacy, by following Mr. Memminger's conception that taxes to pay interest on loans would be sufficient, did not get rid of heavier ones. It only took them in a different way.

**Who paid the Cost?**

If every country pays the cost of a war at the time of the war, it may be asked what we have been paying for since, and what the national debt represents. It represents the difference or overplus that some people paid more than others. Similar differences existed among the Confederates, but they were sponged out by the downfall of their government.

**What the Debt represents.**

What was the highest amount of Confederate notes outstanding at any time will perhaps never be known. The amount in December, 1863, is stated by Pollard at $700,000,000. In 1865, after the war was ended, the Legislature of North Carolina adopted a "scale of depreciation," which purports to show the value of one gold dollar in Confederate currency for each month during the war. The first quotations are those of November and December, 1861, viz., $1.10 and 1.15.[1] During 1862 the range was from 1.20 to 2.50; 1863 from 3.00 to 20.00; 1864 from 21.00 to 49.00; in April, 1865, it was 100.00, at which rate the Confederate dollar was worth one cent. The Life of Jefferson Davis by his wife gives a long list of amazing prices paid for goods of all kinds in Richmond during the war.

**"Scale of Depreciation."**

The South did not escape the moral consequences of depreciated paper, which are alluded to in Pollard's History thus:[2]

"The evils of the expanded currency of the Confederacy were not only financial. They were also moral. The superabundance of paper money was the occasion of a wild speculation, which corrupted the patriotism of the country; introduced extravagance and licentiousness in private life; bestowed fortune on the most undeserving, and above all bred the most dangerous discontents in the army. As long as there was a spirit of mutual sacrifice and mutual accommodation in the war our soldiers were content and cheerful. But when they

**Moral Consequences.**

[1] Yet the Richmond *Enquirer* of December 31, 1861, says that runners were traversing the country buying up specie at 30, 40 and 50 per cent premium. "The present price of specie," it adds, "will be hereafter quoted through all time as a damning stigma upon the character of Southern merchants." The *Enquirer* thought that the speculation caused the premium, whereas the premium caused the speculation.

[2] Third Year of the War, p. 182.

had to compare their condition — the hardships of the camp, the pittance of eleven dollars per month that could scarcely buy a pair of socks, the poverty of the dear ones left behind them — with the easy and riotous wealth of those who had kept out of the army merely to wring money out of the necessities and distress of the country, who in snug shops in Richmond made thousands of dollars a day, it is not to be wondered at that bitter conclusions should have been drawn from the contrast and that the soldier should have given his bosom to the bullets with less alacrity and zeal when he reflected that his martyrdom was to protect a large class of men grown rich on his necessities and that too with the compliance and countenance of the government he defended."

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## CHAPTER VI.

### THE GOLD ROOM.

WHEN the premium on gold became noticeable in January, 1862, the business of buying and selling it began naturally in the shops of those Wall Street brokers who dealt in foreign coins. These brokers had gold and silver on exhibition in their windows. People who wanted coin went there to buy it. Those who wanted to sell coin for greenbacks naturally went there also. Gradually the dealings became so large in front of their offices that the traders blocked the sidewalks, and the public authorities were obliged to give special orders to the police to keep the crowds moving. The business being thus interrupted, the dealers took up their quarters in a neighboring restaurant, where the business went on until it outgrew its accommodations. Then the need of a Gold Exchange was recognized. Thirty or forty men who had been in the habit

**First Trading in Gold.**

of meeting in the restaurant formed a loose organization, hired a hall, and adopted rules by which any respectable man could become a member by paying $100 per year, to defray the expenses. This was in the autumn of 1862. It was a voluntary organization, existing under the rule of honor. Eventually it had 450 members, consisting of bankers, brokers and merchants of the principal cities of the Union.

**Gold Exchange organized.**

At first the business was carried on by the manual delivery of gold in return for certified bank checks. Then the gold must needs be carried through the streets by messengers, who were sometimes knocked down and robbed. To facilitate the transactions the Treasury, in 1865, began to issue gold certificates of deposit, a law authorizing the same having been passed two years earlier. By and by the business became so large that it could not be carried on by manual delivery even with the help of gold certificates. Then the Gold Exchange Bank was started as an adjunct to the Gold Room. This was an institution incorporated under the laws of New York with a capital of one million dollars. It did a regular banking business with its own capital, and it acted as a clearing house for the Gold Room at a fixed rate of compensation.

**Gold Exchange Bank.**

The method of clearing was as follows: Each transaction was noted on a "ticket of advice" signed by both buyer and seller. All the tickets were passed into the bank. If Mr. A. had bought one million from various persons at various prices and had sold nine hundred and ninety-nine thousand, then instead of receiving from and paying to all these people he would settle only with the bank. He would receive at the close of the day one thousand dollars in gold and would pay whatever sum in greenbacks was due from him as the resultant of all

**Gold Clearings.**

his transactions. The usual daily amount of such clearings was sixty to seventy million dollars, counting both sales and purchases.

All the foreign trade of the country, both imports and exports, was regulated by the daily and hourly quotations of the Gold Room. This trade could not have been carried on otherwise. The wholesale prices of all importable and exportable commodities were regulated by the quotations. Retail prices were affected at longer range. That is, the retail dealers were obliged to fix their prices high enough to cover fluctuations and to save themselves from loss. The consumer was not able to buy at the lowest price that the law of competition would, under other circumstances, have made. Commodities not of an exportable or importable kind were affected in less degree and at still longer range, but were not exempt from the influence. In short, the whole trade of the country, both external and internal, pivoted on the Gold Room. Gold being the universal liquidator of commerce, it was necessary to know where and at what price it could be obtained in any desired quantity. The Gold Room gave the answer to this question daily and hourly, and was accordingly indispensable.

**A Commercial Necessity.**

I visited this institution on the first of December, 1866, and wrote the following description of it the same day:

**Visit to the Gold Room.**

"In a little courtyard surrounded by four walls and closed in with a roof, having a circuitous passageway from Broad Street, may be witnessed at any hour of the day and six days in the week a scene which has not its likeness in earth or heaven. I consider the Gold Room the greatest curiosity in the world to-day.

"Imagine a rat-pit in full blast with twenty or thirty men ranged around the rat tragedy, each with a canine under his

arm all yelling and howling at once, and you have as good a comparison as can be found in the outside world of the aspect of the Gold Room as it strikes the beholder on his first entrance. The furniture of the room is extremely simple. It consists of two iron railings and an indicator. The first railing is a circle about four feet high and ten feet in diameter placed exactly in the center of the room. In the interior, which represents the space devoted to rat killing in other establishments, is a marble Cupid throwing up a jet of pure Croton water. The artistic conception is not appropriate. Instead of a Cupid throwing a pearly fountain into the air there should have been a hungry Midas turning everything to gold and starving to death from inability to eat it.

**Resemblance to a Rat-Pit.**

"The other railing is a semicircle twenty or thirty feet from the central one. This outer rail fences off the 'lame ducks' and 'dead beats,' men who have once been famous at the rat-pit but have since been cleaned out. Solvency is the first essential of the Gold Room. Nothing bogus is allowed to interfere with the serious business in hand. Nevertheless these lame ducks and dead beats cannot keep away from the place. Day after day they come and range themselves along this iron grating and look over at the rat-pit with the strangest expression of intelligent vacancy and longing despair that can be found out of purgatory. They seem to be a part of the furniture of the room. While I was there I did not see one of them move or speak, and when they winked it was with much the same spirit that an owl at midday lowers the film over his eye and lifts it again.

**Lame Ducks and Dead Beats.**

"The indicator which is the third piece of furniture in the room (or the fourth if we count the 'dead beats') is a piece

of mechanism to show the changes in the market. It is something like an old-fashioned Dutch clock seven or eight feet high, with an open space at the top disclosing three figures and a fraction, as 141¼, at which the market stood when I entered. The figures being movable a slight manipulation will manifest any change in the market. Connected with the indicator is a plain desk with a book on it, in which are recorded all the movements of the indicator with the hour and minute at which each change takes place. The floor of the establishment is a pavement with circular steps or terraces rising from the centre to the circumference. 'Neat but not gaudy' is the general aspect of the premises. Of course such an institution could not exist without a telegraph office. Accordingly we find one communicating with the Gold Room by a row of windows through which dispatches are constantly passing.

**The Indicator.**

"Having given the external appearance of the concern we now come to business. Three things are in demand, lungs, note-books and pencils. Wow-wow-wow, yah-yah-yah from twenty or thirty throats around the pit all at once and kept going from morning till night, from Monday till Saturday, is what presents itself to the ear of the beholder. The voices of the gentry around the circle are for the most part *tenori* with now and then a falsetto and a basso. I shall not soon forget a *basso profondo* in the ring who drew his breath at regular intervals and announced his desires with a seriousness truly remarkable. He was a thick-set man, with capacious chest, shaggy head, keen eyes and rusty whiskers which curved upward from his inferior maxillary bone in the most determined manner. He cocked his head on one side, thrust his chin as far over the railing as possible and made himself heard every time. He put in his B-flat in regular cadences like the

**Voices of the Day.**

trombone performer in a mill-pond, of a summer evening, drowning for the moment all the fiddles of the frog community.

"Among the faces constantly swinging around the circle there is a marked preponderance of Israelites, but they do not monopolize the business. There are young Yankees here apparently not more than twenty-one years of age, with downy cheeks and shrewd eyes, wow-wowing and yah-yahing at each other across the railing and whisking their pencils with phonographic speed. Putting the purchases and sales together they will not unfrequently amount to one hundred million dollars in a day. In a few cases only is the gold actually delivered. Balances are settled with gold certificates. But they are not satisfied with this slow-coach method of doing business. They must needs have a Gold Clearing House where the whole business of the room can be thrown into a hopper and the differences ground out at one turn of the wheel. This project is now on foot. It will of course facilitate business very much.

**Method of Trading.**

"But what does it all amount to? I had almost said that the Gold Room regulates all the prices of the United States. It does not regulate but it records them. The Gold Room is itself regulated by the outside world. Each movement of the indicator is the resultant of all the forces at work in America, Europe, Asia, and Australia which can possibly affect the value of United States currency. It follows that the operators in the Gold Room should be, at the same time, the best informed and the most intelligent business men in the country. They must not only have the best and latest information, but they must be able to determine at once what is the economic meaning and significance of any given fact which may come to their knowledge. They

**The Gold Room a Record of Fluctuations in the Value of Greenbacks.**

must be able to resolve the most complicated problems in mental arithmetic without a moment's hesitation. If the Secretary of the Treasury has decided upon a certain measure of financial policy, or the President a certain measure of foreign policy; if there is a short corn crop or a Fenian rebellion, or a war cloud in Europe, or a heavy immigration, or a great oil discovery, or a change of the tariff or anything else which can affect the currency or the public credit they must be able to melt down the mass and weigh the product in terms of standard gold. This is the work of Omniscience. No man can do it. Nor can the whole Gold Room do it accurately at all times. Now and then the prices will run wildly up on a given state of facts and run down again as rapidly when it is discovered that the facts are not producing the effect which was generally expected by the operators. They are pretty cool and accurate in their calculations, but the atmosphere of the Gold Room almost inevitably perverts a man's judgment and brings him to grief in the long run. A few days ago word came that President Johnson had sent a dispatch of 5,000 words by cable to Paris. This was known in the Gold Room before the dispatch had left the Washington telegraph office, perhaps before it had left the State Department. Great was the pow-wow in the Gold Room. Gold rose from 140¼ to 143¼. A Western merchant, who happened to be there, turned the matter over in his mind and concluded that it did not make much difference what kind of a dispatch had been sent to Europe. He reasoned that the people were not well enough pleased with Andrew Johnson to follow him into a foreign war, even if that were the purport of the dispatch. He called a broker to his side and authorized him to operate for a decline within three days, and he pocketed four thousand dollars by having at the moment a

**Queer Ups and Downs.**

**An Example.**

grain more common sense, or a better acquaintance with the temper of the American people, than the habitués of the Gold Room.

"I remarked at the beginning that the Gold Room is a great curiosity and that it furnishes a remarkable illustration of the capabilities of the human mind. It is a ceaseless jangle, a whirlpool of voices apparently without order, without umpire, referee or stakeholder. Yet as it spins on, millions upon millions are bought and sold, the prices of all goods, wares, merchandise, produce, bonds, stocks and property generally throughout the country are marked up or down obediently to the indicator of the Gold Room. How these men can understand each other and avoid making mistakes is a mystery. In any large telegraph office in the country you will see twenty or thirty Morse instruments clicking together. Each operator hears and understands his own instrument even though he be ten feet from it, and he does not hear any other. I have often paused to admire the scene in a large telegraph office as a wonderful example of the perfectibility of the human ear, but in the Gold Room one must not only discern separate sounds in the midst of dire confusion and record them accurately, but must have all his wits on the stretch at once and yet preserve a perfect equilibrium of judgment.

**A Ceaseless Jangle.**

"Now and then the noise flags and almost ceases. While I was there it ceased for a moment entirely. The smokers placidly puffed their blue wreaths upward and the murmur of the little fountain became audible. In ten seconds Bedlam had broken loose again, wilder than before. 'Market excited,' said my friend James Boyd, to whose politeness I was indebted for an introduction to the room, and almost immediately the indicator rose from 141¼ to 141⅜. The idea

**The Market Excited.**

that these twenty or thirty men were the market, and that when they exchanged yells a trifle more vociferously than usual the market was excited, struck me as so droll that I laughed heartily. It was nevertheless true. These men were the market and the market was excited. Some spark of information had just come from some quarter of the globe which warranted the belief that United States legal tender notes were worth a small fraction less than they were ten seconds before. The Gold Room is as sensitive to news as the thermo-electric pile is to heat.

"There are two classes of operators in the Gold Room — commission men and speculators. The former buy and sell for others. With them it is 'heads I win, tails you lose.' Their commission is a certainty. If they can resist the temptation to do a little business on their private account they make money. The speculators, as a rule, make none. Rich to-day, poor to-morrow, is the rule with them. Those who make money cannot get away. When a man makes a million in the Gold Room, it is as though he had swallowed a quart of sea-water to quench his thirst. He must have more. So he stays and loses it. If he loses more than he has and cannot pay his differences, he must take his place at the outer railing. Even then he cannot drag himself away from the place. The evil genius of gambling has possession of him. It holds him fast. 'Yonder,' said my companion, 'is a young man who might have gone away with two million dollars. He was worth it once. He is now among the "dead beats," as poor as any of them. They have all been rich in their time.' I looked over to the dead-beat apartment, and saw a youth whose cast of countenance might have inspired Tennyson to write the 'Lotus Eaters.' Such mild and melancholy eyes, such an expression of fixed uncertainty and motionless unrest it would be hard to find

**The Victims of Gambling.**

save in the Gold Room or in a lunatic asylum. Of the 'dead beats,' generally it might be said :

> 'In the afternoon they came unto a land
> In which it seemed always afternoon.
> All round the coast the languid air did swoon,
> Breathing like one that hath a weary dream.'

"Applying to the Gold Room the rule of averages it stands to reason that nobody should make money in the long run. Buying and selling gold produces no wealth. The miner in California brings gold into the world. He adds to the stock of a useful commodity. But the broker in the Gold Room adds nothing to it. Out of nothing nothing comes. But these men are not really buying and selling gold. Gold is the only stable thing going. It is *in equilibrio*, or so nearly thus that its fluctuations take place only through long periods of years. The men of the Gold Room are really buying and selling United States currency. Is anything made, in the aggregate, out of this? Certainly not. I speak of the transactions as a whole; of course, somebody gains and somebody loses in nearly every transaction. Sometimes an operator will have an extraordinary run of luck, which induces him to believe that he knows everything. When he reaches this point he is lost. The idea of one's infallibility is fatal in the Gold Room.

**The Real Trading was not in Gold, but in Greenbacks.**

"To say that the Gold Room is not useful would be altogether wrong. It is not only useful, but indispensable. I should not wish any friend of mine to do much business in it, but it must be recognized as a necessity of the times. The foreign trade of the country could not be carried on without it. Its method of doing business was never invented by anybody. Men slid into it, just as men slid into the practice of using gold

**The Gold Room was a Necessity.**

and silver for money. It has been found that the work can be done more economically and expeditiously by the rat-pit mode than by any other. If it could be done any faster or cheaper by the operators standing on their heads they would probably do so."

During seventeen years the business of the country was regulated by the quotations of the Gold Room and was exposed to the raids of gold gamblers. The most disastrous of these was the one known as the Black Friday conspiracy, of September, 1869. The export trade of the country at that time necessitated the selling of gold in advance of its delivery. A buyer of wheat or cotton for export would make his bargain according to the price of gold to-day, but he would not get his returns from abroad for two or four weeks. If the price of gold should fall meanwhile he would be a loser. So he sells the gold which he expects to receive at the same time that he buys the produce. How can he sell what he does not yet have? He gives an order to a broker in the Gold Room and meanwhile puts up a small margin as a guarantee against loss. He knows that he will have the gold to deliver as soon as the produce is shipped. Therefore he cannot lose anything, even if gold advances in price. Nor can the broker lose, since he is protected by the margin, and has the right to call for more margin if need be. If the advance in gold is very great and rapid, there may be difficulty in putting up margin. Banks and money-lenders may be frightened and refuse to make advances, and failures may result in consequence, but barring these exceptional cases, the exporter and his broker are both protected in the manner described.

**Gambling Raids.**

**The "Short" Sellers.**

Mr. Jay Gould, who was at that time President of the Erie Railway, and a daring speculator, conceived the idea of buying all the gold in the market and compelling the "short"

sellers to buy of him, when their contracts should mature. He organized a clique of brokers, speculators and Tammany Hall politicians, who succeeded by various devices and by enormous purchases in carrying the price up from 133 to 162 in about twenty days, the greater part of the rise being in two days, September 22–24. The 24th was always afterwards known as Black Friday. As the game proceeded a great many fluttering moths, who were innocent of any connection with foreign trade, were drawn into the flame, and had their wings burned off. About 250 persons and firms were caught "short" of gold, who had no way of meeting their contracts except by buying it of Gould and his party.

**Black Friday.**

The game was not without danger to the latter, since everything depended on their ability to hold the price up, while the victims were settling. This was accomplished by putting a broker in the Gold Room to buy all that was offered. This broker was really a man of straw. He bought $60,000,000 of gold for the Gould clique and then they repudiated him. Two Tammany judges (who were soon afterwards kicked out of office), issued orders putting the Gold Exchange Bank in the hands of a receiver, and enjoining the creditors of the Gould party from prosecuting claims against them, except in those courts. These proceedings had much the same effect as the sudden appearance of a tiger in a sheepfold. Those who were not in the monster's fangs were paralyzed with terror. Gould's debtors had handed their pocket-books to him while the man of straw was holding the price of gold up by fictitious purchases. His creditors were now tied hand and foot by injunctions and intimidated by the orders of the Tammany judges. Moreover, they had no means of knowing whether Gould was solvent or insolvent at that time. Consequently,

**Grabbing the Stakes.**

**The Tiger's Claws.**

they were in a mood to settle for much less than was due to them. What the profits of the conspirators were has never been divulged. The transactions were on a fabulous scale, the gold clearings of Thursday, the 23d, being $325,000,000, while those of Black Friday would have reached $500,000,000, if they had not been cut short by the Tammany judges. Meanwhile, the trade of the country was convulsed. The consequences were thus described by a Committee of Congress, of which General Garfield was Chairman:

"Hundreds of firms engaged in legitimate business were wholly ruined or seriously crippled. Importers of foreign goods were for many days at the mercy of gamblers and suffered heavy losses. For many weeks the business of the whole country was paralyzed, a vast volume of currency was drawn from the great channels of industry and held in the grasp of the conspirators. The foundations of business morality were rudely shaken, and the numerous defalcations that shortly followed are clearly traceable to the mad spirit engendered by speculation."

**General Effects of Black Friday.**

Black Friday and its evil consequences were due to the existence of a bad currency and a fluctuating standard of value. The Gold Room was at that time a necessity. Business could not be carried on without it, but it offered temptations and facilities for gambling which could not be resisted; and this gambling was more calamitous than any other, because the prices of all commodities and securities were affected by it. It was only an exaggerated and glaring illustration of the evils of an unstable currency. *Ab uno disce omnes.*

**General Cause of Black Friday.**

When the war came to an end in May, 1865, the price of gold sank to 130, at which rate greenbacks were worth 77 cents per dollar. It had been as high as 285 in July, 1864, greenbacks being then worth 36 cents. The difference be-

tween these quotations may be taken to represent changes in the public credit, or various vicissitudes and states of mind, dependent upon the war, wholly apart from the redundancy of the circulation, since the currency was no greater in volume at the one date than at the other.

In California the greenbacks never acquired a foothold until after specie payments were resumed. This State had no banks of issue and was entirely unfamiliar with paper money.

**California Adheres to the Gold Standard.**

It was not without a severe struggle, however, that the gold standard was maintained. The claims of loyalty were imported into the controversy, and it was stoutly insisted by the greenback party that unwillingness to use legal tender notes was akin to treason. Their opponents replied that they were entirely willing to use the notes at their actual value, but not at a higher value. They contended that, except for past debts, greenbacks could not be used at anything above their actual value, because the prices of commodities would fluctuate in some near proportion to the fluctuations of the currency. If taken for more than their actual value by ignorant persons, such persons would be cheated. In regard to past debts they said that it would be unjust to pay less value than the parties had agreed for.[1]

There is an advantage in studying the events in California at this time because what happened there in plain sight and hearing took place on an immensely larger scale elsewhere, but was, for the most part, drowned by the clamor of war.

There were no railways to the Pacific Coast at that time, hence several months elapsed before any commercial effects were produced by the legal tender act. On the 17th of September, 1862, a firm in San Francisco published a letter in the *Alta California* saying that they had been compelled

[1] See article "Legal Tender Notes in California," in the *Quarterly Journal of Economics*, October, 1892, by Professor Bernard Moses.

to receive many thousands of dollars in legal tender notes for goods which they had bought for gold and had sold on credit at gold prices. They had tendered the notes to their employees in payment of wages, but the latter had refused to receive them, saying that the boarding houses, the butchers and the grocers would not take them at par. "For ourselves," said the firm, "we wish to maintain the government, but we would like the burden to fall equally on all classes."

**Early Embarrassments.**

March 5, 1863, a victim of the legal tender law wrote to the *Evening Bulletin* of San Francisco that he had lent $10,000 in gold coin four years previously to a man in Sacramento whose name he gave. The promissory note was lodged at the banking house of D. O. Mills & Co. for collection. The borrower came to the bank and tendered $10,000 in greenbacks as full payment. Greenbacks were then worth 68 cents on the dollar. D. O. Mills & Co. refused to receive the tendered greenbacks without the consent of the owner of the note, and denounced the conduct of the debtor as unfair in the extreme. After a protracted dispute the creditor accepted the $10,000 in greenbacks and $1,000 in gold, rather than enter upon a doubtful lawsuit. His loss then was $2,200, but as he kept the notes a few months, it became $3,500.

**Severe Losses.**

Business was thrown into confusion by the contrariety of practice in different parts of the State with reference to greenbacks. Attempts were made to introduce the gold clause into promissory notes, invoices, and bills of sale, and these were partially successful, but what could be done with accounts current, with telegraphic orders and with retail trade conducted on the credit system? On the 8th of November, 1862, the merchants of San Francisco entered into a written agree-

**Confusion in Business.**

ment not to receive or pay legal tender notes except at their market value in gold. Country merchants were invited to sign it also. If anybody should refuse to sign or should violate the agreement the others would decline to have any business transactions with him. This plan could not be made comprehensive enough to meet the emergency.

Presently a case got into court where a citizen had tendered greenbacks for State taxes, and the collector had refused to receive them. The Supreme Court of the State decided that taxes were not "debts," and hence that the legal tender law did not apply to them. This view was eventually sustained by the Supreme Court of the United States. The decision of the State court had a great influence on local public opinion. It strengthened the hands of the anti-greenback men. About this time the Federal Government was collecting the direct tax, which had been levied on the States at the beginning of the war. The treasurer of California collected it from the citizens in coin and paid the Federal Government in its own legal tender notes, saving the difference to the State treasury. "This transaction," says Prof. Moses, "although the treasury saved by it the sum of $24,260, was almost universally condemned."

**Greenbacks not Legal Tender for Taxes.**

In October, 1862, the Board of Supervisors of San Francisco adopted a resolution to pay the interest on city and county bonds in gold coin and instructed their financial agent in New York to advertise to that effect. This action likewise tended to strengthen the position of the anti-greenbackers.

February 12, 1863, resolutions were introduced in the Legislature asking the general government to except California from the operations of the legal tender law. The resolutions were rejected because it was evident that such a petition could not be granted. The mover of them mentioned one fact of

**Rise of the Rate of Interest.**

importance. He said that the rate of interest had risen to double the customary rate because lenders were fearful that no form of contract could prevent the payment of greenbacks where gold had been promised.

This feeling had taken a powerful hold on the public mind. An agitation was started by the *Daily Herald* for a law to enforce the payment of contracts in whatever kind of money the parties might agree for. The Legislature took up the subject in earnest, and in April, 1863, passed a law to this end, not mentioning gold, greenbacks, or any particular kind of money by name. This was known as the Specific Contract Law. It provided merely that in an action on a contract, or obligation, in writing, payable in a specified kind of money or currency the judgment should be payable in such money or currency. The parties might stipulate for English sovereigns, or Spanish doubloons, or notes of the Bank of France, as well as for American eagles, or greenbacks; the law would enforce the contracts in all cases. The act was passed upon by the Supreme Court of the State the same year and pronounced constitutional. It was also held to be applicable to contracts made before its passage. Both these doctrines were subsequently affirmed by the Supreme Court of the United States, in terms which implied that the Specific Contract Law was superfluous. In other words, specific contracts were enforceable without it. The greenback party made an effort in the following year to repeal this law, but the Chamber of Commerce of San Francisco issued a strong address to the people against repeal, and the address received the unanimous endorsement of the workingmen's organizations of the city. The repealing bill was tabled in the Senate by 24 to 16, and that was the last of it. From this time onward California enjoyed a stable standard of value.

**Specific Contract Law.**

**Sustained by the Supreme Court of the U. S.**

## CHAPTER VII.

### AFTER THE WAR.

THE money circulating among the people is a powerful educator. It teaches either truth or falsehood. Sometimes the results of its false teachings are merely whimsical; more often they are disastrous. Philip Gilbert Hamerton tells us that in that part of France where he lived in 1875 the priests had lost their influence with the peasants entirely as to secular affairs, because, some years earlier, there had been an extensive circulation of one-franc pieces, of light weight, bearing the effigy of Pope Pius IX. These had been coined by the Roman mint and had rushed into France along with other Italian coins when the Latin Monetary Union was formed, although the Papal States were not members of the Union. Of course, that government had no rights under the treaty, but the peasants lost two sous on every one of these pieces, and they put the blame on the Pope and then on the priests as agents of the Pope. So convinced were they of the intent to defraud them that when the war of 1870 broke out they believed that the Pope assisted Prussia, and that when the priests collected money for parochial purposes, they sent it to Prussia. One of the consequences of this delusion was that all candidates for the Chamber of Deputies who were supported by the priests were defeated by the votes of the peasants.[1]

**Money an Educator.**

**A Modern Instance.**

It was useless to say to these people that they ought not to have taken the Roman coins and that they were themselves to blame for whatever loss they suffered. It was useless to tell them that the Pope had nothing to do with the

[1] Round My House. Life in France in Peace and War, by Philip Gilbert Hamerton, p. 214.

matter anyway. They could not understand such arguments. The only facts they could grasp were the Pope's effigy and the loss of the two sous.

Our legal tender act taught people to believe lies. First it taught them that the government's bonds were payable in greenbacks. In the act of 1862, authorizing these bonds, it was provided that the interest should be paid in coin. This was designed for the purpose of maintaining the purchasing power of the greenbacks, which were fundable into bonds, and of keeping up the price of the bonds themselves, both being thus linked with gold. But nothing was said about paying the principal in coin, because nobody had then imagined that the government could pay one debt with another. The legal tender act, however, said that the notes should be "lawful money and a legal tender in payment of all debts public and private within the United States except duties on imports and interest as aforesaid." These words being printed on the greenbacks had the same misleading effect as the Pope's effigy on the Roman francs.

**Paying Bonds with Greenbacks.**

Soon after the passage of the act the solecism was noticed by some people, but as it is not the custom of Congress to settle disputes till they become dangerous, nothing was done. It was distinctly perceived, however, that the ambiguity might have a bad effect on future loans. So when the next bill was passed for borrowing money (that of March 3, 1863), it was provided that both the principal and interest of the bonds issued under it should be paid in coin. Thus the germ of a dangerous and protracted controversy was laid.

**A Dangerous Controversy.**

On the first of January, 1863, an old debt of the government, contracted in 1841, for $3,000,000 became due, and Secretary Chase paid it in gold. The House of Representatives had previously asked him by resolution (December

16) in what kind of money he intended to pay it. He postponed the answer until he had actually paid it. He then said (January 5) that he had paid it in coin in order to keep the government's credit good. Mr. Chase here rendered his country a conspicuous service. Soon afterwards he made a public statement that the 5–20 bonds [1] issued under the act of 1862 were payable in coin also; but, of course, his mere declaration could not bind the government.

**Maturing Bonds paid in Gold.**

The policy of paying the 5–20 bonds in greenbacks was made a political issue by General Butler in the Republican camp, and by George H. Pendleton in the Democratic, immediately after the close of the war. They and many other politicians advanced the fantastic conceit that the government could pay the first piece of paper with a second one. If it could do so, then as Professor Newcomb said, it could pay the second piece with the first.[2] So by a game of see-saw or thimble-rigging the whole debt could be paid without taxation. As all other governments could rightfully do what we could, all national debts might be settled in a twinkling. But there would be no need of taking the trouble to exchange an interest-bearing bond for a non-interest-bearing note. The whole debt could be cancelled by simply passing a law saying "all bonds of the United States are legal tender and shall cease to bear interest after the passage of this act." If that could be called *paying* the debt what would be repudiating it?

**Political Struggle after the War.**

There was a hot battle over this question. Both Butler and Pendleton were beaten in their respective national conventions in 1868, but in different ways. The Republican

[1] Bonds redeemable in five years and payable in twenty years.

[2] Financial Policy during the Southern Rebellion. By Simon Newcomb, 1865.

Convention discountenanced in its platform the payment of the bonds in greenbacks. The Democratic Convention favored it, but rejected Mr. Pendleton as a candidate for the Presidency, and nominated Horatio Seymour, who was strongly opposed to that policy. The Republicans carried the election, and soon thereafter (March 18, 1869) Congress passed an act declaring that all government obligations were payable in coin unless the law under which they were issued expressly provided for some other payment.

**Campaign of 1868.**

This did not put an end to the controversy, however. The fight was long and bitter. It continued to serve as stage thunder even after the resumption of specie payments. Its last public appearance was in a speech of Senator Beck, of Kentucky, delivered in the Senate, December 21, 1885. In this speech great stress was laid on the fact that the back of each note bore a printed statement saying that it was legal tender for all payments, public and private, except duties on imports and interest on the public debt. True, but the face of the note said, "The United States will pay the bearer ——— dollars." What is a dollar? Certainly it is not a greenback, because that expressly promises to pay a dollar. It cannot promise to pay another greenback. That would be too absurd. In the case of *Bank vs. Supervisors* (7 Wallace 26), the Supreme Court of the United States held that the greenback was a promise to pay coined dollars.

**What is a Dollar?**

Another false idea born with the greenback, was that the government could make money. If it could make money people said that it ought to. Does not the government exist for the benefit of the people? It is for the benefit of the people to have plenty of money, because the more of it a man has, the more comforts he can enjoy. This idea led to the pas-

**Can the Government make Money?**

sage of the Inflation Bill of 1874, which was vetoed by President Grant. The bill provided for an increase of only $44,000,000 of greenbacks, — the amount retired by Secretary McCulloch, — but it contained the whole principle of adding to an irredeemable currency, in time of peace.[1]

**President Grant vetoes the Inflation Bill.**

President Grant was quite right in saying that "if in practice the measure should fail to create the abundance of circulation expected of it, the friends of the measure, particularly those out of Congress, would clamor for such inflation as would give the expected relief." His veto of this measure is worthy of all the praise that has been bestowed upon it. It practically killed greenback inflation, although a hot battle was fought over it at the polls the following year. The center of this engagement was in the State of Ohio, where the Democrats had declared in their platform that the amount of money ought to be made "equal to the wants of trade." This sophism was slain by Carl Schurz in a speech at Cincinnati, which decided the campaign.

The phrase "equal to the wants of trade" means the wants of anybody in trade, unless we have a heavenly oracle to tell us what those wants are. It also requires measures to put the person in possession of what he wants. Since all must be treated alike, it follows that everybody must be served with greenbacks at the public treasury till he says he has enough. To give everybody all the greenbacks he wants would give nobody an advantage, except by canceling past debts. Therefore an act of Congress canceling all debts would accomplish the same end more expeditiously.

**"Equal to the Wants of Trade."**

The Inflation Bill having been a Republican measure and

[1] Of this $44,000,000 the sum of $26,000,000 had already been reissued by Secretary Richardson without authority of law, if not in violation of it, in a vain attempt to stay the panic of 1873.

vetoed by a Republican President, the party was left in the lurch. It lost the elections of 1874 by heavy majorities. It was necessary to face the other way at once. On the 21st of December, the Senate Committee on Finance reported a bill providing for the resumption of specie payments on the first of January, 1879. It was passed on the following day by 32 to 14. It was taken up in the House on the 7th of January and passed the same day by 124 to 107. It authorized the Secretary of the Treasury to sell bonds without limit, in order to obtain the necessary coin. The sum of $95,500,000 in gold was obtained by Secretary Sherman in this way in 1877 and 1878, at the rate of $5,000,000 per month by a contract with a syndicate of bankers of whom the Rothschilds were the most important members. The syndicate promised to do all in their power outside of the contract to promote resumption by controlling the movement of gold in favor of the United States, and there is evidence that they did control it to some extent. When the day appointed for resumption arrived the Treasury held upwards of $133,000,000 of gold and there was no premium on it in the market. In fact greenbacks were at par on the 17th of December, 1878. The Gold Room was closed the following day and never reopened. No gold was drawn from the Treasury on Resumption day and only $11,000,000 during the year.

**Resumption Act of 1875.**

**Carried into Effect.**

Did the Resumption Act cause the advance of the greenback to par? That it was capable of doing so and that in the hands of an energetic finance minister (as Mr. Sherman was) it must have done so, there is no doubt. Provided the credit of the United States was good and the country's industries fairly prosperous, he could have drawn from the world's stock of gold any required sum. His authority to sell bonds was not limited as to time or amount.

The course of events, however, shows that the Resumption Act was not the most potent factor in bringing the greenbacks to par. Gold took a decided turn downward at the end of 1870, reaching 110½ in December. At this time there was no movement in Congress, or anywhere, for specie resumption. It has been shown in a former chapter that, in a country having an irredeemable currency, its value is indicated by the foreign exchanges. In August, 1869, $100 in greenbacks would buy American goods and produce which would sell for £15 in England, or the equivalent of about $75 gold. In December, 1870, the same $100 greenbacks would buy American goods that would sell for £18, or about $90 gold. The supply of instruments of exchange was the same at both periods, but the demand for them was greater at the second period than at the first. For this reason they gained in value to the extent of about 15 per cent. Between 1870 and 1879, there were ups and downs, the value of the greenback being measured at all times by its purchasing power in American exportable goods. The passage of the Resumption Act in January, 1875, did not lower the gold quotation. It was decidedly higher that year than it had been in the previous one, the maximum of 1874 being 113⅞, while in 1875 it was 117½. The explanation is that there was a greater demand for instruments of exchange in the former year than in the latter. Consequently they would buy more goods per dollar and therefore more gold.

**Gradual Rise of the Greenback in the Seventies.**

In the latter part of 1876, the gold quotation fell as low as 107, greenbacks being now worth 93 cents per dollar. In 1877 there was a slow but steady rise of the greenback. The bond syndicate was now at work and the Treasury was receiving the $5,000,000 monthly. At the end of the year the gold quotation was 102½. This movement continued the following year till December 17, when the gold premium

disappeared altogether. The banks of New York now took an important step by discontinuing special gold accounts with their customers, and receiving deposits only as "dollars." Business now became very active. The demand for more instruments of exchange continued during 1880 and 1881, and resulted in an importation of $175,000,000 gold in those two years.

**Great Importation of Gold in 1880 and 1881.**

When the Resumption Act passed, very few persons, in Congress or out, believed that it would accomplish the object. It was looked upon as a political manœuvre and *brutum fulmen.* As the time approached, and it became evident that resumption would take place, Congress became alarmed at the prospect, and began to ask what would become of the dear greenbacks after they were redeemed. Should they be retired and cancelled, or not? A bill to prevent their retirement and to provide for their reissue was passed in the House without debate. In the Senate Mr. Bayard moved an amendment, that notes redeemed and reissued should not be legal tender between individuals. This was rejected by a vote of 18 to 42, and the bill was passed as it came from the House. It is the act of May 31, 1878.

**Greenbacks Reissued.**

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## CHAPTER VIII.

### SILVER DOLLARS.

Our silver legislation followed closely upon the heels of the Inflation Bill. It was part and parcel of the demand for cheap dollars and more of them. In 1876 silver had fallen in price about ten per cent. This was better than nothing to the beaten inflationists. They looked at the law, and found that the

**Followed the Inflation Bill.**

silver dollar, the only legal tender coin of that metal, had been abolished by an act of Congress, passed in 1873, and that those of them who were members of Congress at that time had voted for it. So they said that they had been tricked and deceived, that this act of 1873 was a conspiracy against the debtor class, and that it was passed in a clandestine manner. They declared that this was a great wrong. Many people who had no particular interest to be served by inflation really thought that a wrong had been done. Some of them thought that the wrong had been done to silver itself.

One of the phrases in common use was and is that we ought not to discriminate against either metal. This passed for a very sound maxim and has probably led more people astray than any other catch-word in the whole controversy. It was easy to persuade the unthinking that it applied with the same force to gold and silver as to human beings. But obviously it does not apply to gold and silver unless they are human beings. If they are merely metals it is quite proper to discriminate between them. The power to discriminate between things more or less useful is what distinguishes men from brutes. Mankind has been discriminating between good kinds of money and bad kinds from the dawn of history. Another very misleading phrase in common use is "free silver."[1] Still another is the phrase "dollar of the fathers," implying that the fathers of the present generation had great

**Crude Conceptions.**

[1] "You can stand on the corner of any street on the Strand and ask the first 100 men of all grades of intelligence who pass to explain what 'free silver' means, and 90 will tell you honestly that they know nothing about it. Yet the words 'free silver' sound well. A few of them say they are not opposed to accepting some of it if offered to them for nothing." Letter of Mr. Geo. Sealy in *Galveston Daily News*, October 22, 1894.

attachment to the silver dollar, whereas they discarded it with deliberation in 1834. P. 41

Under the influence of such crude conceptions a Congress was elected in 1876 which was understood to be pledged to restore the dollar of the fathers, but how it should be done was not clear. The House passed a bill offered by Mr. Bland for the coinage of silver on the same terms as gold and at the ratio of 16 to 1, the market ratio at that time being 18 to 1. This would have been remonetization.

**Bland Bill.**

The Senate, on motion of Mr. Allison, amended the bill by providing that the government should buy not less than two million dollars' worth and not more than four million dollars' worth of silver bullion each month and coin it into silver dollars, these to be full legal tender money. The resulting coins would belong to the government, and might be sold to individuals, or paid out for debts, or for subsequent purchases of silver bullion. In every case they would be used at par, so that there would be a gain to the government upon all the coins worked off. Thus, if a given amount of bullion cost the government $10,000 and if 11,000 silver dollars were produced from it and sold to the public, or paid out at par, then so long as they remained in circulation the government made a profit of $1,000. This fact was made use of to defeat Mr. Bland's free coinage bill. The advocates of the Allison substitute said that the government ought to make this profit instead of private individuals. This seemed plausible and it was generally approved, but it was as absolute a defeat of the remonetization of silver as though the Bland bill had been wholly rejected. The Allison bill was vetoed by President Hayes, but was passed over his veto and became a law February 28, 1878. Three unsuccessful attempts

**Allison Amendment.**

**Passed by Congress.**

were made subsequently in the House to pass a "free coinage" bill (April 8, 1886, June 25, 1890, and March 24, 1892).

After the Allison bill was passed the "friends of silver" settled down to the quiet and joyful contemplation of two million new dollars dropping from the Mint every month, not observing that this institution consumed two million gold dollars or thereabouts in the process. Here were two operations going on side by side. The Mint, regarded as a manufacturing establishment, was buying bullion and selling coins, crediting itself with the seigniorage, *i.e.*, the difference between the raw material and the finished product. This was one operation. The other consisted of a people who needed a certain number of instruments of exchange called dollars for the transaction of their daily business. These instruments they paid for with their labor and their property at the rate of 100 cents per dollar. Obviously they could have whichever metal they preferred. Gold value will always bring gold, *ex vi termini*. But the silver dollars would not circulate abroad, while the gold ones would. So the gold ones went abroad, or (which is the same thing) staid abroad, whereas they would have come here to meet a demand for instruments of exchange if there was a deficiency. This is the other operation. Thus the Allison bill did not make money more plentiful, although it seemed to do so.

**Seigniorage.**

**How it worked.**

The bill was a concession to misguided public opinion, and was the least mischievous measure that was possible at that time. Either the Bland bill or the Allison bill was inevitable. The latter was far preferable, for although expensive in dollars and cents it preserved the gold standard and the nation's good faith. It was what the French call a *pis aller*. It was

**A "Pis Aller."**

necessary to take that or something worse. The whole number of dollars coined under the operation of the Allison act was $378,166,793. Of these about $57,000,000 entered into circulation in their metallic form and the remainder as silver certificates, the law authorizing any holder of the dollars to deposit them in the Treasury and receive certificates of deposit therefor. The certificates are not legal tender, but are receivable for all public dues.

In the summer of 1890 circumstances of a political sort gave the silver men a majority of the Senate and enabled them to pass a free coinage bill in that body, June 17. The House, June 25, refused to concur, and a Conference Committee was appointed, which reported the Sherman bill so-called, which was passed July 14. This measure provided that the Secretary of the Treasury should buy 4,500,000 ounces of silver bullion each month at the market value thereof, and pay for the same with treasury notes, and that "upon the demand of the holder of any of the treasury notes herein provided for, the Secretary of the Treasury shall, under such regulations as he may prescribe, redeem such notes in gold or silver coin at his discretion, it being the established policy of the United States to maintain the two metals on a parity with each other upon the present legal ratio or such ratio as may be provided by law." The treasury notes were declared to be "legal tender in payment of all debts, public or private, except where otherwise expressly stipulated in the contract."

**The Sherman Act.**

This meant that the Secretary should buy silver bullion, give his notes for it, and redeem the notes in gold the next minute if asked to do so. This was the same thing as paying gold for it. The amount of silver to be bought under the Sherman law was almost double the amount under the Allison law, but in return for this concession the provision

contained in the last clause was secured. This purports merely to declare what the policy of the government is and has heretofore been, *i.e.*, to keep the gold dollar and the silver dollar at par with each other; but in reality it established that policy for the first time in our history. It is not strictly a command laid upon the Secretary of the Treasury, but it is a guide-post which he cannot safely disregard.

**The Parity Clause.**

There was a large advance in the price of silver concurrently with the passage of this act, due to speculative purchases, but it was only temporary. The price in New York on the first of July, 1890, was $1.04 per ounce. On the 19th of August it had risen to $1.21. At the beginning of September it began to fall, and at the end of December it was down again to $1.04. The fall in price, after the speculation had exhausted itself, was due to increased production, that of the United States alone increasing four million ounces in the year.

The explanation of the Sherman act is in substance the same as that of the Allison act. It was another flank attack upon popular errors. It was the smallest concession to the silver men short of free coinage that was politically possible. The House might indeed have rejected the bill altogether. President Harrison might have vetoed it, as President Hayes had vetoed the Allison bill. Political considerations, however, prevailed over financial ones. All the silver legislation down to the repeal of the Sherman act is explainable in this way.

**Another "Pis Aller."**

It has been a fencing-match of political parties. Anybody who seeks a financial reason will be disappointed. It is part and parcel of our scheme of government that the multitude must decide intricate questions of finance which they do not understand, and where a mistake may produce appalling con-

**And Political Fencing-Match.**

sequences. There are few statesmen bold enough to confront popular errors squarely. Fortunately, President Cleveland is one of these, and his example shows that such boldness does not go unrewarded.

The Sherman act provided that the coining of silver dollars should continue at the rate of 2,000,000 ounces per month until July 1, 1891, and that coining should then cease, the bullion being stored in the Treasury. Under this law 168,000,000 ounces of silver were bought, of which 28,000,000 ounces were coined, producing 36,000,000 dollars, and $156,000,000 of Treasury notes were issued.[1]

**Panic Predicted.**

When the Allison act was passed in 1878 its opponents predicted that sooner or later it would cause a financial panic. They said that since the metallic value of the silver dollars was not equal to the face value they were simply a new kind of fiat

[1] At the meeting (October, 1894) of the American Bankers' Association, Hon. A. B. Hepburn presented the following statistical information, which he had obtained from the Bureau of the Mint:

| | |
|---|---|
| 1. Total coinage of silver dollars under act of February 28, 1878 | $378,166,793 |
| 2. Total cost of silver bullion used in such coinage | 308,279,261 |
| 3. Seigniorage or apparent profit | 69,887,531 |
| 4. Bullion value of silver used in such coinage at present market price | 186,207,289 |
| 5. Difference between actual cost and bullion value at present market price | 122,071,972 |
| 6. Bullion purchased under act of July 14, 1890, cost | 155,981,002 |
| 7. Market value of such bullion at present market price | 107,832,037 |
| 8. Depreciation of value in same | 48,098,965 |

**Cost of the Silver Legislation.**

The loss to the people is the whole cost of the bullion purchased under the two acts, viz., $464,260,263, since nothing can be done with it except to bury it underground, and since it is the government's credit and not the buried silver that promotes the circulation of the notes and certificates. It is easy to see that silver dollars are the most expensive form of fiat money.

money, and that whenever they should become redundant they would act like any other fiat money — like the greenbacks at the beginning of the war, for example. There would then be a change in the standard of value, gradual, perhaps, but sure. This was a true prophecy, but the fulfillment was long delayed.

The demand for more instruments of exchange, which had contributed so powerfully to bring the greenbacks to par, continued. This demand happened to coincide with a shrinkage of the volume of national bank notes due to the reconversion of the public debt and to a rapid advance in the price of the national bonds, which made it profitable for the banks to retire their circulation and sell their bonds. One hundred and sixty-eight million dollars of the bank notes were retired between November, 1882, and February, 1890, *i.e.*, in seven years and three months. The output of silver dollars only kept pace with this shrinkage, or little more. So long as this condition lasted there would be no excess of instruments of exchange. The new silver dollars were merely filling a vacuum created by another set of causes. But this was a silent operation. The public could not understand it, and so, as years rolled on and no mischief came from the coining of silver dollars, the predictions of panic fell under popular ridicule.

**But Delayed.**

The Sherman act, although differing from the Allison act in form, and in the amount of silver purchased, was of the same nature: it provided for a larger injection of fiat money into the circulation. The predictions of disaster were now renewed and they gained more attention. The act produced a very unfavorable effect abroad. The year 1891 saw the largest exportation of gold in our history, being upwards of seventy millions in six months, nearly all of which was taken out of the

**Heavy Gold Exports.**

Treasury within one year after the passage of the Sherman act.

In 1882 Congress had, in a roundabout way, established a fund of $100,000,000 gold as a special reserve for the redemption of greenbacks. A bill to amend the National Bank act was then under consideration in the Senate. A section relating to gold certificates of deposit was embraced in it. On the 21st of June, in that year, Senator Aldrich moved an amendment to it in these words:

**The $100,000,000 Gold Reserve.**

"Provided that the Secretary of the Treasury may, in his discretion, suspend the issue of such certificates whenever the amount of gold coin and gold bullion in the Treasury available for the redemption of United States notes falls below $100,000,000."

The object of this amendment, as explained in debate, was to prevent the holders of greenbacks from drawing gold from the Treasury, redepositing it there, and taking gold certificates for it, all at one operation, thus possessing themselves perhaps of all the gold in the Treasury and at the same time using the government's vaults as a free safe depository. Senator Allison remarked, while this amendment was under consideration, that "thus far there had been no absolute definition of what the reserve fund should amount to." In order to supply such a definition Senator Ingalls moved to substitute the word "reserved" for the word "available" in Mr. Aldrich's amendment. This was agreed to. Senator Ingalls then moved to amend further "by striking out that portion of the proviso which gives the Secretary of the Treasury discretion to infringe on the fund, by inserting the word 'shall.' I wish (he said) to make the language more specific so as to read: 'That the Secretary of the Treasury *shall* suspend the issue of such gold certificates.'" This

**How it was Established.**

was accepted, and then the Aldrich amendment as amended was agreed to without a division, and the House concurred. Accordingly Mr. C. N. Jordan, the Treasurer of the United States, in adopting some changes in the method of stating the public debt in 1885, put the sum of $100,000,000 gold in a separate fund as "reserved for the redemption of United States notes." This being repeated month after month and year after year, it became fixed in the public mind that this amount of gold was set apart for this particular purpose. There can be no doubt that such was the intention of Congress, although the language might have been more explicit.

**The Public Debt Statement.**

The year 1892 passed without any great trouble, but a very uneasy feeling prevailed at the beginning of 1893. There was a renewal of gold exports on a large scale. There had been a change of administration at Washington. The new Secretary of the Treasury, Mr. Carlisle, apparently entertained doubts whether the $100,000,000 gold accumulated in 1877–78 for the redemption of greenbacks could be lawfully used for any other purpose. The excess in the Treasury over the $100,000,000 was now very small and was diminishing from day to day. A telegram was sent to the press from Washington on the 18th of April, implying that when this excess should be exhausted the treasury notes issued under the Sherman act would no longer be redeemed in gold. The telegram was contradicted the next day and the announcement was made by Mr. Carlisle himself that treasury notes would be redeemed in gold under all circumstances, but in the feverish state of the public mind, the bad impression remained. It was intensified a few days later when the Treasury statement showed less than $100,000,000 gold on hand, for the first time since 1878. On the 26th of June the news came that the government

**Panic of 1893.**

of India had demonetized silver, the price of which fell from $0.82 to $0.67 per ounce in three days. Even before this event public opinion, as voiced in the press, had become very emphatic that silver legislation was at the bottom of the trouble and that the Sherman act ought to be repealed.

**Action of India.**

When the news from India came the demand for an extra session of Congress for this purpose became overwhelming and President Cleveland called it for the 7th of August. A bill to repeal the purchasing clause of that act passed the House by a vote of 239 to 108 on the 21st of that month. In the Senate there was a long delay due to the lack of any rule for terminating debate. It seemed at one time as though the country was on the eve of some great change in consequence of the revolutionary conduct of certain senators in refusing to allow a vote to be taken. After a struggle of two months and when the tension had become really appalling it was announced that a compromise had been agreed upon, by virtue of which the hostile Democrats would allow a vote to be taken. The next day it was announced authoritatively that President Cleveland would not be a party to any compromise. This meant that he would veto the compromise if passed, in which case the whole work must be done over again. Then the filibustering Democrats announced to the Republicans from the silver-mining states that they could hold out no longer and that a vote must be taken. There had never been a doubt as to how the vote would stand if it could be reached. It was taken on the 30th of October, yeas 43, nays 32. It was one of the fortunate incidents in our career as a nation that Mr. Cleveland was president at this juncture. No Republican president could have moved the Democratic majority of Congress to pass that bill. No other

**Extra Session of Congress.**

**Repeal of the Sherman Act.**

Democrat, who was within the range of choice, would have done so.

It is evident that the country had a sufficiency of instruments of exchange in the summer of 1890 before the Sherman act was passed. If there were still a vacuum it would be as easy to fill it with gold as with silver, but in fact we exported during the operation of the Sherman act about as many gold dollars as we obtained of silver ones, the output of treasury notes to July 1st, 1893, being $140,661,694 and the net export of gold during the same time $141,017,158. Our history teaches that whenever there is an excess of instruments of exchange one of two things will happen. If they are of gold, or redeemable in gold, there will be an outflow of the surplus. If not, there will be depreciation of the whole mass.

**Loss of Gold Due to that Act.**

It has been argued that if the panic of 1893 had been caused by silver, people would have drawn gold from the banks first, whereas they drew any and every kind of paper money in preference. Those who predicted a panic in consequence of silver legislation did not predict that people would act rationally when it came, but their action was not as irrational as it seemed. There was a stampede. People clutched at the means of payment, and they took what was most easily handled. The important question is, what caused the stampede? The genesis of panics is not always easy to make out, but I can perceive no cause in this case except the fear of a change in the standard of value.

Among the causes contributing to this fear was a large deficiency of public revenue, pointing to the necessity of using the gold reserve soon for daily expenses. People anticipated this by drawing gold in advance of any real need of it. This was especially true of the holders of foreign capital in the United States. They presented legal tender notes at

**A Treasury Deficit and its Consequences.**

the sub-treasury, took gold and sent it abroad. The Treasury then used the legal tender notes to meet its expenses, thus complying with the terms of the law, but really paying a part of its ordinary disbursements out of the gold reserve. It could not do otherwise. The reserve had fallen below the conventional $100,000,000 in April, 1893, and it shrank to $65,000,000 the following January.

It was now necessary to do something decisive. The President and the Secretary had asked Congress to provide for the emergency, but that body had neglected to do so. Under the Resumption Act of 1875, the Secretary had power to sell any one of three classes of bonds for the purpose of beginning and continuing the redemption of United States notes. Another law, not noticed at the time,[1] gave him power to buy coin at his discretion, and pay for it with any bonds authorized by law. Under the Act of 1875, the Secretary advertised the sale of $50,000,000 of 5 per cent bonds to run ten years and to be sold at the rate of $117.223 gold for each $100, thus making the rate of interest equal to 3 per cent. There was no application for any considerable amount of the bonds until the last day, when a group of New York bankers subscribed for the whole lot at the price named. Payment being made, the gold in the Treasury rose to $106,000,000 in February, 1894.

**Loss of Gold in 1894.**

**Sales of Bonds for Greenback Redemption.**

As the same causes were still at work the same effects were produced. The drain continued. In July the stock was reduced to $55,000,000. From this point there was a rise to $61,000,000 in October. A second loan was made in November of the same amount as before.

**Ineffectual.**

The public were now thoroughly alarmed on both sides of

[1] See page 156.

the water. The ability of the government to continue gold payments was generally called in question for the first time since January, 1879. The gold received for the second $50,000,000 of bonds disappeared like water poured on the sand. The reserve fell to $44,000,000 in January, 1895. There was a "run" on the Treasury for the first time, and gold was paid out at the rate of $3,000,000 per day and would have gone much faster had not the banks refused to open special gold accounts with their customers. $33,000,000 was taken out that was not wanted for exportation. Something else must be done than to sell bonds in job lots, since the public were in a frame of mind to present for redemption every greenback and Treasury note outstanding. Nothing could stop this except evidence that the foreign demand for gold had come to an end. It did come to an end early in February. A financial achievement had been effected, without a parallel in our history and equaled only by the quelling of the Baring panic in 1890 by the London syndicate, with the Bank of England at its head. A contract had been made between the Secretary of the Treasury and a syndicate of bankers in New York and London for the purchase by the former of 3,500,000 ounces of gold coin equal to $65,117,500 (at least one half to be obtained from Europe) to be paid for with 4 per cent 30-year bonds, to be taken at such a premium as should yield 3¾ per cent interest per annum. The amount of bonds was $62,317,500, and the price received by the government was 104.49. These bonds were authorized by the Act of July 14, 1870, and were made payable in "coin," the only coin then known to American commercial usage being gold coin. Doubts having been raised by silver agitators, in and out of Congress, touching the ambiguity of the word coin, and these doubts having considerable in-

**Panic of 1895.**

**Bond Syndicate of February.**

fluence abroad, the syndicate offered to accept 3 per cent interest instead of 3½, if Congress would within ten days make these bonds specifically payable in gold. President Cleveland sent the contract to the House and recommended that this change be made, since it would save about $16,174,770 in interest during the time the bonds have to run. The House debated this very simple proposition two days and then rejected it (February 14th) by yeas 120, nays 167.

The most important part of the contract was the fifth clause, which was in these words: "In consideration of the purchase of such coin, the parties of the second part and their associates hereunder assume and will bear all the expense and inevitable loss of bringing gold from Europe hereunder; and, as far as lies in their power, *will exert all financial influence and will make all legitimate efforts to protect the Treasury of the United States against the withdrawals of gold, pending the complete performance of this contract.*"

This was the most scientific part of the transaction. It aimed to stop withdrawals of gold at the same time that it brought in a new supply. The syndicate was able to control the rate of foreign exchange for a time so that gold could not be exported at a profit. It is doubtful if any other group of men in the world could have accomplished this feat. The importance of it is beyond estimation, since it arrested a panic, the consequences of which nobody can depict any more than he can tell how far a prairie fire will spread after it is once started. It is not worth while to enter into the bitter, but short-lived controversy which this contract produced.

**The Panic stopped.**

## CHAPTER IX.

### THE "CRIME OF 1873."

THERE has been a renewal lately of the charge that the coinage act of 1873 was passed secretly. It becomes necessary, therefore, to reëxamine the foundations of such charge. It is not generally easy to prove a negative, but it can be done in this case, because there is no way to pass a law secretly in the Congress of the United States. Every bill must be printed and must be read publicly in each branch. These proceedings are incompatible with secrecy. It has been shown already that this bill was printed thirteen times by the Treasury Department and by Congress and that the proceedings on it occupy 144 columns of the *Congressional Globe*, which was published daily during the session.

**Coinage Act of 1873.**

When this charge is disproved, it is varied slightly by saying that the demonetization of silver was accomplished silently, by the mere omission of the dollar from the list of authorized coins, and that this omission was not noticed. But the clause in question was not a mere omission of one coin from a list of coins. As the bill passed the House (May 27, 1872) the clause was in these words:

**Bill not passed secretly.**

"That the silver coins of the United States shall be a dollar, a half-dollar, or fifty-cent piece, a quarter-dollar, or twenty-five-cent piece, a dime or ten-cent piece; and the weight of the dollar shall be 384 grains; the half-dollar, quarter-dollar and dime shall be respectively one-half, one-quarter and one-tenth of the weight of said dollar, *which coins shall be a legal tender for their nominal value for any amount not exceeding five dollars in any one payment.*"

Another section of the bill provided that no other silver coins than these should be issued from the mint, and a third section provided that the gold dollar should be the unit of value.

This was sufficient to call attention to the fact that no silver coins hereafter made should be legal tender for more than five dollars. But attention was called to it in other ways. Four members of the House (Clarkson N. Potter, W. L. Stoughton, Samuel Hooper and Wm. D. Kelley) discussed the omission of the silver dollar and the consequent establishment of the single gold standard on the 9th of April, 1872.

**Discussion in the House.**

Mr. Hooper said: "As the value of the silver dollar depends on the market price of silver, which varies according to the demand and supply, it is now intrinsically worth, as before stated, about three cents more than the gold dollar. By the act of January 18, 1837, the standard of the silver coins was increased to nine hundred thousandths fine, which reduced the weight of the dollar from four hundred and sixteen to four hundred and twelve and a half grains; the amount of pure silver, however, remained the same, namely, three hundred and seventy-one and one-fourth grains. The committee, after careful consideration, concluded that twenty-five and eight-tenths grains of standard gold constituting the gold dollar *should be declared the money unit or metallic representative of the dollar of account.*" — *Congressional Globe*, 2d Session, 42d Congress, page 2305.

**Mr. Hooper.**

"Section sixteen reënacts the provisions of existing laws defining the silver coins and their weights respectively, except in relation to the silver dollar, which is reduced in weight from four hundred and twelve and a half to three hundred and eighty-four grains, *thus making it a subsidiary coin in harmony with the silver coins of less denomination*, to

secure its concurrent circulation with them. The silver dollar of four hundred and twelve and a half grains, by reason of its bullion or intrinsic value being greater than its nominal value, long since ceased to be a coin of circulation, and was melted by manufacturers of silverware. It does not circulate now in commercial transactions with any country, and the convenience of those manufacturers in this respect can better be met by supplying small standard bars of the same standard, avoiding the useless expense of coining the dollar for that purpose. The coinage of the half-dime is discontinued for the reason that its place is supplied by the copper-nickel five-cent piece, of which a large issue has been made, and which, by the provisions of the act authorizing its issue, is redeemable in United States currency." — *Ibid.*, page 2306.

Mr. Stoughton said: "Aside from the three-dollar gold piece, which is a deviation from our metrical ratio, and therefore objectionable, the only change in the present law is in more clearly specifying the gold dollar as the unit of value. This was probably the intention and perhaps the effect of act of March 3, 1849, but it ought not to be left to inference or implication. The value of silver depends, in a great measure, upon the fluctuations of the market, and the supply and demand. Gold is practically the standard of value among all civilized nations, and the time has come in this country *when the gold dollar should be distinctly declared to be the coin representative of the money unit.*" — *Ibid.*, page 2308.

**Mr. Stoughton.**

Mr. Potter said: "Then, in the next place, this bill provides for the making of changes in the legal tender coin of the country, *and for substituting, as legal tender, coin of only one metal instead as heretofore of two.* I think myself this would be a wise provision, and that legal tender coins, except subsidiary coins, should be of gold alone; but why

should we legislate on this now when we are not using either of those metals as a circulating medium? The bill provides also for a change in respect of the weight and value of the silver dollar, which I think is a subject which, when we come to require legislation at all, will demand at our hands very serious consideration, and which, as we are not using such coin for circulation now, seems at this time to be an unnecessary subject about which to legislate." — *Ibid.*, page 2310.

**Mr. Potter.**

Mr. Kelley said: "I wish to ask the gentleman who has just spoken (Mr. Potter) if he knows of any government in the world which makes its subsidiary coinage of full value? The silver coin of England is ten per cent below the value of gold coin. And, acting under the advice of the experts of this country, and of England and France, Japan has made her silver coinage, within the last year, twelve per cent below the value of gold coin, and for this reason: *It is impossible to retain the double standard.* The values of gold and silver continually fluctuate. You cannot determine this year what will be the relative values of gold and silver next year. They were fifteen to one a short time ago; they are sixteen to one now.

**Mr. Kelley.**

"*Hence all experience has shown that you must have one standard coin*, which shall be a legal tender for all others, and then you may promote your domestic convenience by having a subsidiary coinage of silver, which shall circulate in all parts of your country as legal tender for a limited amount, and be redeemable at its face value by your government." — *Ibid.*, page 2316.

**Course of Procedure.**

Professor Laughlin has compiled the following table showing the course of procedure on the bill in Congress:[1]

[1] Laughlin's Bimetallism, page 98.

| PROCEDURE. | SENATE. | HOUSE. |
|---|---|---|
| Submitted by Secretary of the Treasury | April 25, '70 | |
| Referred to Senate Finance Committee | April 28, '70 | |
| 500 copies printed . . . . . | May 2, '70 | |
| Submitted to House . . . . . | | June 25, '70 |
| Reported amended and ordered printed | Dec. 19, '70 | |
| Debated . . . . . | Jan. 9, '71 | |
| Passed by vote of 36 to 14 . . . . | Jan. 10, '71 | |
| Senate bill ordered printed . . . . | | Jan. 13, '71 |
| Bill reported with substitute and recommitted . . . . . | | Feb. 25, '71 |
| Original bill reintroduced and printed | | Mar. 9, '71 |
| Reported and debated . . . . . | | Jan. 9, '72 |
| Recommitted . . . . . | | Jan. 10, '72 |
| Reported back, amended and printed | | Feb. 13, '72 |
| Debated . . . . . | | April 9, '72 |
| Amended and passed by a vote of 110 to 13 . . . . . | | May 27, '72 |
| Printed in Senate . . . . . | May 29, '72 | |
| Reported, amended and printed . . | Dec. 16, '72 | |
| Reported, amended and printed . . | Jan. 7, '73 | |
| Passed Senate . . . . . | Jan. 17, '73 | |
| Printed with amendments, conference committee appointed . . . . . | | Jan. 21, '73 |

Became a law Feb. 12, 1873.

Moreover documents were sent to the House and Senate by the Secretary of the Treasury, Mr. Boutwell, calling attention particularly to this feature of the bill, and these documents were printed and laid on the desks of members. They were also sent to Boards of Trade and Chambers of Commerce, professors in colleges and other persons who were supposed to take an interest in such matters, in order to get their opinions. These proceedings are not consistent with the idea of secrecy or of silence.

When this charge falls to the ground it is said that "the people" had a right, which was taken from them without

their knowledge, by the coinage act of 1873, meaning the right to pay their debts with silver dollars instead of gold ones. If they had such a right it was not a valuable one at that time, since the silver dollar was then, and had been for 40 years, worth more than the gold one. But how are we to know what "the people" want at any particular time? There is no way to bring them together in mass meeting. Is there any other way of learning what they want than by observing the action of the *only* organ appointed to express their wants? This organ is the Congress of the United States, which enacted this law by a vote unanimous in one branch and nearly unanimous in the other, and has neglected during twenty-two years to remonetize silver, but has four times rejected motions for that purpose in the House of Representatives.

**What "the People" want.**

Rights are either legal or moral. In which category does this right, of which the people are said to have been deprived, in 1873, fall? If it was a legal right it depended upon an antecedent law of Congress and when Congress changed the law, it ceased to be a legal right. Was it a moral right? To say that a moral right exists to make 412½ grains of silver legal tender for a dollar in spite of laws which forbid it, is a gross exaggeration of moral rights. At the utmost it is a right to work for such a change in the law as will accomplish the desired end. Others have an equal right to oppose the change, especially if they think that it would be dishonest.

**A Question of Rights.**

The law of 1873 was not passed surreptitiously, or secretly, or without due consideration. Some of the hottest silver men were members of Congress at that time and voted for it. They afterwards said that they were deceived, but they never would have thought so if silver had not declined in value. The silver dollar was an obsolete coin. Not one man in ten of mature

**The Silver Dollar was Obsolete.**

years had ever seen one. It was worth two cents more than the gold dollar. Nobody could then anticipate that it would ever be worth less than the gold dollar.

The law of 1873 was enacted by the people of the United States, in the only way they ever enact a law. It has remained on the statute book nearly a quarter of a century. Silver has fallen as compared with gold more than one-half.

**All Business on the Gold Standard.**

During this interval all the business of the nation has been adjusted to the gold standard. Indeed it had been on that standard in practice ever since 1834, except during the suspension of specie payments. The whole of the national bonded debt had been contracted on the gold basis, in law as well as in fact, having been refunded subsequently to the act of 1873.

Now it is proposed to change the character of the *dollar* so that public and private debts may be paid with half of what was promised. That is so manifestly dishonest that when the advocates of the policy are pushed pretty sharply they say that prices have fallen so that the half-dollar is worth as much as the whole dollar was in 1873. We have already looked into that matter;[1] but suppose it were true. What about debts that were contracted on the gold basis yesterday? There has been no great decline in the prices of commodities in that time. Moreover people did not agree to pay and receive commodities, but dollars. The question, in the forum of morals, is not what a dollar *will buy*, but what a dollar *is*. A time may come when a dollar will not buy as many useful things as it would in 1873. A succession of great wars, droughts, floods, fires, a shortage of coal, anything which causes scarcity in place of abundance, would have that effect. Suppose, in that case, that creditors should say that when they made

**A Dishonest Project.**

**Reductio ad absurdum.**

[1] Page 110.

their contracts a dollar would buy twice as many useful articles as it will now, and should ask Congress to pass a law making the dollar twice as large as before. What sort of answer would they receive? The fitting answer would be that the government had chosen the most stable thing it could find to serve as the material for the dollar; that it never intended to guarantee the purchasing power of the dollar in terms of any other article or articles, and that an attempt to do so in the interest of a class would be dishonest. Equally dishonest is the demand that the dollar be changed in the interest of another class. It is not intended to say that persons who advocate this policy are generally dishonest. Like a person surveying a landscape in a pool of water they see the forms of things perfectly, but they are wrong side up.

**A Wrong Point of View.**

Those who say that the coinage act of 1873 was passed secretly and surreptitiously, in spite of all the proofs to the contrary, must be considered dishonest. One of the charges repeated year after year was that a man named Ernest Seyd came to this country from England in 1873, bringing £100,000 sterling with which he bribed Congress to pass the law demonetizing silver. The only foundation for this fable was that the Hon. Samuel Hooper said, when introducing the bill in the House, April 9, 1872:

**The Myth of Ernest Seyd.**

"Mr. Ernest Seyd of London, a distinguished writer, who has given great attention to the subject of mints and coinage, after examining the first draft of the bill, furnished many valuable suggestions, which have been incorporated in this bill." — *Congressional Globe*, page 2304.

On this foundation the whole superstructure of Seyd's mission of bribery and corruption was built. All who had any real acquaintance with the subject knew that the story must be false, because Mr. Seyd was a bimetallist, his writings

on that subject being well known. They did not know how false it was, however, until Senator Hoar of Massachusetts, on the 22d of August, 1893, produced in the Senate the very letter written by Seyd to Hooper in 1873, in which, among other things, he strongly urged Mr. Hooper not to agree to the clause of the bill demonetizing silver. About the same time that Mr. Hoar made this exposure the son and brother of Mr. Seyd (then deceased) wrote a letter jointly to the New York *Evening Post* taking notice of the assault upon his memory, denying the charge in every particular, and declaring that Mr. Seyd had not been in the United States since 1856. Even this did not make an end of the vile slander, for presently certain newspapers printed the extract from Mr. Hooper's speech, quoted above, and inserted in it, after the word "writer" the words "is now here," whereupon they exclaimed that the letter from the two relatives of Mr. Seyd in London, being false in one part, was probably false in all. Senator Hoar, on the 28th of September, 1893, exposed this new falsehood by reading from the *Congressional Globe* of the date named the passage of Mr. Hooper's speech referred to and showing that the words "is now here" were not contained in it, but had been deliberately forged by some scoundrel in order to brand the Congress of his country as corrupt and infamous. Since that time the myth of Ernest Seyd has been fading, but the greater one implying that the act of 1873 was passed secretly has been adhered to because it was really indispensable to the myth-makers.

**Seyd was a Bimetallist.**

**Final Explosion of the Myth.**

If a bill that was before Congress two years and ten months and was printed thirteen times, was passed secretly, how could one be passed openly? But, say the accusers of Mr. Seyd and the Congress of 1873, *we* did not understand it. Perhaps not. How many of the bills passed by the last

Congress did you understand while they were pending? Science has not devised any means to compel people to know what is going on in Congress. The difficulties of forcing such knowledge upon ten or twelve millions of voters, large numbers of whom do not speak English, or read and write any language, and still larger numbers of whom know nothing of finance, are quite appalling. Even in the case of well educated persons it would be a herculean task to make them understand all the bills before Congress. They might think that they understood them when they did not. Something of this kind actually happened in connection with the coinage act of 1873. The Hon. William D. Kelley, as we have seen, took part in the debate on the clause dropping the silver dollars from the list of coins (April 9, 1872), and defended that clause on the ground that it was impossible to retain the double standard. He afterwards said in the House (March 9, 1878) that he did not understand this particular part of the bill. Many shifty politicians said the same thing. Senator Stewart of Nevada voted for the bill on its first passage through the Senate January 10, 1871. He was present when it passed the second time without a division, January 17, 1873.

**"We did not understand it."**

Our forefathers, seeing that they could not force all the people to understand all the bills before Congress at all times, wisely provided that such antecedent knowledge should be dispensed with, but they gave facilities for such knowledge to all who might desire to obtain it. Persons who neglect these facilities must not impute their own inattention as a crime to other people. That is what the "crime of 1873" consists of.

Eventually the proposed dollar of 384 grains, which had been inserted in the bill because it was exactly the weight of two half-dollars, and almost exactly the weight of the

French five-franc piece, was stricken out and the trade dollar of 420 grains was inserted in its place. This was a coin intended to circulate in China. It was considered a convenient mode of selling American silver to Oriental countries, and was made a trifle heavier than the Mexican dollar in order to supersede that coin in the far East. Holders of silver bullion were allowed to deposit it at the Mint and have it coined into trade dollars for their own account, but it was provided that no other deposit of silver from private persons should be received for coinage. Although it was never intended that the trade dollar should circulate in the United States at all, its substitution in the place of the 384-grain dollar placed it inadvertently in the list of coins which were legal tender for five dollars. Then followed a droll succession of stumbles and blunders. As soon as the price of silver fell so that 420 grains were worth less than a dollar, it became profitable for owners of silver to have these dollars coined and put in circulation at home. Straightway they began to fill the channels of retail trade. They became such a nuisance that Congress in 1876 took away their legal tender quality altogether. This led to a dispute and a charge of bad faith. So Congress in 1878 discontinued the trade dollar coinage entirely. This only aggravated the dispute. Speculators bought up the trade dollars on the expectation that the government would eventually redeem them at par. Nearly $2,000,000 of them were reimported from China for that purpose. Finally, in 1887, Congress passed a bill to redeem at par all that should be presented within six months, and President Cleveland allowed it to become a law without his signature.

**The Trade Dollar.**

**An Unexpected Result.**

## CHAPTER X.

### GENERAL CONCLUSIONS.

THE reader who has penetrated thus far into the labyrinth of our silver legislation will need a clue in order to get back to daylight. It is easily supplied. The various kinds of money in circulation, exclusive of subsidiary coins, fall into two classes, namely:

| MONEY. | | REPRESENTATIVE MONEY. | AMOUNT. |
|---|---|---|---|
| Gold | | | |
| | Fiat Money | 1 Greenbacks . . . . | $346,681,016 |
| | | 2 Treasury notes . . . | 152,584,417 |
| | | 3 Silver dollars . . . . | 57,029,743 |
| | | 4 Silver certificates . . . | 337,148,504 |
| | | Total Fiat Money . | $893,443,680 |
| | | 5 National Bank Notes . | 206,854,787 |

All the things in the right-hand column are issued by the government, and are fiat money, except the national bank notes. It is customary to say that the various things composed of, or based on, silver (numbered 2, 3, and 4) are real money to some extent, because of the metallic value of the silver dollar. This is true only in case the government is at liberty to sell the silver. There is no law authorizing the Secretary of the Treasury to do this. Strike out from the list of representative money numbers 2, 3, and 4, and write greenbacks in place thereof, and assume that the government has certain assets of uncertain value composed of white metal, some of it stamped and some unstamped, then you know everything that can be known about the multifarious currency issued by the government of the United States. Silver dollars are metallic greenbacks. They are at par with gold

**The Clue to the Labyrinth.**

because they are limited in amount and because the government receives them as the equivalent of gold at the Custom House and the tax-office. The receipts of the government are about $450,000,000 per annum. The amount of silver dollars and silver certificates in circulation is about $400,000,000. The holders of these coins and certificates can realize par for them by paying them to the government. If they do not pay these they must pay gold, or the government's gold notes. Conversely, if the government did not receive these it would receive gold or its own gold notes. The act of July 14, 1890, provides not merely for the redemption of the Treasury notes in gold but for keeping "*the two metals* on a parity with each other upon the present legal ratio." Under the terms of this act silver dollars are as much entitled to redemption in gold as anything else embraced in the act, but the Treasury Department, during President Harrison's administration, in order to restrict the withdrawal of gold, construed this clause of the law as applicable only to the Treasury notes, and this construction remains unchanged. One of the results of the government's discrimination against silver was that the public began to discriminate against it also. Thus, the receipts of gold at the Custom House, which had been 87 per cent of the whole in December, 1890, fell gradually to zero in July, 1894.

**Why Silver Dollars are at Par.**

**Parity Clause of the Act of 1890.**

The nature and effects of fiat money have been, for the most part, shown in preceding chapters by concrete examples. Supposing that it is always redeemable in gold, it is nevertheless incapable of expansion and contraction according to the wants of trade. Its volume is fixed, first by law, and afterwards by the government's collections and disbursements. Thus, the whole amount of fiat money is $893,443,680.

**Defects of Fiat Money.**

Within this limit the amount available for circulation will be more or less according to what the government takes in and pays out; consequently there may be a plethora or a scarcity at any time, regardless of the real needs of the community.

**Inflexibility.**

The money of the country consists of all the gold, plus all the other instruments of exchange which are redeemable in it. It follows — and it has been proved by abundant examples — that a scarcity will be cured after some delay by an importation of gold and a plethora will be equally corrected by an exportation of it.

It is the proper business of banks to supply a deficiency and to redeem and retire an excess of the circulating medium, as the case may be. There is a general understanding of this truth, and it finds expression in the common saying that "the government ought to go out of the banking business." Banking implies the receiving of money on deposit from certain persons and the lending of it to other persons for hire. This is common to all banks, but some banks add another function — that of issuing and redeeming circulating notes, which take the place of metallic money in the community. The former of these functions may be, and often is, exercised without the latter, but the latter ought never to be exercised without the former, because there is no means of testing the needs of the community for instruments of exchange except by holding them at the service of the bank's depositors. There is no other way for bank notes to get out of the bank except as they are taken out by persons who have the right to draw checks on it. These are the depositors. Each depositor knows exactly how many bank notes he needs. He will draw out no more or no less, and when he has on hand any more than he needs, he will deposit the excess in the bank. As all depositors do the same, the needs of business are

**Government as a Bank.**

answered automatically. As the government has no such machinery, it has no means of squaring the volume of the currency to the needs of business. It has no means of knowing what the needs of business are, and if it had any it would still be without means of responding to them except by taking a vote in Congress. After taking the vote it would still be without any method of placing the money where it was really needed. This is so obvious that the advocates of fiat money almost everywhere favor the *per capita* system. They say that the government ought to issue money on the basis of population. They would not, however, apply this rule to the Apache Indians. Why not? Because their business is not like our business. So it appears that the kind of business should be taken account of as well as the number of people. The government has an infallible test for the number of the people, because it can take the census, but it has no test whatever for the state of business. Hence the *per capita* method is as ill adjusted to trade and industry as the bed of Procrustes was to the size of its various occupants.

**Per Capita System.**

Another and fatal objection to fiat money is that its redemption depends largely upon the public revenue, *i.e.*, upon the government's balance of receipts over expenses. If expenses are greater than receipts it is only a question of time when the redemption fund will be encroached upon. Then the question is raised how the fund shall be replenished. No question can be more disastrous to business interests than this. A few years ago nothing seemed more improbable than a Treasury deficit. Yet we have had one for two years and have been obliged to borrow largely in consequence, and the end is not in sight. Business men are in a chronic state of alarm lest the government should not be able to redeem its

**The Plague of a Treasury Deficit.**

circulating notes in gold, or lest a political party should come into power on a platform of not redeeming them at all. There can be no real business stability while such fears exist.

Thus the redemption of fiat money is always liable to contingencies. The government may not be *able* at all times to redeem it. The government may not be *willing* at all times to redeem it, in which case it cannot be coerced, or fined, as a bank may be for a similar default. The national honor is a very poor substitute for the sheriff and his posse, to keep specie payments going, because so many people have to be consulted, and because different views prevail as to what the national honor requires. We have had some recent illustrations of this divergence of ideas between Congress and the Executive. The commercial world cannot wait for the settlement of conflicting views between different branches of the government on such a delicate question. Such differences tend to create panics and cause runs on the Treasury. This was the situation we were in at the beginning of the present year. The Treasury was within three days of suspension; that is, of bankruptcy. Nothing could avert that catastrophe except something which should quiet the public mind. A mere addition to the stock of gold, unless it were equal to the whole amount of fiat money outstanding, would have been utterly futile. The one thing needful was a replenishment of gold accompanied by a fall of sterling exchange, which should signify that gold shipments had stopped. A replenishment, with gold shipments continuing, would have been a mere prolongation of the panic.

**Uncertainty.**

**Panic of 1895.**

There is a vast amount of floating capital in the modern world which seeks investment on call, or short time. It may be at New York to-day, at London a month hence, at Paris,

Berlin, Vienna, Amsterdam, or other places, at short intervals, or divided among all of them. It is capable of being transmuted into gold and sent hither and thither at short notice. A very slight inducement will cause it to be turned this way or that way. It is always on the alert to make a profit or to avoid a loss, especially the latter. It was this sort of capital that was taking wings and leaving our shores, accompanied by a considerable amount of American capital in the same liquid state, last winter. The February contract stopped the panic because the owners of this floating capital knew that the syndicate, in addition to delivering the gold contracted for, could control the rate of foreign exchange for a while, thus giving excited people time to cool off. It was not the least desirable feature of the contract that it extended over a period of ten months. This was much better than the payment of the whole sum into the Treasury at once, since the main object was to enable people to forget their fears. Whether the contract will yield a net profit to the syndicate is not yet known. It is to be hoped that it may, but the question is not to be settled by a mere comparison of the issue price of the bonds and the present market quotations. It is desirable that the syndicate should make a profit because we may be in similar straits and need help at some future time. In any case the profit to the buyers of the bonds is a bagatelle in comparison with the enormous and incalculable damage, public and private, resulting from national bankruptcy. The whole affair instructs us to take the government out of the banking business as soon as possible, since the maintenance of the ultimate gold reserve of the country is a banking and not a governmental function.

**The February Contract.**

How much gold is needed to keep all of our fiat money at par can be determined only by experiment. Fifteen years ago we accumulated one hundred millions of gold to

guarantee redemption of about three hundred and fifty millions of greenbacks. This was the proportion which prudent financiers judged to be necessary. The redemption fund was about 30 per cent of the paper to be redeemed. We have gone on from that day to this adding to our stock of fiat money, partly silver dollars, partly treasury notes, till we have piled six hundred millions on top of the original three hundred and fifty millions. We have now nearly one thousand millions resting on a diminished gold reserve, the redemption fund being only 6 per cent of the fund to be redeemed.

**How Much Gold is needed.**

Even this does not tell the whole story. Bank liabilities of all kinds are payable in gold; and the deposits constitute a far more pressing demand for gold, when a demand comes, than circulating notes, since the latter are presumably performing a necessary office in the community and are not easily collected. When a depositor wants gold he does not stop to collect greenbacks in order to obtain it. He draws his check and asks for gold. The bank can pay legal tender notes if it chooses to do so, but it will generally pay gold because it desires to accommodate its customers. It is immaterial whether the customer himself takes the greenbacks to the sub-treasury and draws gold, or whether the bank does this for him. The bank may refuse to perform the service in a time of panic in order to check a run, but ordinarily it will perform it. So, as a matter of fact, bank deposits must be counted among the things which rest on the gold reserve of the country, but the gold reserve of the banks must be taken into the account also. This is really larger than that of the government, although the drain falls first upon the latter and always will so long as fiat money continues. The amount of deposits in national and state banks

**Bank Deposits Payable in Gold also.**

is about $2,400,000,000, and the amount of gold held by them about $208,000,000.

The greatest objection of all to fiat money is that it teaches people to believe lies. It creates the belief that the government can make money, — that is, real, not representative, money, — than which a more damaging lie never gained lodgment in the human brain. It has kept political parties in hot water for thirty years. It is an obstacle to the nation's progress and ought to be put out of its misery without further delay.

It remains to notice the decisions of the Supreme Court of the United States on the subject of legal tender notes.

**Supreme Court Decisions.**

In the case of *Lane County vs. Oregon*[1] (December, 1868), the court held unanimously that the legal tender acts of 1862 and 1863 did not apply to taxes imposed by the authority of a state, and that taxes are not "debts." It followed that if a state made its taxes payable in gold the tax-payer's obligation could not be discharged with legal tender notes.

In *Bronson vs. Rodes*[2] (December, 1868), the court held that a contract specifically payable in gold and silver coin could not be discharged by a tender of United States notes. There was one dissenting judge in this case (Miller).

In *Butler vs. Horwitz*, immediately following, it was held that a contract to pay a certain sum in gold and silver coin is, in legal effect, a contract to deliver a certain weight of gold and silver of a certain fineness. In this case the contract had been made in 1791 and was for payment in "English golden guineas." It was held in this case that damages for breach of contract should be assessed in coin also.

**Gold Contracts Enforceable.**

In *Hepburn vs. Griswold*[3] (December, 1869), it was held by five judges against three (the opinion of the court being

[1] 7 Wallace, 71. [2] 7 Wallace, 229. [3] 8 Wallace, 603.

delivered by Chief Justice Chase), that the making of notes or bills of credit a legal tender in payment of preëxisting debts is not a means appropriate, plainly adapted, or really calculated, to carry into effect any express power vested in Congress, is inconsistent with the spirit of the constitution and is prohibited by the constitution. Also that the clause in the acts of 1862 and 1863 which makes United States notes a legal tender in payment of all debts, public and private, so far as it applies to debts contracted *before* the passage of those acts, is unwarranted by the constitution.

**The Hepburn case.**

The judges who concurred with the Chief Justice were Clifford, Nelson, Grier and Field. The dissenting judges were Miller, Swayne and Davis.

In the *Legal Tender Cases*[1] (December, 1870), the foregoing decision was reversed by five judges against four. The opinion of the court was delivered by Justice Strong, who had been appointed in place of Justice Grier, resigned. A new member (Bradley) had been added, in pursuance of a law passed by Congress in April, 1869, raising the whole number of judges to nine. The reversal of the former decision was a great shock to all who expect permanence in the judgments of the court of last resort. The opinion read by Justice Strong implied that the power of Congress to make the government's notes legal tender between individuals on preëxisting contracts was an incident and consequence of the war power, but it did not expressly say so. The legal points of the opinion will not be considered here, but some attention must be given to an economical dictum found in it, viz.:

**The Hepburn Judgment reversed.**

"It is hardly correct to speak of a standard of value. The constitution does not speak of it. It contemplates a

[1] 12 Wallace, 457.

standard for that which has gravity or extension, but value is an ideal thing. The coinage acts fix its unit as a dollar, but the gold or silver thing we call a dollar is in no sense a standard of a dollar. It is a representative of it. There might never have been a piece of money of the denomination of a dollar. There never was a pound sterling coined until 1815 if we except a few coins struck in the reign of Henry VIII, almost immediately debased, yet it has been the unit of British currency for many generations. It is thus a mistake to regard the legal tender acts as either fixing a standard of value or regulating money values or making that money which has no intrinsic value."

**Judge Strong on "Value."**

This is the same as saying that there could be a dollar without $25\frac{8}{10}$ grains or any other quantity of gold, without $412\frac{1}{2}$ grains or any other quantity of silver, and without any substance of any kind or amount whatsoever. If this is a true conception of money we can only wonder that Congress should have wasted so much time in specifying the weights of coins, and that the human race should have wasted so much labor in procuring the material to represent "an ideal thing," and should continue to do so. If what the judge says here is true, everything in this book relating to the principles of money is false.

**Reductio ad Absurdum.**

The five judges who concurred in this opinion were Strong and Bradley in addition to the minority in the Hepburn case. Separate dissenting opinions were read by Chief Justice Chase and by Judges Clifford, Field and Nelson.

In *Juillard vs. Greenman*[1] (March, 1884) it was held that Congress has the constitutional power to make the treasury notes of the United States a legal tender in payment of private debts in time of peace as well as in time of war.

[1] 110 U. S., 421.

Also that legal tender notes redeemed and reissued under the act of May 31, 1878, are a legal tender, although not expressly made so by that act. The opinion of the court was delivered by Justice Gray, and a dissenting one was written by Justice Field. In Justice Gray's opinion we find the following statement:

**The Latest Decision.**

"The power, as incident to the power of borrowing money and issuing bills or notes of the government for money borrowed, of impressing upon those bills or notes the quality of being a legal tender for the payment of private debts, was a power universally understood to belong to sovereignty in Europe and America at the time of the framing and adoption of the Constitution of the United States."

George Bancroft, the historian, reviewed this opinion in both its legal and its historical aspects.[1] Referring to the statement quoted above he declares it to be "a stupendous error," and affirms that no such power was understood to belong to sovereignty in Europe at that time, *i.e.*, in 1788. It is not an answer to Mr. Bancroft to say that subsequently revolutionary France issued assignats and made them legal tender, and that the Bank of England was authorized to suspend specie payments, since the point in dispute is whether the framers of our constitution had before their eyes the condition of things in Europe which Judge Gray affirmed to exist at that time. Bank of England notes were not legal tender in 1797 when Parliament passed the Restriction act, nor did that act make them such.

**George Bancroft's Criticism.**

[1] Page 149, note.

# BOOK II.

*BANKS.*

## CHAPTER I.

### FUNCTIONS OF A BANK.

A BANK is a manufactory of credit and a machine of exchange. Mr. H. D. Macleod's analysis of the mechanism of banking[1] is substantially this: A man has $5000 of his own money. He starts a bank. His neighbors deposit $45,000 with him. This money becomes the absolute property of the banker. The depositors have simply a right to withdraw an equal amount whenever they like, which right can be enforced by law. The banker owns the money and the depositor has a claim, or right of action, against him for an equal sum. But the depositors will not draw the money out immediately; if they had intended to do so they would not have deposited it at all. The banker finds by experience that some of his customers will deposit as much money as others draw out, so that $50,000 is on hand all the time. He concludes that if his own $5000, in connection with his good reputation, is considered by the public a guarantee for $45,000, then the whole $50,000 will serve as a guarantee for at least $200,000. When he begins, his balance sheet reads in this way:

**A Manufactory of Credit.**

| LIABILITIES. | ASSETS. |
|---|---|
| Deposits, $45,000. | Cash, $50,000. |

[1] Theory and Practice of Banking, by Henry Dunning Macleod, 5th ed., i, 324.

He now begins to discount the commercial paper of his customers running say 90 days at 6 per cent. When he discounts a bill of exchange for $1000 he deducts the interest for 90 days ($15) and credits the customer the remainder ($985) on his books. This $985 is called a deposit, because the customer has the right to draw it out by his check exactly as he could draw out an equal sum of gold deposited by him in the same bank. In the eye of the banker, and of the customer, and of the law it is a deposit. In ordinary times it is like any other deposit. That is, the proportion remaining uncalled for at any time will be about the same as the proportion of actual money deposited. Yet it is nothing but a bank credit. Hence the word deposit, when thus used, is clearly a misnomer since, by derivation and common understanding, a deposit means a thing laid away, or given in charge of somebody. It must be borne in mind, therefore, that bank deposits consist of two different things, namely, (1) money, (2) bank credits, and that the latter may be four or five times as large as the former.

**Discounts and Deposits.**

The process continues till the banker has $200,000 of discounted bills in his portfolio. Then his accounts stand thus:

| LIABILITIES. | | ASSETS. | |
|---|---|---|---|
| Deposits . | $242,000 | Cash . . . . . | $50,000 |
| Profit . . | 3,000 | Loans and Discounts . | 200,000 |
| | $245,000 | | $250,000 |

This is Mr. Macleod's exposition and it is the correct one. It follows that the banker has manufactured something which serves as a medium of exchange to the extent of nearly $200,000. This something is credit. Goods can be bought and sold with it as readily as with money, since the checks drawn against these deposits are universally

accepted. The whole $200,000 of bills are not discounted in a lump, but gradually, so that some are always maturing and bringing money in to meet the checks of customers, in an endless chain of deposits and discounts. It is found in practice that $200,000 of loans and discounts may be easily carried on $50,000 of cash. Thus, the loans of all the national banks in the United States in October, 1894, were $2,000,000,000 and their cash (including silver certificates and silver dollars) was a trifle less than $400,000,000, or only one-fifth of the amount of the loans. The other four-fifths was credit, and perfectly sound credit too, for it had passed through one of the severest panics in our history.

After the Siamese twins called discount and deposit have been brought to life in the manner described, the depositor A has the option to draw the money by a check payable to B or to take it in the form of circulating notes. The banker has no option. In an earlier time and a ruder society bargains were sometimes made between the banker and his customer that the latter should take notes and keep them out a certain length of time, or at all events should put them in circulation at a long distance from home. Such practices would be impossible now for many reasons. Checks and notes are identical in their nature. Checks will be drawn against deposits for most purposes, because they are more convenient and expeditious, but for the payment of wages, for the purchase of farm products, and for other uses in regions where there are no banks, circulating notes are necessary. These things settle themselves. The banker has nothing to say about it. His liabilities are neither increased nor diminished in either case. The only thing that need concern him is the goodness of A's paper against which he issued his credit. The form of issue, whether in A's checks which will pass through one or two hands, or in bank notes which may pass through many hands,

**Checks and Notes Identical.**

is of little consequence, and even if it were of much consequence it is beyond his control or influence.

**A Common-Law Right.**

At common law, anybody may issue his promissory notes and put them in circulation as money if people are willing to take them. It was found in course of time that the exercise of this right was exposed to accident and liable to abuse, and that the State must interpose for the protection of society against knaves and fools. At first it was believed that such protection could be secured by restricting the issue of circulating notes to a select number of persons of well known character, generally, but not always, incorporated as a bank. Thus the three bank charters granted in this country before the adoption of the federal constitution, which banks still exist (the Bank of North America in Philadelphia, the Bank of Massachusetts, and the Bank of New York), contain no mention of circulating notes, since the right to issue them existed without legislative authorization.

**A Machine of Exchange.**

A check is an order on the bank payable at sight drawn by A, directing the payment of money to B. It may be drawn payable to bearer or to order. The money may be drawn by B, or the check may be deposited in the same bank to B's credit, or it may be deposited in another bank, in which case it will be collected by the receiving bank the following day, or passed through the clearing house. The functions of a bank as a machine of exchange are best seen in the operations of the clearing house.

## CHAPTER II.

### THE CLEARING HOUSE SYSTEM.

A CLEARING HOUSE is a machine for ascertaining and paying the balances which any number of banks owe to, or claim from, each other. If there were only two banks in a particular place there would be no economy in a clearing house. Two clerks would meet at the banking house of one or the other, and compare the checks that each holds against the other. If Bank A holds checks for $10,000 drawn on Bank B and the latter holds only $9000 drawn on the former, Bank B pays $1000 to Bank A; then the checks are mutually surrendered and the business is done.

**The Essence of Clearing.**

A clearing house enables any number of banks to settle their balances in about the same time that two banks could do so, the clearing house being, for this purpose, the only creditor and the only debtor of each bank.

There are 67 members of the New York clearing house, one of them being the Assistant Treasurer of the United States, and each member has a number, as Bank A, No. 1, etc. There are also 34 banks and 11 trust companies in New York, 19 banks and 7 trust companies in Brooklyn, and 9 banks in Jersey City, Hoboken and Staten Island, not members of the clearing house, that clear through other banks. The Union Trust Co., for example, makes an arrangement with the Bank of Commerce, by which all checks drawn on the former may be presented at the clearing house to the settling clerk of the latter, and be treated by the latter exactly like checks drawn on itself. In this case the Bank of Commerce is responsible to its fellow-members of the clearing house for checks drawn on the Union Trust Co. in the same way as for its own checks. Accordingly it may happen that any

**New York Clearing House.**

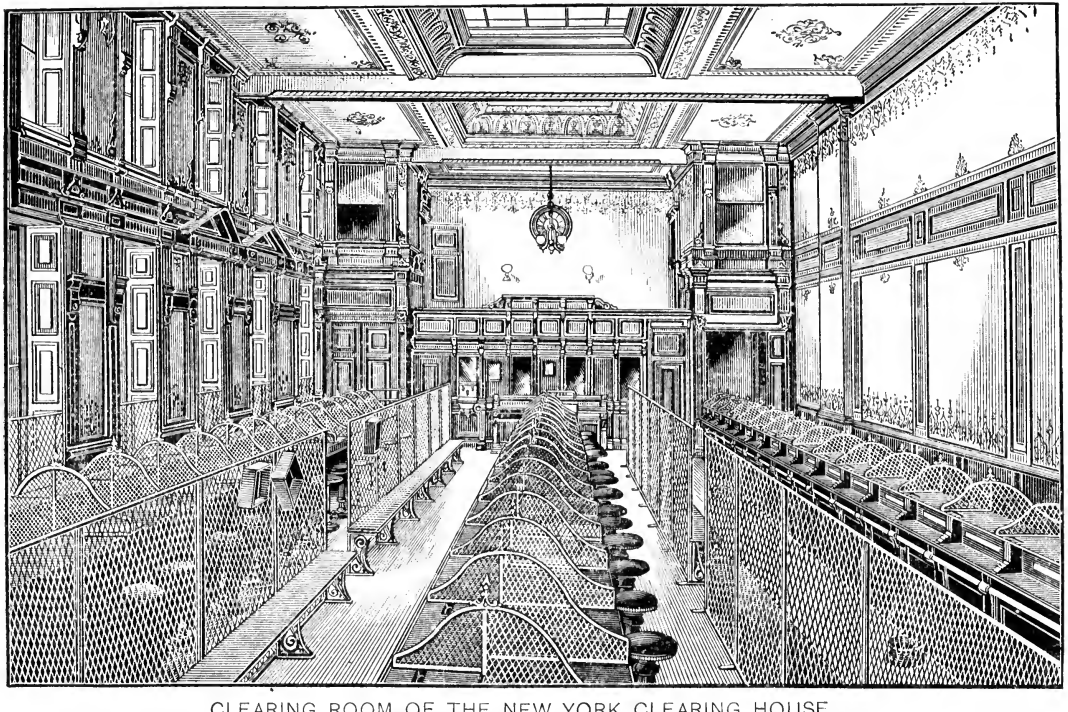
bank may go to the clearing house with checks and drafts drawn on 146 different institutions, which it has received the previous day from its depositors, or through the mail from its correspondents elsewhere.

In order to expedite the work, it must separate these checks into not more than 66 packages, one for each member of the clearing house upon which it holds any, and prepare a schedule, on a sheet of paper, showing the amount of its claim on each bank. It must also have a ticket for delivery to each, showing, for example, that Bank A has a total claim on Bank B for so much money. It must also come to the clearing house with a statement showing the aggregate of all its claims on all the banks. This is its claim against the clearing house for that day. It is handed to the manager of the clearing house, or to the proof clerk, immediately upon entering. All these things must be done before the operation of clearing begins.

**Preparations for Clearing.**

Each bank sends two clerks to the clearing house — a delivery clerk and a settling clerk. There are three rows of seats running through the clearing room lengthwise, one in the center, as shown in the illustration, and one on each side parallel with it. The settling clerks occupy these seats and each one has a sufficient amount of desk room in front of him to do his work on, his space being separated from his neighbors' by a wire screen. The delivery clerks, with their packages of checks in separate envelopes, stand in the open space in front of the settling clerks. All are expected to be in their places about 10 minutes before 10 o'clock in the morning. At 2 minutes before 10 the manager, whose station is in the elevated open space at the extreme end of the illustration, strikes a bell. If any clerk is not in his place at that time he is fined $2.

The movement has all the precision of a military drill. When the second bell sounds, at exactly 10 o'clock, each



CLEARING ROOM OF THE NEW YORK CLEARING HOUSE.

delivery clerk takes one step forward, hands the proper package to the settling clerk of the bank next to him, drops the accompanying ticket, showing the amount, into an aperture like a letter box, and places before this settling clerk his schedule, on which the latter places his initials. This is an acknowledgment of receipt of the package, but not of any particular sum. Thus the procession moves uninterruptedly until each delivery clerk has presented to each settling clerk the proper package and ticket. Usually this part of the operation is completed in ten minutes. Meanwhile the proof clerk, who occupies a desk near the manager, has entered the claims of each bank under the head "Banks Cr." on a broad sheet of paper shown below.

**The Operation.**

Inasmuch as the amount of each bank's claim against the clearing house (entered under the head "Banks Cr.") is the sum of all the tickets which its delivery clerk has pushed into the letter boxes of the other banks, it follows that all the tickets of all the banks should equal all the entries under that head. The next step in the operation is for each settling clerk to arrange the amounts of all the tickets in his letter box in a column, add it up and send the amount to the proof clerk which he transcribes and arranges according to the bank's number under the head "Banks Dr.," so that the debit of Bank A shall be on the same line with its credit. Then the difference between the two will show how much the bank owes the clearing house, or how much the clearing house owes the bank. The time occupied by the settling clerks in arranging their tickets and adding up the columns is about half an hour. As fast as these footings are completed they are sent to the proof clerk, who puts them in the debit column opposite the credits of the banks respectively. When all are completed, if no error has been made, the footings of the credit and

**The Result.**

debit columns must be exactly equal, and the footings of the two other columns, which show the differences, must be exactly equal. Then these differences are read off slowly and in a distinct tone of voice by the manager so that each settling clerk can write down the sum that his bank has to pay or to receive.

As time is money at the clearing house, somebody is fined for every error and for every delay in making footings, also for disobeying the orders of the manager, or any disorderly conduct. Forty-five minutes from 10 o'clock are allowed for completing the proof. For all errors remaining undiscovered at 11.15 the fines are doubled, and at 12 o'clock quadrupled. The highest fine for an error discovered before 11.15 is $3.

**Proof Sheet.**

When the footings have been made the proof sheet is in the following form:

| Banks. | Due Clearing House. | Banks Dr. | Banks Cr. | Due Banks. |
|---|---|---|---|---|
| A | $1,260.81 | $10,521.21 | $9,260.40 | |
| B | | 55,662.16 | 71,850.39 | $16,188.23 |
| C | | 41,922.90 | 49,621.86 | 7,698.96 |
| D | 9,651.85 | 61,330.33 | 51,678.48 | |
| E | 3,566.60 | 56,397.00 | 52,830.40 | |
| F | | 74,719.60 | 79,781.31 | 5,061.71 |
| G | 5,073.14 | 53,211.34 | 48,138.20 | |
| X | 9,396.50 | 60,059.11 | 50,662.61 | |
| | $28,948.90 | $413,823.65 | $413,823.65 | $28,948.90 |

The actual amounts are much larger than here represented, some of the banks being credited and debited more than ten million dollars at a single clearing. On one occasion, the Assistant Treasurer of the United States had more than 30,000 separate checks turned in against him, mostly for pension payments. No matter how large the amounts may be, or how many separate checks, or how many banks may participate in the clearing, the result will always be in the

foregoing form. The amount of the balances, *i.e.*, of the sum to be paid into and out of the clearing house, is usually about 5 per cent of the total amount of checks passed through it. At the clearing of September 22, 1862, the balance against one of the banks was only *one cent.*

**Payment of Balances.**

The debtor banks must pay what they owe to the clearing house before 1:30 P.M., after which the clearing house pays the same money to the creditor banks. Thus, for about an hour each day, the clearing house may be in affluent circumstances while before and after that hour it has not a cent. The money paid in and out consists of gold coin, gold certificates, legal tender notes and legal tender certificates. The last are issued by the United States Treasury in denominations not less than $5,000, to national banks depositing legal tender notes of the same amount, the notes being held as a special deposit by the Treasury for the redemption of the certificates.

**Magnitude of Clearings.**

The magnitude of the business transacted at the clearing house is stupendous. One hundred millions per day is the present average of the checks and drafts passing through it. In years of great business activity it is much larger. In 1881 the clearings for the year were forty-eight thousand millions or about one hundred and sixty millions for each working day. The clearings at New York are about twice as large as those of all the other cities in the Union put together. The reason for this is that New York is the place where the other cities balance their claims against each other. In other words New York is a clearing house for the whole country as well as for its own immediate traffic. There are eighty clearing houses in the United States.

It sometimes happens that the demands of depositors for currency are so great that the weaker banks are not able to respond; in other words they are liable to suspend pay-

ments. The suspension of one bank at such a time may lead to excessive demands upon other banks, causing them to suspend also. There have been five crises of this kind in which the New York banks issued "clearing house loan-certificates" in order to avert general disaster, viz., in 1860, 1873, 1884, 1890, and 1893. A description of one will serve for all.

**Clearing House Loan Certificates.**

In the month of June, 1893, there was a disturbance in the money market. It is needless to ask what caused it. The immediate consequence was the rapid withdrawal of currency from the banks. The calls from banks in the West and South were very heavy. If all the deposits are demanded in this form at once of course they cannot be paid out of a fund which is only one-fourth of that sum. But some banks have larger reserves than others. Some are habitually more cautious than others. Some have larger capital and surplus in proportion to their liabilities. Some have a more steady-going class of depositors, less likely to be smitten with panic than others. Such banks are able to help their weaker neighbors. By combining or "pooling" the reserves of all the banks the weaker ones, or those most exposed to danger, may be saved and thus the panic be restrained or wholly averted. It is necessary, however, that the stronger banks should be secured for the advances which they make.

**"Pooling" the Reserves.**

On the 15th of June, 1893, the Clearing House Association resolved that any member might present to the Loan Committee its bills receivable or other securities, together with its own obligation, and receive in exchange therefor certificates for 75 per cent of the par value of the securities, which certificates should be accepted in lieu of cash in the payment of balances at the clearing house. The certificates were in the following form:

**Form of Certificates.**

No...

LOAN COMMITTEE OF THE NEW YORK CLEARING HOUSE ASSOCIATION.

This certifies that the [name of bank] has deposited with this Committee securities in accordance with the proceedings of a meeting of the Association held June 15th, 1893, upon which this certificate is issued. This certificate will be received in payment of balances for the sum of *Five thousand Dollars* from any member of the Clearing House Association.

Five Thousand Dollars.

On the surrender of this certificate by the depositing bank above named the committee will endorse the amount as a payment on the obligations of said bank held by them and surrender a proportionate share of the collateral securities held thereunder.

\$5,000.

..... Committee.

The certificates could not be used for any other purpose. As they drew 6 per cent interest from the time they were used, no bank would take out more than it really needed. On the proof sheet shown above the creditor Banks B, C, and F were entitled to receive \$28,948.90 which might be paid to them (except fractional sums) in these loan certificates.

**Effect on the Public Mind.**

Thus the reserves of all the banks are made a common fund. The total reserve is not made any larger by this means, but the aggregate demand is lessened, because the union of the banks has a powerful influence on the public imagination. It does not lessen any real want of currency, but it quiets people's fears and checks their imaginary wants. It does not avert suspension in all cases, but it avoids the worst consequences of suspension.

Many persons and even some bankers think that there is no limit to the possible issue of loan certificates, short of the whole amount of bills receivable of the banks. It is true

that such certificates may be issued to that extent, but their efficacy to avert suspension stops when the combined cash reserve is exhausted. Indeed, it stops somewhat before, since the banks will make difficulties about cashing checks before they pay out their last dollar. They hold back some portion of their currency for indispensable needs. As to checks in general, they stamp them "good through the clearing house," where as we have seen, 95 per cent of them are balanced by other checks. Every bank is required by law to pay every check on demand in legal tender money. Yet if the holder of the check accepts the stamp "good through the clearing house," in lieu of cash, the law is satisfied. If he insists upon payment at all hazards, the bank must pay or go to protest, and in every such case it will pay. It keeps back some of its cash for such emergencies. The influence of public opinion at such times is the strongest force going. Public opinion does not allow men to exercise their full rights in time of panic. The fact is recognized that the banks cannot pay all their deposits at once, and that when a crisis comes some discrimination must be made, and that the banks can best judge how it should be made.

**Limit to Loan Certificates.**

The whole amount of loan certificates issued by the New York Clearing House in 1893 was $41,495,000 of which $38,280,000 were outstanding at one time. This did not prevent the partial suspension of cash payments. There came a time when most of the banks made some difficulty about the payment of checks over the counter, although the clearing house operations continued without interruption. Then the phenomenon of a "premium on currency" was witnessed in Wall Street. There was just as much currency in the country as ever. Certain persons who had it in their possession were glad to make a profit out of it, while others

**Suspension not always Prevented.**

who needed it, and who preferred not to add to the troubles of the banks by demanding it from them, were willing to give their certified checks, and something more, for it. In this way a brisk business sprang up and the premium of currency over certified bank checks rose as high as 4 per cent. As the panic subsided the premium sank. It disappeared as soon as the volume of clearing house loan certificates began to subside, because that event betokened the returning ability of the banks to meet the demand for cash. The last loan certificates were redeemed and cancelled on the first of November.

There can be no doubt that the issue of loan certificates, although it did not, in this instance, prevent suspension altogether, did avert the worst consequences of it. It prevented the actual closing of any bank. It kept the trade of the country, both internal and external, in motion. It enabled employers of labor to keep going, and prevented multitudes of business men from falling into undeserved bankruptcy. In the crises of 1860, 1884 and 1890 the issue of loan certificates averted bank suspension altogether. In that of 1873 the events were similar to those of 1893, but worse. In 1893 loan certificates were issued in Boston, Philadelphia, Baltimore, Pittsburgh, Buffalo, Detroit and New Orleans. In Columbia, S. C., and many other Southern cities clearing house loan-certificates were issued in denominations as small as one dollar for general circulation, to meet the dearth of currency.[1]

**Benefits of the System.**

The machine of exchange called a bank looks very well on paper. It appears to be capable of balancing nearly all the business transactions that men make with each other in the civilized world, without the use of money. Theoretically it

[1] A description of the various substitutes for money which the panic of 1893 called into existence, with fac-similes of many of them, is given in a speech of Hon. John DeWitt Warner in the House of Representatives June 2, 1894.

can, but there are many disturbing elements. Some persons are dishonest, others are imprudent, others are unfortunate, and the whole business community is at times exposed to panics and crises, to revolutions and wars. All these things have a very disturbing influence on credit and therefore on banks.

**Disturbing Elements.**

There was no settled public opinion on the subject of banks for a long time after the Union was formed, and therefore no settled legislation. Ideas took shape slowly and were the results of experience. The science of banking is to be learned from the ideas that have thus gradually crystallized into law. It has been built up like a wall, stone by stone, here a little and there a little, and the process is still going on. When public opinion is satisfied by experience that a change in the law is needed, the change is made and the new law is retained as long as it works well and no longer. Thus the science of banking, like the other sciences, is in a state of flux and reflux, and will so continue indefinitely. Its growth must be traced in the history of banking.

**The Science of Banking.**

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## CHAPTER III.

### COLONIAL BANKING.

THE first banking experiment in Massachusets, of which we have any clear account, was started in 1714. It was entitled: "A Projection for Erecting a Bank of Credit in Boston, New England, Founded on Land Security."[1] The preamble recites that there is a sensible decay of trade for

[1] A pamphlet copy of this "Projection" is in the Library of Congress, together with the attack made upon it by Attorney General Dudley, and the reply to the latter.

want of a medium of exchange. To supply this deficiency the parties proposed to subscribe £300,000 and that every subscriber should "settle and make over real estate to the value of his respective subscription, to the trustees of the partnership or bank, to be and remain as a fund or security for such bills as shall be emitted therefrom." Each subscriber was pledged to give the same credit to the bills as to those of the province, and accept them in all payments (specialties excepted) "upon forfeiture of £50 for each refusal until the refuser has forfeited his whole security and profits." At meetings of stockholders no person should have more than five votes, however large his holdings might be. Loans might be made on "ratable estates" to the amount of two-thirds of their value; on wooden houses not exceeding the value of the land belonging to them; on brick houses not exceeding one and one-half times the value of the land belonging to them; on "iron or other unperishable commodities, as a pledge, for one-half or two-thirds according to the market." Each subscriber was obligated to take out and keep out for two years notes of the bank equal to at least one-fourth part of the amount of his subscription, but he could transfer this obligation, or privilege, to any other person on the books of the bank. All loans were to be at 5 per cent interest, but past due paper was to pay six per cent. Estates of subscribers conveyed to the trustees might be withdrawn and others of equal value substituted to the satisfaction of the Directors. It was provided that whenever £150,000 of the notes were put out so as to draw interest the bank should pay £400 per annum to a hospital in Boston whenever the same should be established, provided that the bank's notes should be made receivable for town taxes and assessments. Other yearly donations amounting to £400 were to be made.

**The "Projection" of 1714.**

**Crude Conceptions.**

No notes could be issued until £100,000 had been subscribed to the capital stock. The form of the notes contained no promise to pay, but merely the pledge of the subscribers to "accept the same in lieu of twenty shillings in all payments"; also the pledge of the bank to accept them "for the redemption of any pawn or mortgage in the said bank."

The scheme, although not favored by the General Court, was very popular. "The controversy," says Hutchinson, "had an universal spread and divided towns, parishes and particular families." The same author tells us that the promoters "generally consisted of persons in difficult or involved circumstances in trade, or such as were possessed of real estates but had little or no ready money at command, or men of no substance at all; and we may well enough suppose the party to be very numerous. Some, no doubt, joined them from mistaken principles and the apprehension that it was a scheme beneficial to the public and some for party's sake and popular applause."

Paul Dudley, the Attorney General, and son of Governor Dudley, made a vigorous attack on this "projection" in a pamphlet printed anonymously. Among other things he pointed out that the pretended security for the bills was no security since the holder of them could do nothing with a mortgage if it were turned over to him. Besides this he gave his opinion as a lawyer that the "courts would never adjudge those mortgages to be good in the law, being for no valuable consideration, so that the lands so mortgaged would revert to the original owners like the year of Jubilee among the Jews." Dudley's pamphlet was answered by the projectors in another pamphlet, to which they signed their names. Replying to his objection as to the mortgage security they affirm that the mortgages themselves will recite a good and valid con-

**Dudley's Attack.**

sideration for the giving of them; besides which, "the subscribers are each and all obligated to receive the notes in all payments." This is printed in capital letters, as though it were a conclusive argument. No process was indicated by which any holder could compel any subscriber to receive the notes as the equivalent of twenty shillings in goods, nor was there any provision for fixing the price of the goods. The "projection" had numerous supporters who were not members of it but who wanted to borrow money on the favorable terms proposed. To head them off the General Court passed a loan act for £50,000 colonial bills of credit and then rejected the Land Bank bill. This, says Hutchinson, "lessened the number of the party for the private bank, but it increased the zeal and raised a strong resentment in those which remained."

**General Court rejects it.**

Next in point of time we find two operations, one in 1733 and the other in 1740, which have some semblance to modern bank-note issues and which appear to have been successful as business enterprises and not hurtful to the public. They are described in an anonymous pamphlet of the year 1741.[1] The writer is giving an account of the heterogeneous currency in Massachusetts Bay. Among the various things in circulation were:

**Private Issues of Notes.**

"Private Bills of Credit: First Silver Money scheme or merchant's notes whereof £110,000 value was emitted Anno 1733 to prevent an enormous Rhode Island publick emission

[1] "A letter to a merchant in London concerning a late combination in the Province of the Massachusetts Bay in New England to Impose or Force a Private Currency called Land Bank Money; Printed for the publick Good 1741." The copy of this pamphlet in the Library of Congress has the words "by Benjamin Dolbeare" written at the bottom of the title page.

from depreciating our currency. These bills continue to be punctually paid in gold and silver as they become due and are at present 33 per cent better than province bills." They did not bear interest. The premium on them arose from the fact that the colonial bills were depreciating.

"Secondly. Another sum of Merchant's Notes value £120,000 emitted Anno 1740, on a silver bottom, projected to stifle that pernicious grand bubble called the Land Bank. Those bills considered abstractedly are advantageous to the possessor; being payable on demand in a legal currency they are equivalent to cash, and carrying a growing profit of three per cent per annum they are better than province bills and (if otherwise regular) as good as the stocks and companies bonds in London; the signers without further recourse upon the partnership being our most eminent and wealthy traders are capable, when required, to call in and pay off all their bills upon a short sight."

The first of these private emissions is mentioned also by Hutchinson. In 1733 on account of a new batch of Rhode Island bills of credit for £100,000, he says, "the merchants of Boston confederated and mutually promised and engaged not to receive any bills of this new emission; but, to provide a currency, a large number of them formed themselves into a company and issued £110,000 redeemable in ten years in silver at 19*s.* per ounce, the then current rate." The Rhode Island bills nevertheless came in, silver rose to 27*s.* per ounce and then the merchants' notes were hoarded.

We now come to the "pernicious grand bubble called the Land Bank," of 1741, a scheme which convulsed society in its day and came near to producing a revolution. The Dolbeare pamphlet calls it "The Land Bank or Manufactory scheme (the designed subject of this letter) being a late combination of a vast multitude of necessitous, idle and extravagant per-

**Land Bank of 1741.**

sons, with all the signs of a Genuine Bubble, (who) contrived to have what they call money at an easy rate and to pay their debts in a precarious fallacious kind of bills, very ill or not at all secured, of no determined value, bearing no interest, not payable (the possessor cannot oblige to an acceptance) until after twenty years and being a very large sum (equal to all the then provincial bills of New England) of £600,000 will, if not remedied, depreciate all paper currencies that are not determined by a silver value, consequently prove a great prejudice to private property and great loss and damage to the merchants of Great Britain trading to New England. . .

"If we can suppose this Board of Bill Makers (he continues) to be honest men and that in conscience (they having no other check but conscience) they emit no more than according to their past articles, as they have no *exclusive patent* any other number of desperate men may follow the same money-making trade and bills may multiply as in the former case. . . . The projectors and managers of this scheme have debauched the minds of the people by instilling into them some pernicious principles destructive of all society and good government:

"First. That common consent or the humour of the multitude ought to be the *Ratio Ultima* in everything and particularly in currencies. . . .

"Secondly. That every landed man, even to the mortgaging of his last acre, has a *right* to make money. . . .

"Thirdly. That the industrious merchants and frugal monied men are the bane of a country; because they expect their debts and dues to be honestly paid. . . .

"Fourthly. To value themselves as being formidable by their numbers, two thousand principals, as they publish, and many thousand abettors. This is ruffian-like, by superiority of numbers to endeavor to make honest people *buy the rabbit.*[1] . . .

[1] This is old slang, meaning to get the worst of a bargain.

"Fifthly. By the inclosed newspapers printed in Boston, you may see, and we here upon the spot do daily hear, how the managers spirit the people to mutiny, sedition and riots. One gives it for law that no orders from Boards at Whitehall nor acts of Parliament can put a stop to their proceedings. Others say we shall humble the proud merchants; that if the merchants will not receive these bills in pay they must blame themselves for any outrages that may happen."

The writer concludes by saying: "In all bubbles, combinations, etc., the guilt of the projectors and managers is from a corrupt principle but the error of their followers, the multitude, is only from a mistake in judgment."

The Land Bank of 1741 began to issue circulating notes without a charter. In the state of the law at that time none was necessary. Governor Belcher issued a proclamation against it and recommended the General Court to suppress it. The latter took no action but rather encouraged it. Several justices, including Samuel Adams, Sr., resigned because they were concerned in it. The Bank filed a copy of its organization with the Secretary of the Council. This body voted that the filing was an impertinence and ordered the Secretary to return it. The Governor resolved to dismiss all officers, civil and military, who had anything to do with it, or who encouraged it in any way. Whole troops resigned in consequence. Henry Lee, of Worcester, took the ground that it was the privilege of an Englishman to give his approval to this bank and added: "To sacrifice my post for the service of my country is infinitely more honorable than to keep it on such base conditions."

**Gov. Belcher's Action.**

A regular banking mania broke out. New banks in imitation of this one were started in Essex Co., in Middlesex and in the town of Scituate, all ready to demand or to grab whatever privileges the Land Bank might secure. These

privileges were sufficiently liberal, as the bank was issuing circulating notes redeemable in twenty years and then only in goods at an arbitrary and unknown valuation. As the situation had some resemblance to that which had lately existed in England during the South Sea bubble, Parliament extended the prohibitions and penalties of the anti-Bubble Act to the colonies. This produced such exasperation among the promoters and friends of the Land Bank that steps were taken to mob the Governor and Council. Governor Belcher was a native of the province and a man of courage. He received early information of the intended riot and took steps to quell it. In a letter to Thos. Hutchinson he wrote : "You say it would be much better if some other way than by application to Parliament could be found to suppress it (Land Bank). I assure you the concerned openly declare they defy any act of Parliament to be able to do it. They are grown so brassy and hardy as to be now combining in a body to raise a rebellion and the day is set for their coming to this town. . . . I have this day sent the Sheriff and his officers to apprehend some of the heads of the conspirators."

**Parliament interferes.**

**Attempted Riot.**

The Land Bankers, in order to get their notes in circulation, had bought any kind of property for which the owners would accept the notes in payment. The latter had been issued in many cases at half their face value. Now the anti-Bubble act gave the holders an immediate right of action against every partner and director for the full amount of their claims. As soon as this fact became well understood the anger of the partners against Governor Belcher, to whom they attributed their misfortunes, was unbounded. Their first step was to get him removed from office, and this they actually accomplished. They prepared a series of cunning forgeries

**Gov. Belcher Removed.**

which they sent to England implicating him in dishonest acts, the details of which are given by Hutchinson. These, however, would have failed of their purpose but for a political intrigue in England. They succeeded in enlisting the sympathies of a man who had great influence with the Dissenters of the borough of Coventry. An election was pending there and this vote was promised to the Duke of Grafton on condition that Governor Belcher should be removed. The "deal" was carried out and the removal was made ostensibly on the ground of the charges preferred in the forged papers. Governor Belcher went to England, exposed the forgeries, and was then appointed Governor of New Jersey.

His successor in Massachusetts was Governor Shirley. The Land Bankers thought that they should now have everything their own way. The Governor took them into his favor, ostensibly if not actually. Dr. Douglass pours out the vials of his wrath on the Land Bank and all concerned in it and on the Governor for his toleration of the promoters. He calls it "a combination of desperate debtors by the bubble name of Land Bank that had formed a prevailing party, which, notwithstanding their being timely stigmatized and damned by an act of the British Parliament, their influence continues to prevail to this time, 1749." Again, he says: "Soon after the Land Bank scheme was damned by act of Parliament Governor Shirley — I shall not say in contempt, but perhaps in neglect of this act — promoted their directors and other chief managers to the highest offices of counsellers, provincial agents, judges, justices, sheriffs and militia officers, preferable to others." Hutchinson, on the other hand, says that Shirley was under the necessity of conciliating the Land Bank men in order to carry on the government at all, and that he displayed great art in bringing them over to his measures without giving in to their measures. The great

**Gov. Shirley and the Land Bankers.**

favor they expected was relief from the penalties of the anti-Bubble act. A bill was passed by the General Court to make each man liable only for his own share of the outstanding notes, and after a long delay the Governor signed it, but it was nugatory, for it could not repeal the act of Parliament.

The anti-Bubble act had put a stamp of illegality on the Land Bank which could not be effaced. The General Court was obliged to recognize this fact. A committee of the House was appointed in 1742 to investigate its affairs. They found that £35,582 of its notes were outstanding and they recommended that the provisions of the anti-Bubble act be enforced against those proprietors who did not pay up. The liquidation ran through a quarter of a century. Nearly everybody who had any connection with it was ruined. Petitions for relief came into the General Court year after year from members who said that they had paid their own share and that of others and that they could pay no more. In 1767 its ghost reappeared in a committee report saying that £1,740 of its notes were still unredeemed and recommending that the amount be assessed against the surviving directors and the estates of those deceased. In the following year Benjamin Jacobs, one of the partners, having been sued and cast for a considerable amount of its notes, petitioned the General Court for relief. And here the Land Bank of 1741 vanished from history.

**Disastrous Termination.**

Although the Land Bank scheme, examined in the light of the present day, was unsound and pernicious, it was not dishonest. Public opinion had been debauched by colonial bills of credit, ideas on the subject of money were topsy-turvy, and there was no law prohibiting these persons from issuing notes if people were willing to take them. At the time when the Land Bank fight was in progress (1742) Parliament passed an act

**Pernicious, but not Dishonest.**

amending the charter of the Bank of England, and prohibiting any other body, politic or corporate, than the Bank or any partnership of less than six persons, from issuing circulating notes "in that part of Great Britain called England." Thus, says Professor Dunbar, "the exclusive privilege of the Bank did not prevent the issue of such notes by partnerships having only six partners or less, nor the performance of other banking functions by companies or partnerships of a greater number of partners. Notes continued to be issued by the London private banking houses, some of which were of longer standing than the Bank of England itself, and by country bankers, of which the number increased rapidly in the second half of the eighteenth century."[1]

In addition to the colonial banking experiments mentioned above there was one of considerable importance at New London, Connecticut, in 1732,[2] and one in Charleston, South Carolina, in 1775,[3] both extremely crude.

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## CHAPTER IV.

### FIRST BANK OF THE UNITED STATES.

THE opinion is held by many persons of good education and sound judgment that a new Bank of the United States would be a desirable addition to our national furnishings. The two banks of this kind which we had in our early history did serve the purpose of "regulators of the currency." They put an end to grave disorders in the national finances. They were useful in many ways and they gave entire satis-

[1] Chapters on the Theory and History of Banking, by Charles F. Dunbar, p. 158. See also Macleod, i, 487 and 501.

[2] Bronson, p. 42.

[3] Ramsay, ii, 170.

faction to the business community. Both of them stumbled over politics and broke their necks, and this without any intention on their own part to meddle with politics, but in spite of their utmost efforts not to do so. If any persons think that a new Bank of the United States would be more fortunate in this regard I am not of that number.

**Politics and Banking.**

The first Bank of the United States was established in 1791 in pursuance of a report made by Alexander Hamilton, Secretary of the Treasury. Hamilton's report is in the main a sound piece of reasoning. He was somewhat in advance of his contemporaries in discerning the objections to bank loans on mortgage security, and to land banking in general, although he had, a few years earlier, written a long letter to Robert Morris, in favor of a bank founded on landed security. In the report of 1791 he took ground against paper money issued by the Government, either directly or through a bank owned by itself, and his arguments are strongly put.

**Hamilton's Report.**

Hamilton saw clearly how a bank serves as a manufactory of credit, and how it economizes the use of capital. He had a clear understanding of the nature of deposits. This is the more remarkable since there was no text book at that time to explain it to him. He said :

"Every loan which a bank makes is, in its first shape, a credit given to the borrower on its books, the amount of which it stands ready to pay, either in its own notes, or in gold or silver, at his option. But, in a great number of cases, no actual payment is made in either. The borrower, frequently, by a check or order, transfers his credit to some other person, to whom he has a payment to make; who, in his turn, is as often content with a similar credit, because he is satisfied that he can, whenever he pleases, either convert it into cash,

or pass it to some other hand, as an equivalent for it. And in this manner the credit keeps circulating, performing in every stage the office of money, till it is extinguished by a discount with some person who has a payment to make to the bank, to an equal or greater amount. Thus large sums are lent and paid, frequently through a variety of hands, without the intervention of a single piece of coin."

Congress passed the bank act substantially, in accordance with his recommendations. The chief points were these :

I. The bank was to have a capital of $10,000,000, divided into 25,000 shares of $400 each. Eight millions of the capital stock was open to subscription by the public, one-fourth to be paid in specie and three-fourths in government obligations bearing 6 per cent interest. The other $2,000,000 of the capital was to be subscribed by the United States, payable in ten equal annual installments with interest at 6 per cent.

**Composition of the Bank's Capital.**

II. Each shareholder was entitled to cast one vote for one share, one vote for the next two shares, and so on, no shareholder being entitled to cast more than thirty votes. Foreign shareholders were not allowed to vote by proxy, and therefore practically could not vote at all. The principle of giving power to the minority was generally adopted in subsequent State bank charters, the object being to prevent banks from falling under the control of a few persons.

III. Not more than three-fourths of the directors were eligible for the next succeeding year.

IV. The bank could not hold real estate except for the immediate accommodation of its business, but it was not forbidden to lend on mortgage security.

V. The bank could not become indebted for a greater amount than its capital stock, over and above the amount of

its deposits; that is, the deposits were not to be counted as liabilities in estimating its right to contract debts. In case of excess the directors were to be personally liable to creditors of the bank, but directors absent or dissenting might exonerate themselves by notifying the President of the United States, and the stockholders, at a meeting which they should have the power to call for that purpose. There was no other limit on the note issues of the bank than this. It meant substantially that the circulating notes might be equal in amount to the capital stock, but they never exceeded one-half of it. The notes were receivable for all government dues.

**The Bank's Circulation.**

VI. The head of the Treasury should have the right of inspecting all of its affairs except the accounts of private individuals, and could call for reports as often as once a week if he chose to do so. The notes of the bank should be receivable for all public dues as long as said notes were payable in gold and silver coin. The Treasury was not required to deposit the public money in the bank.

**Treasury Inspection.**

VII. The bank might have branches wheresoever the directors should see fit, but only for the purpose of discount and deposit. It could not engage in trade of any kind, but might sell any goods which it had been obliged to take as security for loans.

VIII. The government pledged itself to grant no other charter for a bank during the continuance of this one, which was limited to twenty years.

There were long-winded arguments over the constitutionality of this bank, or of any bank to be chartered by Congress. The Federalists generally took the affirmative and the Republicans the negative. Washington requested three members of his cabinet, Randolph (Attorney General), Jeffer-

son (Secretary of State), and Hamilton (Secretary of the Treasury), to furnish him written opinions on the constitutionality of the bank, Hamilton's being favorable and the others' unfavorable. After giving them careful attention he signed the bill, which had passed the Senate without a division and the House by 39 to 20.

**Constitutionality.**

In a speech to Congress October 25, 1791, Washington said that the entire capital of the bank was subscribed in one day. Jefferson, whose opposition to the bank was exceedingly bitter from beginning to end, said that it was part of a disgraceful private speculation in which members of Congress had taken part. However that may have been, it was a great financial success. In 1809, Secretary Gallatin reported that the government had made a profit of $671,860 on the sale of its shares besides receiving dividends at the average rate of 8⅜ per cent per annum. Of the 25,000 shares ($400 each) 18,000 were held abroad and 7,000 by residents of the United States, the latter having the exclusive power of managing the bank. The outstanding circulation at this time was $4,500,000; specie on hand $5,000,000; deposits $8,500,000; loans and discounts $15,000,000, consisting mostly of 60-day paper. The bank had no mortgage securities except such as had been taken to secure doubtful debts. This was a very strong position.

**Great Financial Success.**

The bank collected the bonds of importers for customs duties. It transferred the public funds from place to place at its own expense, and paid the money on the order of the Treasurer of the United States wherever wanted. It had branches at Boston, New York, Baltimore, Norfolk, Charleston, Savannah, Washington and New Orleans, the parent bank being at Philadelphia. Secretary Gallatin strongly recommended the renewal of the charter, which would expire in 1811.

A contest of extreme bitterness ensued, in which the usefulness of the bank was scarcely considered. There was an explosion of party rage, and an explosion of private rage against Mr. Gallatin, inside the dominant party. Undoubtedly some votes were cast adversely for constitutional reasons. The Federalists had lost ground pretty steadily since the election of Jefferson in 1800, but they were still strong in wealth and respectability. They had established the bank against Mr. Jefferson's ideas; and he, although yielding to Mr. Gallatin on practical measures and signing various bills supplementary to the original charter, had remained, both in his administration and in his retirement, a consistent foe to it.

**Contest over Renewal of Charter.**

President Madison, who, as a member of the House, had opposed the original charter on the ground of unconstitutionality, was now disposed to look at the question as *res adjudicata*. He neither favored nor opposed a new charter. There was a cabal opposed to Mr. Gallatin which had its principal seat in Pennsylvania, its leaders being William Duane and Michael Leib. These men wanted to have certain changes made in the Federal offices in Philadelphia, which Mr. Gallatin refused on public grounds. The spoilsmen of Pennsylvania were furious. They were determined to force Gallatin out of office if they could, and to this end they opposed everything that he favored and favored everything that he opposed. A clique in Maryland headed by the Secretary of State, Robert Smith, and his brother, Senator Smith, was equally bitter against Gallatin and consequently against the Bank.

**The Spoils System.**

War with England, and perhaps with France, was now impending. There would be a great strain upon the Treasury in either event. Mr. Gallatin recommended that the bank be rechartered with a capital increased to $30,000,000, and that

it should be bound to lend three-fifths of its capital to the government whenever required to do so, and that it should pay interest on all government deposits in excess of $3,000,000. Of the new capital he proposed that $15,000,000 should be subscribed by such States as might desire it, and that a branch should be established in each subscribing State, if asked for by the State. Eighteen thousand shares of the capital of the existing bank were held abroad, mostly in England. This fact was seized upon by the enemies of the bank and the personal enemies of the Secretary to inflame popular prejudice. Anticipating this ground of objection Mr. Gallatin said in his report of March 2, 1809:

**Mr. Gallatin's Proposals.**

"The strongest objection against the renewal of the charter seems to arise from the great portion of the bank stock held by foreigners, — not on account of any influence it gives them over the institution, since they have no vote, but of the high rate of interest payable by America to foreign countries, on the portion thus held. If the charter is not renewed, the principal of that portion, amounting to about 7,200,000 dollars, must, at once, be remitted abroad; but, if the charter is renewed, dividends, equal to an interest of about 8½ per cent a year, must be annually remitted in the same manner. The renewal of the charter will, in that respect, operate, in a national point of view, as a foreign loan, bearing an interest of 8½ per cent a year. That inconvenience might, perhaps, be removed, by a modification in the charter, providing for the repayment of that portion of the principal by a new subscription to the same amount, in favor of citizens; but it does not, at all events, appear sufficient to outweigh the manifest public advantages derived from the renewal of a charter."

This demonstration of the impolicy of liberating and sending home seven millions of specie at a time when we

were likely to need every dollar of coin that the country contained had not the smallest effect on the anti-Federalist or on the anti-Gallatin faction, except to increase their fury. Mr. Desha, a representative of Kentucky (February 12, 1811), considered this foreign capital one of the engines set to work to overturn civil liberty. He had no doubt that George III was a principal stockholder and that he would authorize his agent in this country to bid millions for a renewal of the charter. The new charter was not wanted except by a few speculating merchants who had become involved in debt and had borrowed money from "this foreign bank." These merchants were not deserving of any sacrifices on the part of the government. They were sending in petitions and memorials all the time demanding protection to commerce, and then flying in the face of authority and trying to bring the laws [the embargo] into ridicule. The only way to save liberty, in his opinion, was "to assist in strangling this infant Hercules in the cradle," meaning probably, to assist Hercules in strangling this serpent. He concluded by suggesting that unless the British Government should rescind its clandestine measures affecting our rights, then rather than renew the charter of the bank we ought to confiscate the British capital in it and use it in conquering Canada, because so long as Great Britain held Canada, "federalism, or if gentlemen like the term better, aristocracy, will regularly progress and finally convulse your government to its center."

**Explosions of Party Rage**

This sounds now like very wild raving, but even Jefferson thought that the bank was dangerous to free institutions, apart from any question of constitutionality. In 1803, when Gallatin wanted to have a branch bank authorized at New Orleans — a special law being required to establish branches in the territories — Jefferson's anxieties on this subject broke out afresh. "What an obstruction," he wrote to the Secre-

tary, "could not this Bank of the United States, with all its branch banks, be in time of war? It might dictate to us the peace we should accept, or refuse its aids. Ought we then to give further growth to an institution so powerful, so hostile?" Gallatin quietly persisted, saying, "Whenever they shall appear to be really dangerous they are completely in our power and may be crushed." Jefferson yielded, but his opinion remained unchanged.

The bank was not without friends among the Republicans. The best speech made for the new charter was that of Senator Crawford of Georgia — a masterly effort from nearly all points of view. Mr. Crawford gives us a glimpse of journalism in his day:

**And Journalistic Fury.**

"The democratic presses in these *great States* have, for more than twelve months past, teemed with the most scurrilous abuse against every member of Congress who has dared to utter a syllable in favor of the renewal of the bank charter. The member who dares to give his opinion in favor of the renewal of the charter, is instantly charged with being bribed by the agents of the bank — with being corrupt — with having trampled upon the rights and liberties of the People — with having sold the sovereignty of the United States to foreign capitalists — with being guilty of perjury by having violated the Constitution. Yes, sir, these are the circumstances under which we are called upon to reject the bill. When we compare the circumstances under which we are now acting, with those which existed at the time when the law was passed to incorporate the bank, we may well distrust our own judgments. Sir, I had always thought that a corporation was an artificial body, existing only in contemplation of law; but if we can believe the rantings of our democratic editors in these great States, and the denunciations of our public declaimers, it exists under the form of every foul and hateful beast, and

bird, and creeping thing. It is a *Hydra;* it is a *Cerberus;* it is a *Gorgon;* it is a *Vulture;* it is a *Viper.* Yes, sir, in their imaginations it not only assumes every hideous and frightful form, but it possesses every poisonous, deleterious and destructive quality. Shall we, sir, suffer our imaginations to be alarmed, and our judgments to be influenced, by such miserable stuff? Shall we tamely act under the lash of this tyranny of the press? No man complains of the discussion in the newspapers of any subject which comes before the Legislature of the Union; but I most solemnly protest against the course which has been pursued by these editors, in relation to this question. Instead of reasoning, to prove the unconstitutionality of the law, they charge members of Congress with being bribed or corrupted; and this is what they call the liberty of the press. To tyranny, under whatever form it may be exercised, I declare open and interminable war. To me it is perfectly indifferent whether the tyrant is an irresponsible editor, or a despotic monarch."

He concluded with the following words:

"Sir, we have the experience of twenty years for our guide. During that lapse of years your finances have been, through the agency of this Bank, skillfully and successfully managed. During this period, the improvement of the country, and the prosperity of the nation, have been rapidly progressing. Why, then, should we, at this perilous and momentous crisis, abandon a well tried system; faulty, perhaps, in the detail, but sound in its fundamental principles? Does the pride of opinion revolt at the idea of acquiescing in the system of your political opponents? Come! and with me sacrifice your pride and political resentments at the shrine of practical good. Let them be made a propitiatory sacrifice for the promotion of the public welfare, the savor of which will ascend to Heaven, and be there recorded as a lasting, an

**Mr. Crawford's Conclusions.**

everlasting evidence of your devotion to the happiness of your country."

Senator Lloyd of Massachusetts made a very strong speech on the same side, supplying some interesting items of banking intelligence. Speaking of the great convenience to the government of an apparatus by which payments could be made at specie value everywhere, without cost for the transmission of funds, he said that Penobscot Bank notes would not pass in Boston at all times, that Boston Bank notes passed with difficulty in New York and Philadelphia, while those of New York were not readily current in Washington.

Henry Clay held the opinion emphatically that Congress had no power to grant the original charter or to renew it. In a speech (February 15, 1811) he said: "I conceive then, sir, that we are not empowered by the Constitution nor by any practice under it to renew the charter of this bank.

**Henry Clay stumbles.**

Again (March 2), he presented a report denying a petition of the bank for an extension of its charter sufficiently long to wind up its affairs. The report says that "holding the opinion (as a majority of the committee do) that the Constitution did not authorize Congress, originally, to grant the charter, it follows as a necessary consequence of that opinion, that an extension of it, even under the restrictions contemplated by the stockholders, is equally repugnant to the Constitution." Mr. Clay shared also some of the apprehensions of Mr. Desha, touching the sinister influence of foreign capital. "Seven-tenths of its capital," he said, "is in the hands of foreigners, and these foreigners chiefly English subjects. We are possibly on the eve of a rupture with that nation. Should such an event occur do you apprehend that the English premier would experience any difficulty in obtaining the entire control of this institution?"

The ineptitude of these remarks has hardly been surpassed in the annals of legislation. In the first place the foreign shareholders could not vote. Then, the American Secretary of the Treasury had the right of visitation and inspection, so that nothing could be done by the English premier without his immediate knowledge, and as Gallatin had said to Jefferson years before, "they are completely in our power and may be crushed." Finally, since the English premier might gain control of the bank's capital indirectly Mr. Clay proposed to send seven-tenths of it to England, where he could control it directly. But the most fantastic side of Mr. Clay's position was the constitutional side. Five years later he was a strong advocate of the charter of the Second Bank of the United States, saying that "that which appeared to him in 1811 under the state of things then existing not to be necessary to the general government, seemed now to be necessary under the present state of things. Had he then foreseen what now exists and no objection had lain against the renewal of the charter other than that derived from the Constitution he should have voted for the renewal."[1] The flaw in this reasoning is that in 1811 he held that the original charter of 1791 was unconstitutional without regard to circumstances.

The vote was taken in the House January 24, 1811, on a motion to postpone indefinitely, which motion prevailed by a majority of one — 65 to 64. The vote in the Senate on a similar bill (February 20) was a tie — 17 to 17, whereupon George Clinton, the Vice-President, gave the casting vote against the bank. It was accordingly put in liquidation. It paid the shareholders $434 for each share of $400. The country went to war the following year leaning upon the State banks for financial support. All except those of New England,

**The Bank killed.**

[1] Annals of Congress, 1815–1816, p. 1194.

and a very few in the West and South, suspended in September, 1814, after which the country wallowed in irredeemable paper, at all sorts of discount, for several years. If the bank charter had been renewed in 1811, it is almost certain that specie payments would have been maintained. This was Mr. Gallatin's opinion. In an essay published in 1831, after alluding to the banking speculations which sprang from a desire to fill the void left by the Bank of the United States, — 120 new banks being chartered and put in operation in the space of three years, he said:

"It is our deliberate opinion that the suspension might have been prevented at the time when it took place had the former Bank of the United States been still in existence. The exaggerated increase of State banks, occasioned by the dissolution of that institution, would not have occurred. That bank would as before have restrained within proper bounds and checked their issues, and through the means of its offices (branches) it would have been in possession of the earliest symptoms of the approaching danger. It would have put the Treasury Department on its guard; both acting in concert would certainly have been able at least to retard the event, and as the treaty of peace was ratified within less than six months after the suspension took place, that catastrophe would have been altogether avoided."

**Mr. Gallatin's Opinion.**

So the first Bank of the United States stumbled over politics in spite of itself, and disappeared.

## CHAPTER V.

### SECOND BANK OF THE UNITED STATES.

In order to preserve continuity, rather than chronological order, we will now consider the Second Bank of the United States. The friends of the first bank had predicted a financial crisis as a consequence of the non-renewal of the charter. No such thing happened, but disaster came a little later in a way they had not expected. The condition of the country in 1814 was pictured by Mr. Grosvenor, of New York, in the House, in the following words:[1]

"This war has become entirely defensive; and happy shall we be, happy beyond all our hopes, if by any exertion we shall be able to defend from invasion the very soil where, but forty years ago, the banner of independence first floated in the breeze. So far in the nature of things is conquest beyond our power, that, in the next summer, all the means of the nation, all the bravery of the people, and all the energies of the government will be indispensable to preserve our cities from conflagration, our States from subjugation, our government from dissolution. As a first and indispensable requisite to these objects, we turn to the Treasury, and there the most appalling views are presented. We find it empty, approaching bankruptcy. All confidence in the promises of government is gone; and public credit has become a spectre haunting the place where it once had flourished."

**The Gloom of 1814.**

Mr. Grosvenor was a Federalist, and all Federalists were low-spirited at that time, but perhaps nobody was more so than President Madison himself on the 25th of August, when he and his wife, fugitives from the burning capital,

[1] Annals of Congress, 1814–1815, p. 667.

were seeking each other at night, in the midst of a terrible thunderstorm, in a Virginia forest.[1]

The banks had suspended specie payments except in New England, and their notes were circulating at 15 to 30 per cent discount. The government had defaulted on the interest of the public debt. What money it had was in the suspended banks and could not be moved from one place to another.[2] Naturally men's minds reverted to the Bank of the United States. During its lifetime the bank had regulated the currency, besides helping the government in critical times. It had achieved this end by the force of example rather than by overt act. Its own notes were always equal to specie. The State banks were obliged to keep their notes up to the same standard, since otherwise they would be thrown out by the great bank and no longer be received for government dues, and in the principal cities their best customers would transfer their accounts to the bank or its branches. The phrase "Regulator of the Currency," as applied to the two Banks of the United States, has no other significance, but this was discovered to be of immense importance when suspension took place in September, 1814.

**Specie Payments suspended.**

Earlier in the year there had been stirrings of public opinion in favor of a new bank and the House of Representatives had referred the subject to a special committee. On the 17th of October, the new Secretary of the Treasury, Mr. Dallas, recommended that a national bank be incorporated with a capital

**Secretary Dallas.**

[1] Ingersoll's History of the Second War with Great Britain, ii, 208.

[2] "The government might possess immense resources in one State and be totally bankrupt in another; it might levy taxes to the amount of the whole circulating medium and yet have only its own notes available for payment of debt; it might borrow hundreds of millions and be none the better for the loan." History of the U. S., by Henry Adams, viii, 215.

of $50,000,000. Mr. Dallas voiced the common opinion in taking strong ground against legal tender notes :

"Whether the issues of a paper currency (he said) proceed from the national treasury or from a national bank, the acceptance of the paper in a course of payments and receipts must be forever optional with the citizens. The extremity of that day cannot be anticipated when any honest and enlightened statesman will again venture upon the desperate expedient of a tender law."

Mr. Dallas's chief aim was to secure financial aid to the government. Daniel Webster was then serving his first term in Congress as a representative of New Hampshire. He took the view that a Bank of the United States ought to be constructed on other foundations than the temporary needs of the public treasury. Mr. Dallas proposed a bank with a capital of $50,000,000, only one-tenth specie and the balance government securities of one kind or another, the bank to lend $30,000,000 to the government (which could only be its own notes), and to have a right to suspend specie payments in certain contingencies. Mr. Webster opposed this plan, January 2, 1815, and in doing so gave Congress a foretaste of that superb diction that stamped him the greatest of American orators. He said *inter alia:*

**Daniel Webster.**

"I am sure, sir, that the advantages which would at present result from any bank are greatly overrated. To look to a bank as a source capable not only of affording a circulating medium to the country, but also of supplying the ways and means of carrying on the war, especially at a time when the country is without commerce, is to expect much more than will ever be obtained. Such high-wrought hopes can end only in disappointment. The means of supporting an expensive war are not of quite so easy acquisition. Banks are not revenue.

**Banks are not Revenue,**

They cannot supply its place. They may afford facilities to its collection and distribution. They may furnish, with convenience, temporary loans to government, in anticipation of its taxes, and render important assistance in divers ways to the general operations of finance. They are useful to the State, in their proper place and sphere; but they are not the sources of national income.

"The fountains of revenue must be sunk deeper. The credit and circulation of bank paper are the effects, rather than the cause, of a profitable commerce and a well ordered system of finance. They are the proofs of national wealth and prosperity, not the foundations of them. Whoever shall attempt to restore the fallen credit of this country by the creating of new banks, merely that they may create new paper, and that government may have a chance of borrowing, where it has not borrowed before, will find himself miserably deceived. It is under the influence of no such vain hopes that I yield my assent to the establishment of a bank on safe and proper principles. The principal good I expect from it is rather future than present. I do not see, indeed, that it is likely to produce evil at any time. In times to come it will, I hope, be useful. . . .

**And Paper is not Wealth.**

"Whenever bank notes are not convertible into gold or silver at the will of the holder, they become of less value than gold and silver. All experiments on this subject have come to the same result. It is so clear, and has been so universally admitted, that it would be waste of time to dwell upon it. The depreciation may not be sensibly perceived the first day or the first week it takes place. It will first be discerned in what is called the rise of specie; it will next be seen in the increased price of all commodities.

"The circulating medium of a commercial community must be that which is also the circulating medium of other com-

mercial communities, or must be capable of being converted into that medium without loss. It must be able, not only to pass in payments and receipts between individuals of the same society or nation, but to adjust and discharge the balance of exchanges between different nations. It must be something which has a value abroad, as well as at home, and by which foreign as well as domestic debts can be satisfied. The precious metals alone answer these purposes.

**Real and False Money.**

"They alone, therefore, are money, and whatever else is to perform the offices of money must be their representative, and capable of being turned into them at will. So long as bank paper retains this quality, it is a substitute for money; divested of this, nothing can give it that character.

"No solidity of funds, no sufficiency of assets, no confidence in the solvency of banking institutions has ever enabled them to keep up their paper to the value of gold and silver any longer than they paid gold and silver for it on demand. This will continue to be the case so long as these metals shall continue to be the standard of value and the general circulating medium among nations. . . .

"Other institutions, setting out perhaps on honest principles, have fallen into discredit through mismanagement or misfortune. But this bank is to begin with insolvency. It is to issue its bills to the amount of thirty millions at least, when everybody knows it cannot pay them. It is to commence its existence in dishonor. It is to draw its first breath in disgrace. The promise contained in the first note it sends forth, is to be a false promise; and whoever receives the note, is to take it with the knowledge that it will not be paid, according to the terms of it. . . .

**A Bank founded on Bankruptcy.**

"The credit of this institution is to be founded on public funds, not on private property or commercial credit. It is

to be a financial, not a commercial bank. Its credit, therefore, can hardly be better at any time than the credit of the government. If the stocks be depreciated, so of course must everything be which rests on the stocks.

"It would require extraordinary ingenuity to show how a bank which is founded on the public debt, is to have any better reputation than the debt itself. It must be some very novel invention which makes the superstructure keep its place after the foundation has fallen. The argument seems to stand thus: The public funds, it is admitted, have little credit; the bank will have no credit which it does not borrow of the funds; but the bank will be in full credit."[1]

The final vote was taken the same day that Mr. Webster spoke, and stood 81 to 80. Then the speaker (Mr. Cheves of South Carolina) voted in the negative, making a tie, which rejected the bill. A reconsideration was moved by Mr. Hall of Georgia and was carried, the bill was sent to a select committee and amended in substantial accord with Mr. Webster's views and passed by 120 to 37. After some amendment by the Senate it was sent to President Madison, who vetoed it on the 30th of January, 1815, not on constitutional grounds but because it did not furnish sufficient financial aid to the government.

**The Bill passed and vetoed.**

The Senate immediately took up the original Dallas bill and passed it on the 11th of February, by 18 to 16. On the 17th the House postponed it indefinitely by 74 to 73. News of peace had been received on the 13th.

The war had come to an end. The Treasury was no longer in the throes of the preceding year, yet Mr. Madison in his message of December 5, 1815, suggested a national bank as a suitable instrumentality for bringing about a resumption of specie payments. It was scarcely more than a hint, but it was accompanied by an explicit recommendation

[1] Annals of Congress, 1814–1815, pp. 1015–1022.

from Secretary Dallas, who, a few days later, submitted a plan in detail for this purpose. It was to have a capital of $35,000,000, one-fifth to be subscribed by the government. Of the remainder, one-fourth should be coin and three-fourths might be either coin or government securities, and the bank was to pay a bonus of $1,500,000 for an exclusive charter for twenty years. The bill was reported by Mr. Calhoun, in the House, on the 8th of January, 1816, and was supported by him in a speech replete with good sense. He considered the restoration of specie payments indispensable and the bank the most appropriate agency for accomplishing that end.

**Second Bank Bill.**

"A national bank," he said, "paying specie itself, would have a tendency to make specie payments general, as well by its influence as by its example. It will be the interest of the national bank to produce this state of things; because, otherwise, its operations will be greatly circumscribed, as it must pay out specie or national bank notes; for one of the first rules of such a bank would be to take the notes of no bank which did not pay in gold and silver. A national bank of thirty-five millions, with the aid of those banks which are at once ready to pay specie, would produce a powerful effect all over the Union. Further, a national bank would enable the government to resort to measures which would make it unprofitable to banks to continue the violation of their contracts, and advantageous to return to the observation of them. The leading measure of this character would be to strip the banks refusing to pay specie of all the profits arising from the business of the government — to prohibit deposits with them, and to refuse to receive their notes in payment of dues to the government." How far such measures would be efficacious, in producing a return to specie payments, he was unable to say; but it was as far as he would be willing to go

**Mr. Calhoun's Views.**

at the present session. If they persisted in refusing to resume payments in specie, Congress must resort to measures of a deeper tone, which they had in their power.

Mr. Webster took a position different from that of the previous year. Then he was willing to support a bank fulfilling certain conditions, as an instrument of commerce. Now he did not think there was any use for a bank and he did not think that it would help to restore specie payments. The right way to do this, he said, was for the government to refuse to receive the notes of suspended banks for duties. The suspended banks were cheats. They were doing a regular banking business and making large profits while they were not meeting their own paper. They were also speculating in government securities. They had taken these securities during the war. They could sell them now and with the proceeds redeem their depreciated notes. He instanced the Bank of Pennsylvania, which was in full operation with a capital of $2,500,000, loans and discounts $4,133,000, government bonds $1,811,000, and yet did not redeem its own notes. Later in the year Mr. Webster introduced a bill directing the Secretary of the Treasury to take steps to collect all government dues in specie, and made a powerful speech on it which secured its passage, although Mr. Calhoun had previously made a similar attempt and had failed. Mr. Webster also moved an amendment to the bank bill, that it should pay its deposits as well as its notes in specie, and it was adopted. This amendment marked a step in advance, in the science of banking in this country.

**Mr. Webster's Change of Views.**

John Randolph opposed the bill. He was opposed to all banks. If the State banks were unable to pay specie, they were bankrupts. If they were able to pay and would not, they were fraudulent bankrupts. They had lost all shame. They exemplified the

**John Randolph.**

maxim that men combined together would do collectively what every member of the combination would spurn individually. To pass this bill would be like setting fire to the house in order to get rid of the rats.

The bill passed the House, March 14, by 80 to 71 and the Senate, April 3, by 22 to 12, and was approved, April 10, by President Madison.

It differed little from the charter of the former bank. The directors might establish branches wherever they pleased within the States or territories, and they did establish twenty-five. Foreign shareholders were not allowed to vote either in person or by proxy. Section 16, regulating the public deposits, was in these words: "That the deposits of the money of the United States in places in which the said bank or branches thereof may be established shall be made in said bank or branches thereof, unless the Secretary of the Treasury shall at any time otherwise order and direct; in which case the Secretary of the Treasury shall immediately lay before Congress, if in session, and if not, immediately after the commencement of the next session, the reasons of such order or direction." The bank was forbidden "to purchase any public debt whatsoever."

**Public Deposits.**

In case the bank should fail to pay any note, obligation, or deposit in specie on demand, it should forfeit twelve per cent per annum on the amount of the claim. The government's subscription of $7,000,000 might be paid either in money or in its own obligations bearing 5 per cent interest. It was wholly paid by the latter, *i.e.*, by a stock note, and the note was not fully paid until 1831.

The charter of the bank was made the basis of a shameful speculation, which brought it to the verge of ruin within two years. The law provided that the stock subscriptions of individuals should be paid in three installments: 30 per

cent at the time of subscribing, 35 per cent in six months, and 35 per cent in twelve months. One-fourth of the private subscriptions ($7,000,000) should be paid in specie and three-fourths in specie or in the funded debt of the United States. When the second installment came due, only $324,000 was paid in specie where $2,800,000 was due; and for the third, only a trifling amount of specie or of anything else. The bank had discounted the notes of the stockholders on the pledge of their stock, to the amount of more than eight million dollars. It also allowed the stock to be sold and transferred by the subscribers before it was paid for. This caused a great deal of trading in shares and a rapid advance in the price. When they rose above par the bank loaned more than par on them. In August, 1817, it authorized loans as high as $125 on $100 to shareholders who would furnish other security for the extra $25. This was easily furnished by the shareholders endorsing for each other. When called to account for this by a committee of Congress, the directors said that they had merely followed the example of the local banks of New York, which had advanced 120 on bank shares. This was not true. As the loans to shareholders could be renewed at the discretion of the President and Cashier, there was no reason why the unpaid shares should ever be paid or why the money should not be returned on those that had been paid.

**Scandalous Beginnings.**

All these facts and many others quite as bad, were brought out by a Congressional investigation in January, 1819. Among the requirements of the charter was one that there should be no dividends on shares that were not fully paid for. This provision had been systematically violated. The president and cashier of the Baltimore branch had borrowed nearly $2,000,000 on the pledge of their shares taken at a premium, and then helped themselves to $1,540,000 more without the

knowledge of their directors, or of the parent bank. The loss thus incurred amounted to $1,671,224.87. The bank at this time was really insolvent. It was held up only by the government's deposits, which amounted to eight million dollars. It was saved from impending bankruptcy by Mr. Langdon Cheves, of South Carolina, who became its president in March, 1819. One of his measures of relief was the borrowing of $2,500,000 in Europe. Another was the requirement that the loans made on the security of the bank's shares should be paid at the rate of 5 per cent every sixty days. "Even this small reduction," said Mr. Cheves in his first official report, "was the subject of loud, angry and constant remonstrance among the borrowers, who claimed the privileges and favors which they contended were due to stockholders."

**The Bank on the Verge of Ruin.**

This episode teaches the lesson, that a bank ought never to lend money on the pledge of its own shares; since it can realize on the security only by impairing its own capital. If a bank starts business with a fully paid capital of $100,000 and then lends this amount on the security of the shares and is obliged to take the shares for the debt, it simply cuts its own throat. This is what the Bank of the United States did in 1817. If the eight millions of deposits which kept it afloat had belonged to private individuals, instead of the government, there would have been a run on it which would inevitably have compelled its suspension.

**Lending Money on the Bank's Shares.**

The bank was put in a solvent condition by Mr. Cheves, and in the course of the next ten years became so imbedded in the policy of the country that when President Jackson, in his first annual message spoke of it in a hostile tone, there were not ten persons in the United States who could imagine what he meant. This allusion was in the President's message of December, 1829, as follows:

"The charter of the Bank of the United States expires in 1836, and its stockholders will most probably apply for a renewal of their privileges. In order to avoid the evils resulting from precipitancy in a measure involving such important principles, and such deep pecuniary interests, I feel that I cannot, in justice to the parties interested, too soon present it to the deliberate consideration of the Legislature and the people. Both the constitutionality and the expediency of the law creating this bank *are well questioned by a large portion of our fellow-citizens;* and it must be admitted by all, that it has failed in the great end of establishing a uniform and sound currency. Under these circumstances, if such an institution is deemed essential to the fiscal operations of the government, I submit to the wisdom of the Legislature whether a national one, founded upon the credit of the government and its revenues, might not be devised, which would avoid all constitutional difficulties, and at the same time, secure all the advantages to the government and country that were expected to result from the present bank."

**President Jackson's First Attack.**

This statement was received with mild surprise by the great body of the President's political supporters both in and out of Congress. The bank's charter had still seven years to run and nobody had yet taken thought of the subject of a renewal; or rather, all who had thought of it had expected a renewal as a matter of course. Jackson's assertion that the bank had "failed in the great end of establishing a uniform and sound currency" was distinctly false, but he supposed it was true. The bank had brought the currency of the country into a wholesome state amid much tribulation, and had incurred bitter hostility in the South and West by compelling the local banks to redeem their notes. This was exactly what it was chartered for, yet the local

**Important Services of the Bank.**

banks persuaded their customers and would-be borrowers that the great bank disabled them from granting the accommodation which they would gladly give, by calling on them for specie. The word "monster," which later became such an effective catch-word in the bank war, was first applied to the bank in Kentucky because it would not allow the notes of the local banks to accumulate as deposits in its branches without redemption. To have done so would have been simply to transfer its capital to those banks without interest. The public being entitled to draw gold from the branches for their deposits, or to call for drafts on Eastern cities at the current rate of exchange, or to pay their own maturing obligations at the branches with the same, it was absolutely necessary for them to call on the local banks to redeem their notes, but the people did not so understand it. They thought that the notes would float far and wide and never give trouble if they were not gathered up by the branches of the United States Bank and presented for redemption. Kentucky now had forty banks based on moonshine and was passing through an era of wild speculation, soon to be followed by reaction, bankruptcy, stay and replevin laws, repudiation, and war on the judiciary, both State and Federal, the whole passing into history under the name of Kentucky Relief.[1] Intense feeling against the Bank of the United States was thus engendered without the least foundation. In the vicissitudes of republics debtors have played a leading part from the earliest times. Appian, in his history of the civil wars of the Romans, mentions the cancelling of debts (χρεῶν ἀποκοπῆς) as one of the four causes of those wars.

**"Kentucky Relief."**

The same frenzy existed in Ohio as in Kentucky. Branches had been established at Chillicothe and Cincinnati. An attempt was made to drive them out of the State

[1] See The Life of Andrew Jackson, by W. G. Sumner, pp. 119–136.

by taxing each of them $50,000 per annum. They refused to pay and appealed to the courts. The State officers broke open their vaults and carried off more than the amount of the tax, and lodged it in the State Treasury at Columbus. What followed is thus described by Professor McMaster:[1]

**Ohio Frenzy.**

"For this act the auditor, his agents, and the State treasurer were sued by the bank, and while the suits were still pending the legislature assembled and began an investigation. The times were now hard indeed. All the fine visions of the speculators, the paper-money men, the bank men had vanished. Bankruptcy and debt were everywhere. Stay laws, replevin laws, indorsement laws, relief laws of every sort were the order of the day. Nothing was so hateful now as a bank, and above all the Bank of the United States. The Supreme Court had decided that a State could not tax it. But Ohio adopted and affirmed the Virginia and Kentucky resolutions of 1798 and 1800; hurled a defiance at the Supreme Court, told it that acquiescence was not the necessary consequence of its decisions, and passed 'an act to withdraw from the Bank of the United States the protection of the laws of this State in certain cases.' If the bank gave notice to the Governor of its willingness to stop the suits against the State officers, and to submit to a four-per-cent tax on its dividends, or leave the State, the Governor might suspend the law by proclamation. If it did not, then every jailor was forbidden to receive into his custody any person committed at the suit of the bank, or for any injury done to it. Every judicial officer was prohibited to take acknowledgment of conveyances when the bank was a party, and every recorder from receiving and entering them. Notaries-public were prevented from protesting bills or notes held by the bank and made payable to it; and justices of

[1] In *The Forum* magazine, April, 1895.

the peace, judges, and grand juries could no longer take cognizance of any wrong committed on the property of the bank, though it were burglary, robbery, or arson. The bank would not discontinue the suits, nor leave the State, so the law went into effect, and in September, 1820, the Bank of the United States became an outlaw in Ohio."

The State of Georgia had a wholesome law, passed in 1816, providing that if any bank should refuse to pay its notes in specie on demand it should pay interest at the rate of 25 per cent per annum on the default.

When the Bank of the United States established its branch in Savannah it received the notes of the Georgia banks at par. In the year 1820 it began to make demands on them for the redemption of such notes. They refused to pay although they pretended to be solvent. They refused also to allow interest on the unliquidated claim. They prevailed on the Legislature in May, 1821, to repeal the 25 per cent penalty on the ground that it was only "in the interest of brokers and lottery ticket sellers." This left the banks liable to 8 per cent interest on the default, that being the legal rate on all deferred claims. This did not suit them. So they procured the appointment of a joint committee of the Legislature to report on the incendiary action of the United States Bank. This committee reported in November, 1821, that the Bank of the United States, having been *intruded* upon the State of Georgia without her consent, was an interference with her sovereignty as an independent State. They said that by accumulating notes of State banks it had deprived the State of a circulating medium, and by frequent and repeated demands of large sums in specie had compelled them to curtail discounts and "to deprive the State and the individual stockholders of their usual and expected dividends." They recommended a law establishing a rate

**Anti-Bank War in Georgia.**

of interest between the United States Bank and the State banks so low as to prevent all of said banks from being benefited by accumulating each other's notes; that while the State banks should continue to pay individuals in specie "they shall refuse, whenever they think it prudent to do so, to pay specie for their bills to the United States Bank or its officers or agents, upon giving 60 days' previous notice of such intention."

In order to make a complete job of it, the Legislature decided to fix the rate of interest at zero. On the 24th of December, 1821, it passed an act virtually authorizing solvent debtors to refuse payment to one creditor but not to others, thus:

"SECTION 4. That if the Bank of the United States, or either of the branches of said bank, shall, after the first day of January next, collect, acquire, purchase or receive on deposit the bills or notes of either of the banks incorporated by the State of Georgia, which have been or may hereafter be issued by the banks aforesaid, and shall demand specie for the same, the bills or notes, so collected by the Bank of the United States, or either of its branches, shall not bear interest on account of any refusal by either of the banks incorporated in this State to redeem the same in specie.

**A Queer Law.**

"SECTION 5. Nothing in this act shall be so construed as to deprive individuals who may demand specie for themselves for the notes or bills of either of the banks incorporated by the General Assembly of this State, from the same privileges and advantages in obtaining specie or interest as now exist by the Laws of this State."

Gouge says that after this law was passed the Bank of the United States sold its Georgia bank notes at auction on the Savannah Exchange. The banks now felt emboldened to make difficulties about paying private citizens. The Planters'

Bank of Georgia redeemed its notes in copper cents, counting them at the rate of sixty dollars per day, although these coins were not legal tender. The act quoted above was repealed in 1824.

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## CHAPTER VI.

### THE BANK WAR.

THE Bank was in its halcyon days when President Jackson sent his first message to Congress with the hostile paragraph already quoted. The inter-state war against it had ceased. Whatever may have been its internal condition — and it was an unpleasant circumstance that the parent bank could not keep an effective control over the branches, some of which were engaged in "kiting" operations of a very reprehensible type — its external appearance was very imposing. It possessed the confidence of Congress, of the country and of the civilized world in the highest degree. Its average loans and discounts were $40,000,000 and its annual profits $3,000,000. It had five hundred employees of high standing and social position. Of its President, Nicholas Biddle, Ingersoll says: [1]

**Halcyon Days of the Bank.**

"No American had such European repute. Jackson's was the only one comparable, and that far inferior to it. Flattered, caressed, extolled, idolized in America, Biddle was praised and respected in Europe as the most sagacious and successful banker in the world. Governors, senators, legislators, judges, clergymen, ladies thronged his bank parlor and by fulsome adulation entreated his favors. His town house and his country house were the seats of elegant hospitality in which he shone with the blandishments of a polished gentleman,

**Nicholas Biddle.**

[1] Ingersoll, ii, 285.

amiable, witty, liberal, never harsh or offensive to antagonists, but spoiled by sycophants of the highest rank. Chambers of Commerce, boards of brokers and other representatives of trading associations, cities, corporations and sovereign states courted his support and solicited his favors."

The common opinion concerning the bank at that time was the same that is now held of the great central banks of England, France, and Germany, and this opinion was probably shared by Jackson himself (so far as he had ever given any thought to it), until he came to Washington as President. The causes of his outbreak must be sought elsewhere. Among the earliest indications of what was coming are the following letters from a pair of unsavory politicians who had come to Washington as a part of the driftwood on the tide of 1828:

"WASHINGTON, July 17, 1829.

"GENTLEMEN: — Agreeably to my suggestion when I saw you in Philadelphia, I now send you two petitions to the president and directors of the Bank of the United States asking for a change in the board of directors at the branch in Portsmouth, N. H., together with a letter from John S. Jenness, Esq., a respectable merchant of that town, in favor of the same object, and requesting that you will present them to the president of the Bank in your city. One petition is subscribed by about 60 of the most respectable members of the New Hampshire legislature, naming suitable persons for directors at Portsmouth, and the other petition is subscribed by most of the business men, merchants at Portsmouth, without distinction of party.

**Isaac Hill's Letter.**

"Having recently spent several weeks in New Hampshire, I am able to say from my own knowledge that the sentiment of dissatisfaction on account of the recent management of the branch at Portsmouth by Mr. Mason is general; that his

conduct has been partial and oppressive and calculated not less to injure the institution than to disgust and disaffect the principal business men, and that no measure short of his removal will tend to reconcile the people of New Hampshire to the bank.

"A letter from a gentleman of Portsmouth now before me says: 'This man (Mr. Mason) controls the whole concerns of the bank; it is like having but one director; he is unaccommodating to pensioners; has put them to unnecessary trouble and expense; he has ordered large discounts to be made to Mr. Lawrence, his brother-in-law at Boston; at the same time he has refused to accommodate our merchants with two or three thousand dollars; and this too, on the very best of paper.'

"The friends of Gen. Jackson in New Hampshire have had but too much reason to complain of the management of the branch at Portsmouth. All they now ask is that this institution in that State may not continue to be an engine of political oppression by any party. The board has, I believe, invariably and exclusively consisted of individuals opposed to the general government. Of the ten persons named in the petition for directors, six are friends of the last and four friends of the present administration. They are, however, alike gentlemen of respectability, who have no sinister objects to be promoted, understanding well the responsibility and wants of business men. With such a direction, I do not doubt the branch at Portsmouth will be secure and prosperous and satisfy all. The advantage of having two respectable men in the board (one of whom is State Treasurer) out of Portsmouth must be obvious.

"I am, gentlemen, with great respect your friend and most obedient,

"ISAAC HILL, Second Comptroller U. S. Treasury.

"To J. N. BARKER and JOHN PEMBERTON, Esqs."

"FOURTH AUDITOR'S OFFICE, 2d Nov., 1829.

"DEAR SIR: — In the summer of 1828 I was informed by Mr. ———, of Frankfort, that on the Sunday preceding the election of 1825 it was determined by two directors of the United States branch bank at Louisville, where he then resided, to appropriate $250 of a certain contingent fund or secret service money, belonging to the bank, of which fund they had the control, to aid the party called the old court party in carrying the elections in Jefferson county. Mr. ——— further stated that $100 of the money was put into the hands of himself and another gentleman on that day, that they went to Shippingsport and opened grogshops with it, and hired hacks to carry up voters; that the balance was put into the hands of others for like purposes in Louisville; that they did employ with that money all the hacks in the place, and to use his own expression, 'did a main business on Sunday.'

**Amos Kendall's Letter.**

"Not being authorized to use this information on Mr. ———'s authority, I requested Mr. Gilly Cuddy to prove it if possible through other channels, and these are facts to which he alludes. Very respectfully,

"AMOS KENDALL.

"S. D. INGHAM, Sec. of the Treasury."

Hill had been the editor of a rancorous party newspaper of the Jackson stripe in New Hampshire and latterly president of a small bank in Concord for which he wished to secure the pension deposits which were placed by law in the United States branch bank at Portsmouth. He now held the office of second comptroller of the Treasury by Jackson's appointment, but had not been confirmed, and was eventually rejected by the Senate. Kendall had also been the editor of a party newspaper in Kentucky and was now fourth auditor of the Treasury. These were two of the four men

who constituted Jackson's "Kitchen Cabinet," or Cabinet improper, as Webster called it, in distinction from the Cabinet proper, and there is every reason to suppose that these two men were "the large portion of our fellow-citizens" who questioned the expediency of the law creating the bank.

Jeremiah Mason, against whom Hill's letter was directed, was one of the three great lawyers of New England, standing on the same plane with Daniel Webster and John Quincy Adams. He had been a candidate for the Senate in 1824 but had been defeated by an intrigue which had resulted in the election of Levi Woodbury. The latter was an intimate friend of Isaac Hill. Whether Hill or Woodbury was the prime mover of the attack on the bank in this quarter, is immaterial. It is certain that the movement was a political intrigue. A few days before Hill wrote the letter quoted above, Woodbury had addressed a note to Mr. Ingham, the Secretary of the Treasury, making complaints against Mason's management of the Portsmouth branch similar to those made by Hill. Mr. Ingham forwarded it to Nicholas Biddle, the president of the bank, with some comments of his own. Biddle replied that the Portsmouth branch had been badly managed before Mason took charge of it and that the bank had with difficulty persuaded him to accept the position. Biddle refuted all of Woodbury's specific charges, so far as they could be answered without an investigation on the spot, which he promised to make in due time. He added that the bank had no connection with politics and desired to have none. A little later he went to Portsmouth, investigated the charges, and wrote a more complete answer to them.

**Political Intrigue in New Hampshire.**

The correspondence leaves no doubt that the charges against Mason's management of the branch were without foundation, having been trumped up by his political

enemies. Biddle felt so sure of his position that he was not satisfied with vindicating Mason, but went on to give some instruction to Ingham touching the mutual relations of the bank and the government. This was a gross blunder. Ingham retorted that the Secretary of the Treasury had the power to remove the government's deposits from the bank — a fact that Biddle, in his literary effusiveness and abandon, had overlooked. Biddle was worsted in the encounter, but his mistake of tactics was not necessarily fatal.

**Biddle's Mistake.**

Jackson was easily pursuaded by his Kitchen Cabinet that the bank was his enemy and therefore the enemy of the republic and of the human race, yet so firmly was it intrenched in the business of the country and in the confidence of the people that his political friends did not at first take him seriously when he spoke against it. That portion of his message of 1829 which alluded to it was referred to a committee, and a report was made by Mr. McDuffie, of South Carolina, who controverted the message mildly but distinctly at all points, and the report was sustained by a decisive majority in a House composed largely of Jackson men. Similar proceedings were had in the Senate.

**Congress Approves the Bank.**

In the message of 1830, the President again alluded to the subject, but a test vote in the House showed that the bank was even stronger than before. In 1831 the message took a milder tone, saying that the President had felt it his duty frankly to disclose his opinions on the subject in former messages, "Having thus conscientiously discharged a constitutional duty," he continued, "I deem it proper on this occasion, without a more particular reference to the views on the subject then expressed, to leave it for the present to the investigation of an enlightened people and their representatives."

**Milder Tone of the President.**

If the bank had had only its political enemies to deal with it would probably have come off unscathed. Secretary Ingham was not opposed to the bank although he had had a tilt with Biddle. The latter had successfully resisted the attempt to draw the bank into politics. Ingham had retired from the Treasury and was succeeded by Louis McLane, a warm friend of the bank. Four of the six members of the cabinet were friendly to it, and Jackson himself now seemed disposed to cease his war on it. "To the last," says Ingersoll, "Mr. Biddle was strongly advised not to press the recharter when it was done. Mr. Livingston, Secretary of State, Mr. McLane, Secretary of the Treasury, and I believe General Cass, Secretary of War, as well as Mr. Barry, Postmaster General, General Smith, John Forsyth, Mr. Wilkins, Mr. Dallas, the Pennsylvania senators, nearly all that portion of the Republican party which sustained the bank counselled delay. Let the President have time and his friends opportunity for reasoning with him. Do not force, do not hurry him. Wait the event of his election. Let him be the author instead of the destroyer of a bank. Edward Livingston was constant in belief and assurances that if conciliated and not constrained the rugged chieftain would yield on fair and reasonable terms. The Attorney General, Mr. Taney, was the only open cabinet opponent of the bank."[1] Even Levi Woodbury was silenced.

**The Turning Point.**

Henry Clay was nominated for President in opposition to Jackson at Baltimore, in December, 1831, by the "National Republicans" (afterwards called Whigs). He had been out of public life two years, having retired at the end of the Adams administration, of which he was a member. During this interval he had been employed professionally by the bank, and thus was brought into agreeable relations with it,

[1] Ingersoll, ii, 268.

but was not then in any special sense its champion. He was elected Senator from Kentucky in 1831. He was the dictator of his own political party and he determined to make the recharter of the bank a party issue. The legislature of Pennsylvania, a strong Jackson State, had passed resolutions, by a nearly unanimous vote, in favor of rechartering the bank. This led Clay to believe that if the bank would take the aggressive it would be easy to turn that State and the business interests of the country generally against Jackson in the coming campaign. He even thought that Jackson was trying to avoid the bank issue until after the election. "The executive," he said in a letter dated December 25, 1831, "is playing a deep game to avoid, at this session, the responsibility of a decision on the bank question."

**Henry Clay and the Friends of the Bank.**

Entertaining these views and having the power to shape the issues of the campaign on his own side he caused a plank to be put in the Baltimore platform declaring that the bank was a great, beneficent and necessary institution, and that the President was "fully and three times over pledged to the people to negative any bill that might be passed for rechartering the bank." Even after this provocation Jackson nominated Biddle as one of the government directors of the bank.

**Baltimore Platform of 1831.**

The bank had been, up to this time, a non-resistant, and that was the reason why Jackson's animosity had cooled. It was still reluctant to enter the political arena. Biddle hesitated, but was finally persuaded by the argument that the bank must put itself in the hands of its friends rather than of its enemies. Accordingly he wrote a memorial asking for a renewal of the charter, which Mr. Dallas presented to the Senate on the 9th of January, 1832, in a most infelicitous and damaging speech. Dallas claimed the privilege of presenting

**Mr. Dallas's Faux Pas.**

it because the bank had its domicile in his State, but he was afraid of stirring up a quarrel with his chief. Instead of assuming, as he might easily have done, from the tone of the last message, that the President had decided to leave the whole subject to the decision of an enlightened people and their representatives, he said that he had tried to dissuade the friends of the bank from seeking a renewal of the charter on the eve of a presidential election, since it might thus be "drawn into real or imagined conflict with some higher, some more favorite, some more immediate wish or purpose of the American people." Still, the judgment of the parties interested was probably better than his own and he hoped that the great interests at stake would not suffer, however dangerously timed the introduction of the memorial might be. No better form of words could have been devised for trumpeting a clash of arms between the bank and the President.

In order that no aggravating circumstance might be omitted the president of the bank opened headquarters at Gadsby's Hotel, or as Ingersoll says, "the bank standard was hoisted by Nicholas Biddle in person." Senators and representatives, lobbyists, bank debtors, borrowers, sycophants flocked thither. Sumptuous entertainments were given and the plan of campaign marked out. Although nothing could have been better calculated to stir up the fighting element in Jackson, which seldom needed stirring, very strict attention was paid to his supposed wishes as to the details of the bill. All the amendments that he had ever suggested, which were consistent with the life of the bank, were adopted; among them was one which prohibited the issue of notes smaller than $20.

**The Bank's Plan of Campaign.**

And now the other side bestirred themselves. They too prepared a plan. They saw that the bank issue was to be the leading one in the campaign. Their plan was the familiar one: "Throw plenty of mud — some of it will stick."

The principal purveyor of mud was one Whitney, an insolvent merchant of Philadelphia, who had been a director of the bank and who hated Biddle. Senator Benton put together all the bad things that Whitney furnished and as many more as he could collect or imagine, placed them in the hands of representative Clayton, of Georgia, and prompted him to make specific charges of rottenness and mismanagement against the bank and to demand an investigation by the House. This was done. The investigation was ordered and a committee appointed consisting of seven members, Mr. Clayton, chairman, Richard M. Johnson, Francis Thomas, C. C. Cambreling, George McDuffie, John Quincy Adams, and Mr. Watmough, four anti-bank men to three of the other side. The investigation was conducted in Philadelphia and the principal witness was Whitney, who perjured himself and was detected, exposed and covered with obloquy. Whitney had been a favorite at the White House before this. He was now a persecuted man in the eyes of the President, and became a member of the Kitchen Cabinet and Jackson's agent of communication with his own Secretary of the Treasury, W. J. Duane, when the latter succeeded McLane in that office.

**The Anti-Bank Plan of Campaign.**

Three reports were made, one by the majority, one by the minority (McDuffie and Watmough) and one by Mr. Adams. The reports and testimony made a volume of nearly 600 pages. A careful analysis of this document may be found in Sumner's Life of Jackson. It may suffice to say here that no charge against the bank that was worth considering was sustained.

On the 9th of June the bill rechartering the bank passed its third reading in the Senate by 25 to 20.

Now the friends of the bank, who were also friends of the President, made one more effort to prevent a conflict. They

entreated Mr. Biddle to pause and let the bill rest until after the election. If he had had his choice he might have taken this advice, but he was "threatened with opposition from the party, then his chief reliance, unless he went on."[1] They said, too, that Jackson would not dare to veto the bill, and if he did he would be hurled from power by an indignant people. So they went on merrily and passed the bill in both houses and sent it to the President on the 6th of July. One more challenge was given to him. The House on the 28th of June had voted to adjourn on the 9th of July. The resolution was not acted on by the Senate until the 9th. Then Mr. Webster said that there was an important measure under consideration by the Executive, which he was not compelled to return in less than ten days. The House resolution was then amended by inserting the 16th. This was equivalent to saying to the President: "You shall not dodge. You must sign the bill or veto it. You shall not kill it by a 'pocket veto.'"

**The Bill passed**

The next day, July 10, the veto came. It was not a very sound document, but a very sounding one. It was perfectly adapted to its purpose, that of winning votes. It dealt with the bank as a monopoly, ringing all possible changes on that term, and in the most skillful manner. It is supposed that Amos Kendall wrote it. Jackson had no pride of authorship, yet he was always well served in his state papers. He was as far as possible from being a demagogue, yet this was a most demagogical appeal. The friends of the bank were in high glee when they saw it. Biddle wrote to Clay: "I have always deplored making the bank a party question, but since the President will have it so, he must pay the penalty of his own rashness. As to the veto message, I am delighted with it. It has all

**And vetoed.**

[1] Ingersoll, ii, 269.

the fury of a chained panther biting the bars of his cage. It is really a manifesto of anarchy, such as Marat or Robespierre might have issued to the mob of the Faubourg St. Antoine; and my hope is that it will contribute to relieve the country from the dominion of these miserable people. You are destined to be the instrument of that deliverance, and at no period of your life has the country ever had a deeper stake in you. I wish you success most cordially, because I believe the institutions of the Union are involved in it." [1]

This was not the first time that Biddle's literary talents had betrayed him. Four months later he and Mr. Clay and the bank went down with a grand crash, Jackson being reëlected by 219 electoral votes, to 67 for all others. Mr. Clay received 49. Nobody at the present day considers Biddle a good banker. Few persons regret the Bank of the United States. But if its taking off was a national misfortune, Mr. Clay and his party were as much to blame as General Jackson and his party. They made the bank a tail to their kite at a time when defeat to them meant destruction to it. The attempt to pass the bill over the veto failed in the Senate, 22 to 19.

**Grand Crash.**

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## CHAPTER VII.

### END OF THE GREAT BANK.

On the 24th of March, 1832, Mr. Asbury Dickins, acting secretary of the Treasury, notified Mr. Biddle confidentially that the government desired to apply a portion of its money deposited in the bank to the payment of the outstanding 3 per cents — a remnant of the revolutionary debt funded by Hamilton. The public deposits now amounted to $12,000,000,

[1] Parton's Jackson, iii, 411.

and the debt to be paid off was $9,000,000. Secretary McLane gave Mr. Biddle formal notice of this purpose on the 25th of July and Biddle replied that the bank would take the necessary steps to get possession of the bulk of the 3 per cents and would act in accordance with the wishes of the government. In the meantime General Cadwalader, a director of the bank, had been sent to London to make a private arrangement with the Barings for postponing the payment of $5,000,000 of the debt. A contract was made with that house to extend as many of the 3 per cents as possible and to buy up the rest. This was a violation of the bank's charter, which prohibited it from purchasing any public stocks. It was equally a violation of the understanding with the Treasury, since, under the Baring contract, the 3 per cents would be kept alive, the bank paying the interest and being responsible eventually for the principal. Money was worth 7 per cent to the bank. By this scheme it would obtain the use of the government's money at 3 per cent or a little more.

**Affair of the 3 Per Cents.**

**Biddle's Duplicity**

It was Biddle's intention to keep the matter secret, but the Baring circular got into the newspapers in October. Biddle immediately disavowed Cadwalader's contract with the Barings, in so far as related to the buying of the debt, and proposed a different arrangement. Secretary McLane called on Biddle for explanations and the latter replied that he had taken this step for the public good. The cholera had invaded the country in the summer of 1832, causing serious interruptions to business and threatening, he said, "if it continued, to press with peculiar force on the public revenue, more especially as the demand on account of the foreign holders of 3 per cents on the first of October, at New York and Philadelphia alone, would have exceeded five millions of dollars." This

**And Exposure.**

meant that the bank would be obliged to curtail its discounts by this sum, in order to pay the foreign debt. So the bank had interposed itself as a Providence between the people and the government because the cholera was raging, and had done so in a clandestine manner.

Jackson was fully justified in considering this a subterfuge. Another occurrence a few months later exasperated him still more. In February, 1833, Secretary McLane drew on the French government for $912,000, being the first installment of the spoliation claims which had been settled by treaty. The draft was drawn prematurely, for although the treaty had been ratified the payment could not be made until the French Chamber had appropriated the money. The draft had been purchased by the bank and the proceeds credited to the government, but not drawn out. When it was presented to the French minister of finance payment was refused. Thereupon Hottinguer & Co., of Paris, paid it and drew on the Bank of the United States for the amount. The bank claimed restitution of the money, together with 15 per cent damages under a law of the District of Columbia relating to protested paper. The Secretary paid the principal and offered to pay the actual cost, but refused to pay damages. The bank deducted the amount of the claim from the government's dividends as a shareholder. Then the government sued the bank.

**The French Draft.**

This was a most inopportune and ill-advised transaction. The claim for damages was destitute of moral foundation, since the money which was paid for the draft was all the time in the bank. It turned out to be equally destitute of legal foundation, since a bill of exchange drawn by one government on another is not subject to protest and consequential damages. So the Supreme Court decided in this case, several years after the bank had ceased to exist.

In the spring of 1833 Mr. McLane was transferred to the State Department and Wm. J. Duane was appointed Secretary of the Treasury. The President had determined to remove the public deposits from the bank. The affair of the 3 per cents had led him to believe that the bank was in a tottering condition. This was a mistake. It was really very strong, as a new investigation made by a Treasury agent showed, having a surplus of eight millions. All that its enemies could say was that its assets were more or less unsound, but this they could not prove. But Jackson had made up his mind that the bank was full of dead men's bones, and no evidence could shake him. To draw out the deposits and to get rid of the government's shares in the bank was now his main purpose, but he encountered unexpected difficulties in both directions. The sanction of Congress was necessary to a sale of the shares and Congress refused to give it. The sanction of Congress was not legally necessary to a removal of the deposits, but most people considered it morally so. Besides, there was no other place to keep the money. The Independent Treasury did not exist. The government had neither vaults, nor custodians of its funds, nor means of transferring them from one place to another. The bank did all these things and did them well. Consequently when Jackson approached McLane in his familiar way, through a member of the Kitchen Cabinet (Kendall), with a suggestion that the deposits be removed, he met resistance, and McLane was sustained by two-thirds of the regular Cabinet. The House voted March 2, 1833, by 109 to 46 that the deposits might be safely continued in the bank. This vote only confirmed Jackson in his purpose to remove them. He now conceived that unless the deposits were removed the bank would bribe Congress to pass a new charter by a two-

**Anger of Jackson,**

**Proposes to remove the Deposits.**

thirds vote, and when this idea became fixed in his mind he began to distrust Congress as though the bribery were already done. As the bank had $35,000,000 of capital and $8,000,000 of surplus there would have been very little need of the government's deposits to constitute a fund for bribery, if bribery were intended, but he did not think of this. In his mind there were few good men left, and the circle was daily narrowing. It was a relief to him, as well as to McLane, when room was found for the latter in the State Department, and a vacancy was thus created in the Treasury. For this place he chose Duane. He never interrogated Duane beforehand as to the removal of the deposits, but he must have had the impression that he would concur in that policy, this being now his chief concern. He probably derived this impression from the fact that Duane had opposed the original charter of the bank.

**Secretary Duane.**

Duane was a conscientious, high-minded man, and he did not want the office. He hesitated about taking it but finally decided to do so as a matter of public duty. He was sworn in on the first day of June. On the evening of that day he received a call from Whitney, of the Kitchen Cabinet, who said that he came at the President's request to tell him what was contemplated about the public deposits. Whitney favored him with a paper drawn up by himself on the subject. The next evening Whitney came again, bringing Amos Kendall, whom he introduced as a gentleman in the President's confidence, who could give further information on the subject of the contemplated removal of the deposits. Duane was naturally much mortified to find himself thus reduced to a cipher in his own Department. The next day he saw the President, who began at once talking about the bank and the deposits. Duane interrupted to say that he had heard these things

**The Kitchen Cabinet.**

from Whitney, who said he had called at the President's request. The President denied that he had authorized Whitney to call on him, but the latter continued to think that he had done so, and in his book offered evidence to that effect.[1]

In this conversation Duane said that he feared he should not be able to see the matter in the same light as the President, and suggested a reference of it to Congress, or to the judiciary by a proper proceeding, to which the President replied that he had no confidence in either. He talked to Duane in a very friendly way and said that he was about taking a journey to New York and Boston, and would send him his views in writing during his absence. In a letter dated Boston, June 26, 1833, he enclosed a long and able paper, which Duane believed was written by Kendall, stating all the actual misdeeds of the bank and several imaginary ones. The duplicity and illegality of the arrangement with the Barings about the 3 per cents were especially dwelt upon, as showing a condition of financial weakness which ought not to be disregarded. The arbitrary and unjustifiable conduct of the bank in the matter of the French draft was referred to as showing that it had no claim upon public sympathy. The danger of corruption arising from the command of such large sums of public money was advanced as a reason for curtailing such formidable powers. This could be done in part by removing the public deposits, which would, in his judgment, be safer if judiciously distributed among the State banks. The letter closed with some suggestions of the requirements to be exacted of any banks that might be chosen to receive the deposits. The method of withdrawing the deposits would be merely to stop putting public money into the bank.

**Jackson to Duane.**

[1] "Narrative and correspondence concerning the removal of the deposits, and occurrences connected therewith." Only 250 copies were printed, for private distribution.

and drawing out what was deposited there, as it might be needed for ordinary disbursements. In the private letter which accompanied this argumentative discourse, the President said: "In making to you, my dear sir, this frank and explicit avowal of my opinions and feelings it is not my intention to interfere with the independent exercise of the discretion committed to you by law over the subject."

Duane replied that he had considered the bank charter unconstitutional from the beginning, that he had been opposed to a recharter all the time, and that he considered the acts of the bank in respect of the 3 per cents and the French draft highly reprehensible. At the same time he considered the public deposits a part of the contract with the bank, for which a valuable consideration had been paid, and in the absence of evidence that the bank was an unsafe depository he should consider a removal of them a violation of the spirit of the contract, which to an honorable man was the same thing as a violation of the letter of it. The law which authorized him to remove them required him to give his reasons to Congress for doing so. But he had no reasons to give. Consequently the act would be arbitrary and needless. Another reason, and perhaps a stronger one, was found in the alternative measure suggested by the President, *i.e.*, depositing the money in State banks. There was no authority in law for this. Congress had fixed the place for keeping the public moneys. It was, therefore, incumbent on the Secretary to refer to Congress the subject of another place if, for any reason, it should be determined to withdraw them; more especially since the House had just voted that the deposits were safe in the bank. If the experiment of depositing in State banks should result in loss to the government he would be liable to the severest censure and would be abso-

**Duane's Reply.**

lutely defenseless. Moreover a failure of this "precipitate, undigested, and unsanctioned scheme" would give the bank a new and perhaps irresistible claim to a recharter.

Further correspondence followed without changing the views of either. Meanwhile Amos Kendall had been sent by Duane, at the President's instance, on a mission to the State banks in the principal Atlantic cities to see what arrangements could be made with them for receiving the public deposits. On the 22d of July the Secretary wrote to the President: "But if, after receiving the information and hearing the discussions, I shall not consider it my duty, as the responsible agent of the law, to carry into effect the decision that you may make, I will, from my respect for you and for myself, promptly afford you an opportunity to select a successor whose views may accord with your own on the important subject in contemplation." Jackson had previously said he would not interfere with the Secretary's independent exercise of his judgment. Duane now said that if he could not finally agree with the President he would resign. Both failed of their promises. A meeting of the Cabinet was held on the 17th of September, at which the President asked each member for his opinion on the subject of removing the deposits. On the 18th another meeting was held, at which he read a paper containing his own views and decision on the subject, and it was forthwith published in the newspapers. As Mr. Duane still remained obdurate, the *Globe* newspaper of the 20th contained an official announcement that the public deposits would be removed from the Bank of the United States to the State banks as soon as the necessary arrangements could be made. Upon seeing this Duane immediately called upon the President, bringing with him a letter saying that he would neither remove the deposits nor resign. The President was surprised and grieved, as he

**Jackson's Decision.**

had calculated on Duane's resignation and had arranged to appoint him Minister to Russia.

It is needless to recount the reasons which led Duane to change his mind, and to require the President to dismiss him. They are wholly untenable. They arose from an exaggerated view of the independent functions assigned to the Secretary by law. Those functions were subject, of course, to the constitution, which gives the President the power to choose his Cabinet ministers, and hence to change them at his own pleasure. It follows necessarily that if Secretary A will not do what the President requires, the latter can remove him and put Mr. B in his place, and so on until he finds one to his liking, being answerable to Congress by impeachment and more remotely to the bar of public opinion and of history. This does not imply that the President can require a Secretary to transgress law, but when a difference of opinion exists between them as to what the law is, the views of the President must prevail. In that case the Secretary must either yield his opinions or retire.

**Duane's Mistake.**

Andrew Jackson, when not at close quarters with an enemy, was a man of courteous and even charming manners, most remarkable in one whose whole life had been passed in contact with savagery of one kind and another. He desired to part with Duane in friendship, but when this was impossible he dismissed him promptly. Attorney General Taney was transfered to the Treasury Department the same day. The public deposits at this time were a little more than nine millions. Taney began to deposit the incoming revenues in certain State banks selected by Kendall, and gradually to draw the government's money out of the Bank of the United States. In compliance with law Taney laid before Congress the reasons for his action. They were the same as those

**Deposits removed.**

which Jackson had urged in his correspondence with Duane. The Senate passed a joint resolution that they were insufficient, but the House rejected it.

On the 18th of December Mr. Binney presented to the House a memorial of the bank reciting the action of Taney as a violation of its charter and asking redress. The bank controversy, which had been red-hot before, now became white hot, and led to several exciting episodes. McDuffie began the debate in the House by denouncing the removal of the deposits as "an arbitrary and lawless exercise of executive power." The Senate rejected the President's nominees for government directors of the bank, who were commonly called Jackson's spies. It then rejected the nomination of Taney as Secretary of the Treasury. Jackson immediately sent his name in as associate justice of the Supreme Court, and the Senate rejected him a second time. Mr. Clay offered a resolution asking the President whether the paper purporting to have been read by him at the Cabinet meeting of September 18 was genuine or not, and if so calling for a copy of it. If this paper had been a private communication, he said, the Senate would have no right to call for it, but since it had been published in the newspapers he considered that they had a right to ask for a copy in order to be assured of its genuineness. Mr. Forsyth thought that the Senate had no concern with it one way or the other. The mere fact of its publication in a newspaper did not confer upon the Senate any additional powers in respect of it. Mr. Webster suggested that the resolution be modified, so as to leave out all words touching the genuineness of the paper, and simply calling for a copy of it. The resolution as modified was adopted by 23 to 18. The next day the President replied that the Senate had no constitutional right to interrogate him on the subject of his

**War with the Senate.**

**The President censured.**

communications to his Cabinet, whether verbal or written, and that he was constrained by a sense of self-respect to decline compliance with the request. Thus the war between the President and the Senate began with a victory for the former. The public so interpreted it. The Senate had committed an impertinence and had been snubbed.

It would have been well if Mr. Clay had stopped here, but he introduced new resolutions on the 26th, one of which recited that the President had "assumed the exercise of a power over the Treasury of the United States not granted to him by the constitution and laws and dangerous to the liberties of the people." This resolution slightly changed in words but not in meaning, was passed, March 28, 1834, by 26 to 20. On the 17th of April the President sent to the Senate a long protest against the resolution, which he desired to have entered on the journal of that body. There was a hot debate in which Clay, Webster, Calhoun, Benton, and Silas Wright took part. On the 7th of May the Senate voted by 27 to 16 that the protest was a breach of the privileges of the Senate and that it should not be entered on the journal.

**His Protest unheeded.**

Next came the struggle over Benton's "expunging resolution," the fiercest contest that had been witnessed as yet in the political annals of the nation. Benton had moved that the resolution of censure be not merely repealed, but expunged and erased from the Senate journal. To this end he pledged all his future life, and he believed that posterity would take up the fight after his death and carry it on to triumph. Expunging now became the principal issue in the press and on the stump and in all elections, the Jackson party gaining ground constantly. In 1836 the expungers gained several seats in the Senate, so that they were enabled to pass by 24 to 19 a resolution ten times as long as the one to be ex-

**Benton's Expunging Resolution.**

punged, containing several stump speeches, and ending with an order to the Secretary of the Senate to bring in the journal of the session 1833–34, draw black lines around the resolution of censure, and write across it in strong letters the words "expunged by order of the Senate this 16th day of January, in the year of our Lord, 1837." This was done, says the record, "in the presence of such Senators as remained, many having retired." There were some hisses in the gallery. Benton demanded that the "bank ruffians" be arrested and brought to the bar of the Senate. One man was seized, "a tall well-dressed man wrapped in a black overcoat." The Senate was straightway in perplexity to know what to do with him, and Benton was as much perplexed as anybody. Several motions to adjourn were put and lost. Finally a motion to discharge him was carried by 23 to 1, Benton himself voting for it. The prisoner instead of departing exclaimed: "Mr. President, am I not to be permitted to speak in my own defense?" "Take him out," shouted the chair (King of Alabama), and the Senate adjourned in something like a farce.[1]

**Passed by the Senate.**

To Mr. Webster's mind it was more like a tragedy, and a burial of the republic. Just before the vote was taken he made a solemn protest against this unconstitutional act. The constitution required each house to "keep a journal of its proceedings" and now the Senate was about to obliterate a part. If it could expunge a part it could expunge the whole. There was no getting away from that, but Benton and his followers held that the Senate had violated the constitution when it censured the President for an act which was within his own discretion, and that the expunging of the censure merely restored the *status quo ante.* Floods of ink have been shed on the subject, as they have been on the right of a State to

**Constitutionality.**

[1] Congressional Debates, 1836–37, p. 506.

secede. The question is one of those which have to be settled by time. This tribunal has settled it in Jackson's favor.

The bank controversy did not end here. It lasted through the whole of Van Buren's administration and half of Tyler's. In the year 1835 all hope of a re-charter had disappeared. The bank was in a strong position financially, having, on the first day of May, loans $38,000,000, domestic bills of exchange $24,000,000, specie $14,000,000, circulation $20,000,000, individual deposits $9,000,000. As it could not keep its branches after the national charter expired it gradually sold them. If it had gone into peaceful liquidation, like its predecessor, its shareholders would have blessed instead of cursing it, its friends would have been justified and its enemies confounded. Nicholas Biddle would have passed a serene old age and would have been considered by posterity the nation's greatest banker. If the bank had curtailed its capital to the amount that could be profitably used in its new sphere and in the changed conditions which were coming, and had paid the excess back to its shareholders while it could, it might be living to-day alongside the Bank of North America and the Girard Bank, its elders and its neighbors. Pride would not allow this giant among banks to reduce its size to correspond with its new place and belongings. Mr. Biddle, after filling so large a space in the world, could not shrink to his proper dimensions.

**Biddle's Greatest Mistake.**

On the 18th of February, 1836, the Legislature of Pennsylvania granted a charter to the United States Bank of Pennsylvania for thirty years. It was accepted. Mr. Biddle said that he considered it more favorable than the original one from Congress. An enormous bonus was paid, or promised, to the State, two millions in cash, and one hundred thousand dollars per year for twenty years, besides various

subscriptions to the stock of railroads, canals and turnpikes in the State. Benton said that every circumstance of its enactment betokened bribery of the members who passed it, and an attempt to bribe the people by distributing the bonus among them. There is too much reason to agree with him.

**The Pennsylvania Charter.**

The government was still a shareholder in the bank to the par value of $7,000,000, and there was some trouble in getting this money out, but it was paid in four annual installments at the rate of 115.58. New stock was sold in place of it, so that the capital remained at $35,000,000. Jackson's plan was now fully carried out, except that the bank was not killed. The government had got every dollar of its own money back, and the bank was on the way to kill itself more miserably than its enemies could have wished.

When the bank found itself, with its enormous capital, restricted to Philadelphia and the neighboring country, it gradually turned itself into a finance company. Hitherto it had confined itself to the banking business as strictly as banks usually do, discounting commercial paper, buying bills of exchange and dealing in coin and bullion. Now it advanced money largely on stocks. It began to do this as soon as the idea of obtaining a recharter from Congress was abandoned. Before March, 1836, it had twenty million dollars thus invested. The country was now in the fever of speculation which culminated in the panic of 1837. "During this time," says Mr. John J. Knox, "the loans on stocks continually increased. It seemed impossible for the managers to say no to any one. All projects were favorably received, and the projectors found in Mr. Biddle a sympathetic listener. . . . Bonds of Mississippi, Michigan and Illinois, of the Territory of Florida, and even of the struggling republic of Texas, received from him the impress that was to make them pass in

**Wild Speculation.**

the markets of the world. Few appear to have been sent away disappointed. He was the president of the bank from January, 1823, to March, 1839, when he resigned, leaving the bank, as he said, prosperous. In 1840 it was found that the assets of the institution consisted chiefly of all kinds of internal improvement, and bank and State stocks and bonds. There was hardly an enterprise, good, bad or indifferent, in the United States, that was not represented in the list." [1]

**Final Collapse of the Bank.**

The bank suspended in 1837 in common with nearly all the other banks; it suspended again in 1838, and a third and last time in 1841. Its liquidation was protracted through fifteen years. It paid its creditors in full, principal and interest, but the shareholders lost every penny. Biddle lost all of his own money. His town house and his country house were sold by the sheriff. Old friends cut him on the street. Societies of which he was a member considered his presence among them an intrusion. He was indicted by the grand jury for conspiracy to defraud the shareholders of the bank, but the indictment was quashed. He was not guilty of anything but bad banking. A civil action was brought against him by the bank for $1,018,000 for which no vouchers could be found. Ingersoll, who was personally familiar with all the parties, says that Biddle was no more to blame than the other directors for the final catastrophe. He died poor and broken-hearted at the age of 58.

It is perfectly clear that the bank war grew out of the attempt of Jackson's Kitchen Cabinet to use the bank for party purposes. They wanted to make the Portsmouth branch a part of the spoils of politics. If they had succeeded in this they would not have stopped short of controlling everything. It was only necessary for them to persuade the President that the bank was against his administration.

[1] History of Banking, in *Rhodes' Journal of Banking*, May, 1892.

It was easy to do this because his hearing was preternaturally acute on the subject of an enemy. Andrew Jackson, whatever else may be said of him, is the most imposing figure in our history between Washington and Lincoln. In this battle he was in the wrong, but not more so than some other great men who have escaped censure. It does not follow that the bank would be a desirable institution to-day, or that it would have lived to this day if Jackson had kept hands off. As the spoils system would have come without him, so too would the bank have been embroiled in party strife sooner or later, *nolens volens*.

**Moral.**

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## CHAPTER VIII.

### BANKING DEVELOPMENT IN MASSACHUSETTS.[1]

THE charter of the Bank of Massachusetts, granted in 1784, contained no restrictions or conditions except the right of the Legislature to examine its affairs. No mention was made of circulating notes, but another law was passed by the same Legislature to punish persons who should counterfeit them. The first restrictions imposed by law were enacted in 1792. These were: (1) That the bank should not issue notes smaller than $5; (2) That the outstanding notes and loans should not exceed double the amount of "the capital stock in gold and silver actually deposited in the bank"; (3) In case of violation of this law, the directors were made personally liable for the debts of the bank, but those who were absent or had dissented might exonerate themselves by giving notice forthwith to the Governor of the State; (4) State-

**Bank of Massachusetts.**

[1] Regulations which have become obsolete, unless of special importance, will be omitted in this sketch.

ments of the bank's affairs were to be given to the Governor and Council every six months, but no form of statement was prescribed; (5) The bank was prohibited from dealing in merchandise or in the shares of any bank.

All of these restrictions, except the first, were of permanent value and have survived to this day. The question whether a bank should be allowed to issue notes smaller than $5 or $10 is still a matter of controversy. I cannot see any objection to small notes — any more than to silver half-dollars, quarters and dimes, the metallic value of which is now so small that they may be classed with other fiduciary instruments. It is said that the suppression of small notes in this country would compel the circulation of gold from hand to hand to the extent of perhaps two hundred millions, and thus retain it in the country. But this circulation is inconvenient, else it would not need to be forced. It involves, moreover, a certain amount of waste of the metal by abrasion, and also the loss of interest on the amount of capital involved, because gold will pay debts abroad or will bring in capital of equal value. A certain amount of gold is necessary, as has been explained, to pay balances of international trade, and to serve as a touchstone of the paper circulation, but it does not follow that any considerable part of it should be passing from hand to hand, and wearing out people's pockets.

**Prohibition of Small Notes.**

The Bank of England is not allowed to issue notes smaller than five pounds sterling, although smaller ones are allowed in Scotland and Ireland. I once asked Mr. William Newmarch, one of the foremost of England's economists and practical financiers, what objection there was to one-pound notes in that country. He replied that if England should be engaged in war and be reduced to extremities, it would be a great advantage to have eighty or a hundred millions sterling of gold,

**Mr. Newmarch's Opinion.**

which the government could lay its hands on by issuing small notes to that amount. He said that he did not know any other valid reason for the prohibition of one-pound notes. As we are not much exposed to war, this consideration does not weigh with us. On the other hand, we are so accustomed to small notes, and their convenience is so generally recognized, that any attempt to suppress them would meet with active resistance. The restriction against small notes was repealed in Massachusetts as early as 1805.

In 1792 the Union Bank was incorporated. Here was introduced in behalf of the farming community a provision which reappeared in many subsequent charters. It was required that one-fifth of the entire funds of the bank should be appropriated to loans outside of Boston, "wherein the directors shall wholly and exclusively regard the agricultural interest." These loans were to be made on mortgage security. The bank was also required to lend the State of Massachusetts a sum not exceeding $100,000 at 5 per cent interest, repayable in five annual installments, and the State was to have the privilege of subscribing for one-third of the capital stock, which it did. The two last mentioned clauses were inserted in many subsequent charters and were availed of, and this example was followed by many other States. The Union Bank was allowed to have branches.

**Union Bank.**

**The State becomes a Stockholder.**

In the charter of the Union Bank some attention was given to the method of paying up the capital stock. It was required to be paid in three installments. If any subscriber should fail to pay at the times designated, he should lose his right to subscribe, and forfeit to the corporation all his previous payments. From this time, during half a century, there was a struggle in Massachusetts, and in nearly all the

States, to compel the subscribing shareholders of banks to pay up their shares. Banking was the favorite form of speculation. A bank lends its notes to borrowers and receives interest on them, but the notes are themselves debts of the bank. Thus banking presented itself to the public mind seductively as a method of living on the interest of the debts you owe. Bank charters were eagerly sought. The speculators in shares were not slow in perceiving that their profits might be increased by making the bank, or in other words, the public, advance the money for the shares, by discounting the notes of the subscribers. This was banking on wind, and it had disastrous consequences, which will be more fully considered hereafter. The policy of Massachusetts in this regard was upon the whole sound, but it was variable, showing that some people could get privileges inserted in bank charters, which others could not. In 1795 the charter of the Nantucket bank contained a provision that no stockholder should be allowed to borrow at the bank, as or after any installment should become due, until he should have paid his full proportion of such installment. This did not prevent borrowing back the same money after it had been paid in. In the following year the Merrimac Bank of Newburyport was chartered with a capital stock of not less than $70,000, nor more than $150,000. No loans were to be made to shareholders until they had paid their proportion of $70,000. If they should choose to have a capital of $150,000, they might borrow from the bank itself all except the first $70,000.

**Banking on Wind.**

There was much contrariety of legislation until 1804, when several charters contained an express provision that no money should be loaned to anybody until satisfactory evidence was presented to the Governor and Council "that the whole capital stock aforesaid is actually paid in and existing in gold, silver or other coined metals in their vaults." Even this

provision was not sufficient, for it was proved in more than one case that banks borrowed the entire amount of their capital in gold and silver coin from other banks and having exhibited it to the public officers, returned it to the rightful owners the same day. Accordingly in 1811, a clause was inserted in the charter of the State Bank, requiring the directors to take an oath that the money paid in was intended to remain there as the capital of the bank. This proviso was considerably amplified and strengthened in the charter of the New England Bank in 1813. Three commissioners were to be appointed by the Governor to count the gold and silver and take the oath of the directors that it had been paid in *bona fide* by the stockholders as the bank's capital, and for no other purpose, and that it was intended to remain there. In 1822 it was enacted in the charter of the Columbian Bank, that no shares should be sold or transferred until one year after organization, and in that of the Franklin Bank of Greenfield, that no dividends should be declared until the whole capital was paid in.

**Struggle to Compel Payment of Capital Stock.**

In the Portland Bank charter (1799) the word "specie" appears for the first time. The capital was to be paid in specie, not in the notes of other banks. There were several unincorporated banks doing business at this time, issuing notes as well as receiving deposits and making loans. In 1799 a law was passed to suppress them, both as note-issuing and as money-lending institutions.

In 1803 the Boston Bank was incorporated with a capital stock not exceeding $1,200,000 in "gold and silver," no money to be loaned until $600,000 had been paid in, and debts to or from the bank not to exceed double the amount of the capital stock actually paid in, no exception being made as to deposits. In addition to the capital stock the State was to have an in-

**Boston Bank.**

terest in the bank equal to $600,000 by depositing in it that amount of United States 6 per cent stock, which it owned, at par. The bank was not to sell the stock, but to receive all payments of interest or principal on the same, the State to receive dividends pro rata with other shareholders. It was provided that if the bank's notes should be altered by forgers the bank should be liable to innocent holders for the original amount of the notes. There was a provision that the specie of which the capital stock consisted could not be taken from any other bank in the State. One-eighth of all the loans were to be made outside of Boston to farmers. In 1807 the State elected six directors of this institution.

**The State Bank.**

In 1811 the State Bank was chartered, being the fourth in point of time and the largest in amount of capital, viz.: $3,000,000. The three others (Massachusetts, Union and Boston) were controlled by Federalists. The incorporators of the State Bank were leading members of the Republican party of that day. There was straightway an outburst of party rage, which seems very ludicrous now, but was very serious then. When the petition for the bank came before the Legislature, with the names of William Gray, Russell Sturgis, Henry Dearborn and John Brazer attached to it, the Federalists did everything in their power to defeat it, but it passed by a close vote. Immediately the newspapers were filled with scurrilous attacks upon the proposed bank and its promoters. One of them said that the passage of the bill would cost the State $200,000 by depreciation of its shares in the Union and Boston banks. Another said that the bill was unconstitutional and that it was passed by corrupt means. A third asked Mr. William Gray: "Do not the cries of the widows and orphans, who are to be deprived of their bread by the instrumentality of your bank, and the intended ruin of other banks, some-

**Politics in Bank Charters.**

times haunt your pillow?" A fourth advised all Federalists to boycott the new bank, saying: "If the spirit of their fathers has not taken its flight from among them they will not be allowed, by the murky spirit of speculation, to hold communion with friends begotten in darkness, engendered in wrath and brought forth in pollution and sin," — whatever that might mean.

The incorporators, being thus assailed, resolved to restrict the shares as much as possible to members of their own party. They appointed committees to procure subscriptions to the capital stock on this plan. Then the Federalist newspapers accused them of introducing politics into business, contrary to their professions. "It is unblushingly avowed," said the Salem *Gazette*, "that the new bank is intended as a machine to *create* Democrats and *destroy* Federalists. In this State there has been so much clamor by this very party against banks, bank directors and exclusive privileges, that consistency required them to discountenance all. It appears that in each county an electioneering committee has been appointed, who through the influence of the new bank are to act as almoners of Democratic bribes and commissioners of official corruption." Among the commissioners so appointed at Worcester were Levi Lincoln and Abraham Lincoln. The latter was classed by the Worcester *Ægis* as "an apostate Federalist."

**Federalist Attacks.**

The State Bank was faithful to its principles — indeed, too much so for its own good. It took early occasion to notify Secretary Gallatin that it was friendly to the national administration, that it would like to have a part of the public deposits, and that it would advance $500,000 to the government. This hint was immediately taken. The $500,000 was advanced, and other advances followed till so large a portion of its

**Loans to the Government.**

resources was locked up in this way that it had lost the power to accommodate its own customers. A request to the Secretary of the Treasury (not Mr. Gallatin), that a portion of these advances be repaid brought a reply in December, 1814, that payment would be made through banks south and west of Philadelphia. But these banks had suspended while those of New England were still paying specie. The offer, therefore, was to pay a specie obligation with paper at 10 to 30 per cent discount. When the answer was received the directors met and resolved that "after the exertions made by this bank and the loans to the government which they presume had not been exceeded, if equaled, in amount by all the other banks and corporations in the United States, and after having done their utmost to uphold the credit of the United States, they cannot consider the foregoing declaration of the Secretary otherwise than not merited by the exertions and sacrifices of the bank." [1]

Under the charter of the State Bank no loans or discounts were to be made until $600,000 was paid and inspected by three commissioners appointed by the Governor. An oath was also required from the directors that it was intended to remain there as part of said capital. By Section 3 neither the debts nor credits of the bank were to exceed double the capital stock paid in, exclusive of deposits, *i.e.*, deposits were not to be counted in estimating the proportion between capital and liabilities. In case of excess the directors were personally liable, but they might exonerate themselves by giving notice to the Governor and Council and to the stockholders at a general meeting which they might call for that purpose. No director of this bank could be a director of any other bank. Shareholders were liable, in proportion to their stock, for all circulating notes unpaid at the expiration of the bank's charter,

**Penalty for Non-payment of Notes.**

[1] Historical sketch of the State Bank, by Amos W. Stetson.

and also for any deficiency arising from the mismanagement of the directors. If the bank should fail to pay any of its notes on demand it should forfeit 24 per cent per annum for the delay. This was a new and valuable idea. The provisions of Section 3 were incorporated in nearly all subsequent charters by simple reference to it. The State of Massachusetts was to have the privilege of subscribing $1,500,000 to the capital stock of this bank, in addition to the other capital. It was enacted also that all banks should pay to the State a tax of one-half per cent on their dividends.

In 1805 the first general banking law was passed. It authorized banks to issue notes of the denominations of $2 and $3 to the extent of five per cent of their capital. It was provided in this law that bank statements should be made under oath. The form of these statements was prescribed in another general law passed in 1806. They were to show: (1) The amount of capital stock paid in; (2) The value of the real estate; (3) The debts due to the bank drawing interest; (4) Those not drawing interest; (5) Deposits; (6) Outstanding notes and denominations of same; (7) Specie on hand; (8) Notes of other Massachusetts banks on hand; (9) Notes of banks of other States on hand.

**First General Banking Law.**

In 1809 the banks were allowed to issue notes as small as one shilling, but the notes of banks of other States smaller than $5 were not allowed to be received on deposit, negotiated, loaned, or passed by any bank or by the Boston Exchange Office under penalty of $1,000 for each offense. This prohibition did not extend to the notes of the Bank of the United States.

The New England Bank was incorporated in 1813. Very stringent provisions were inserted in the charter as to the payment of the capital stock. No business could be transacted until $250,000 had been paid, in gold or silver, and

the same inspected and examined by three commissioners to be appointed by the Governor for that purpose, who were required to count the money and take the oath of the directors that it had been *bona fide* paid in by the stockholders for their respective shares and not for any other purpose and that it was intended to remain there as part of said capital. This bank gave the first impulse to what was afterwards known as the Suffolk Bank system, by publishing in 1813 a proposal that it would charge, for sending bank notes home for redemption, only the actual cost. This was a bid for deposits. The cost was ½ per cent, and this became the rate of discount on the notes of other Massachusetts banks than those of Boston. On the 27th of January, 1814, this bank sent $138,874 of New York bank notes to that city for redemption. The specie was put into wagons which were started towards Boston. They had proceeded fourteen miles when the Collector of the port of New York seized them and ordered them to return, on the pretext that the specie was destined for Canada, but really to discourage "runs" on the New York banks. The matter was laid before President Madison with a request that the Collector be dismissed. The Collector was not dismissed, but the money was restored.

**New England Bank.**

Massachusetts enacted general banking laws in 1828, in 1835, in 1860 and in 1880. The banking law as it existed before the national system came in force, consisted of two parts, one relating to chartered banks, and the other to free banks. The free banking law, which allowed persons to organize banks at their own pleasure, on condition of depositing with the State officers, bond security for their circulating notes, had been passed in 1851, but only seven banks were organized under it. The following were the most important provisions of law relating to banks in 1860:

No individual could hold more than one-half the stock of any bank; no person could be a director of more than one bank; no person could be a director whose stock was pledged for debt. Neither the debts nor the credits of a bank could exceed twice the capital stock paid in, except for deposits and for *debts to or from other banks.* Directors were personally liable for violation of this clause unless they dissented or were absent, in which case they must notify the Bank Commissioners of the State forthwith. No bank could pay out any notes but its own, or issue any notes, directly or indirectly, except at its own banking house, or issue any notes with the understanding that they should be kept out a certain length of time. No bank could make a loan repayable in anything except specie or its own notes. In case of bank failure the noteholders were to be paid first. Each bank was required to keep fifteen per cent of specie as a reserve against both circulation and deposits, but country banks might reckon their balances in Boston banks payable on demand as specie. The specie-reserve clause was passed in 1858. There was a provision that if any new banks were chartered with greater privileges than those here enumerated, the same privileges should extend to all other banks. The Act of 1828 provided that at elections for bank directors each stockholder should be entitled to one vote for the first share and to one vote for every two additional shares and so on, provided that no person should have more than ten votes. This was reënacted in the revision of 1835, was dropped in the revision of 1860 and revived in that of 1880.

**Massachusetts General Laws.**

In the revision of 1880, the law was changed in some particulars. Banks were forbidden to lend more than one-half of their capital on the pledge of their own stock or more than one-eighth of it to any officer of the bank, or more than thirty per cent of it to all the directors. No bank could be

organized with a capital of less than $100,000. Failed bank notes should draw interest at the rate of two per cent per month, and should constitute the first lien on the assets. The shareholders were subjected to double liability for circulating notes. Some of the earlier provisions were reënacted in language more or less changed, as for example:

"SECTION 52. A bank which lends or issues any of its notes or bills with an agreement or understanding that they shall not be put into immediate unrestricted circulation, or that they shall not be returned to the bank within a limited time, shall forfeit a sum not exceeding one-half nor less than one-fourth of the sum so issued or lent."

All bank notes were required to be registered. All Boston banks were required to make weekly reports and all others monthly reports to the Secretary of the Commonwealth. In this revision, Massachusetts definitely abandoned her old system. The issue of circulating notes, except on bond security, was forbidden. Yet that old system, worked out by the experience of three-quarters of a century, was a monument to the intelligence of the State and was one of the best that the world has ever seen.

**Old System abandoned.**

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## CHAPTER IX.

### THE SUFFOLK BANK SYSTEM.

AT the time when the Suffolk Bank was chartered (1818) there were two kinds of money in use in Boston, current and uncurrent — a disease not peculiar to any section of the country. It existed at one time and another at all the commercial centers, down to the civil war. New England was the first to get rid of it, and the Suffolk Bank was the agent in effecting the

**Uncurrent Funds.**

cure. This was the most important gain to banking science in America up to that time.

The country banks of New England were banks of issue, almost exclusively. They had hardly any deposits. They discounted commercial paper at home, and also in Boston, paying out their own circulating notes therefor. The notes of the Boston banks were at par everywhere, while those of the country banks were at a discount in Boston of one per cent and upwards, according to the distance of their place of issue, and the difficulty of returning them for redemption. Here the "Gresham law" came into operation. (See Appendix H.) The worse money drove the better out of circulation, for, although neither was legal tender, yet custom and public opinion took the place of a tender law, requiring people to accept bank notes in their daily business. The Boston notes, being worth 100 cents per dollar, were promptly returned to the issuing banks as deposits. The country notes, being worth only 99 cents, were paid out by the holders for purchases, for wages, etc., and were thus kept in circulation. So it came about that when the Suffolk Bank began its career the Boston banks, seven in number, and having more than half the banking capital of New England, had only one twenty-fifth part of the circulation.

**The Gresham Law.**

The New England Bank had reduced the cost of redeeming country bank notes to a minimum before the Suffolk entered the field. The business, which was fairly profitable for one, was not sufficient for two. Then the Suffolk managers conceived the idea of offering to redeem country bank notes at par if the issuing banks would keep a fixed deposit with it, plus a variable deposit sufficient to redeem such of their notes as should reach Boston in the course of trade. The fixed deposit, *i.e.*, the interest on it, was to reimburse the Suffolk for doing the business.

This proposition seemed to the country banks like paying for heating a poker to be thrust through their own bodies. Except a few banks which already kept a deposit at the Suffolk they declined the proposal with indignation. Then the Suffolk began to collect their notes systematically and send them home for redemption in specie. The country banks were furious, but helpless. They sought to enlist public opinion on their side by saying that the Suffolk was demanding of them an impossibility — that of redeeming their notes in two places at once. The Suffolk had demanded no such thing. It had merely offered them the alternative of redeeming their notes in Boston or at their own counters. The fight was bitter. The Suffolk maintained it at first single-handed.

**Country Banks asked to redeem in Boston.**

In 1824 it addressed a communication to the other Boston banks showing how the country banks had been enabled to monopolize the field by the inferiority of their circulation "founded on the very difficulty and uncertainty of the means of enforcing payment," showing also that a great part of the discounts made by the country banks were made in Boston in competition with the city banks, their notes being thus put in circulation at a distance from home. As the greatest trouble came from the State of Maine, on account of the distance and the bad roads, the Suffolk proposed that a fund should be contributed by all the Boston banks for the purpose of collecting and sending home the notes of that State. The proposal was agreed to, with an amendment that the same course should be adopted as to all banks out of the State of Massachusetts, and to such banks within the State as a committee of the associated banks should think proper. The Suffolk Bank was appointed the agent to carry the plan into effect.

The country banks became greatly excited by this movement. They dubbed the associated banks the "Holy Alli-

ance" and the Suffolk the "Six-tailed Bashaw." Neither epithets nor protests availed. The run on the resisting banks went on remorselessly, until they began to come in and make the deposits required. The terms offered were that each country bank should make a permanent deposit with the Suffolk of two thousand dollars and upwards, according to the amount of its capital, and such additional sum as might be necessary to redeem all of its notes that should come to Boston. From banks which complied with these conditions the Suffolk offered to receive at par the notes of any New England bank in good standing. Thus the Suffolk became, by degrees, a clearing house for the notes of all New England banks, balancing them against each other every day. When the notes were sorted and redeemed they were placed in packages and held subject to the order of the issuing bank.

**The Forcing Process.**

In 1845 the State of Massachusetts passed a law providing that no bank should pay over its counter any notes but its own, and this law remained in force until the national banking system superseded the Suffolk and all other systems. As no bank could pay out the notes of any other bank it was compelled to send those which it took on deposit to the Suffolk at once for redemption. But would it not have done so, even without the law? Each bank desires to keep its own notes in circulation. To do this it is impelled to clear the field of all other notes. Moreover, as each bank was under the necessity of keeping a balance to its credit in Boston and as the notes of the other banks were available for this purpose, it would seem as though sufficient motives existed for sending such notes home even without the law.

One good effect, however, was that it enforced the idea that everything paid over a bank's counter must be the equivalent of specie. The whole Suffolk system was bottomed on this principle, and the battle which it started was fought in

order to enforce it. A slovenly idea had pervaded the whole country that specie redemption was good in theory, but bad in practice. This conception was only slowly uprooted, first in New England, afterwards in New York, and later in Louisiana and in some other spots, but it held the ground over the larger part of the country until the civil war, as will be shown later. Mr. D. R. Whitney, in his history of the Suffolk Bank says :

**Basis of the Suffolk System.**

"It was the underlying principle of the Suffolk Bank system, that any bank issuing circulation should keep itself at all times in a condition to be able to redeem it; that it should measure the amount by its ability so to do; and that the exercise at any time of the right to demand specie of a bank for its bills was something of which the issuing bank had no right to complain."

Nevertheless, there were some complaining banks all the time; but after the system had been fairly established, these were only a small minority. The panic of 1837 caused a general suspension of specie payments. When the time came for a general resumption, the question of renewing the Suffolk system was open to debate. The banks of Massachusetts, New Hampshire, Vermont, and Connecticut voted at once to sustain it. Those of Maine and Rhode Island came in soon afterwards. The latter could not have gained more than a neighborhood circulation if they had stayed out. There was a good deal of squirming in the State of Maine, where the idea prevailed that bankers ought to be paid something for being in the backwoods, and difficult of access; *i.e.*, that they ought to be able to circulate their notes without redeeming them. The Veazie Bank of Bangor — the same which afterwards brought suit to test the constitutionality of the act of Congress taxing the notes of State banks — procured the passage of a law by the State Legislature to delay

**Popularity and Success.**

for a few days the collection of specie for bank notes, in order to annoy the Suffolk and to bring the system into disrepute.

The number of banks embraced in the Suffolk system in 1857, was 504. These were chartered by the legislatures of six States at different times during half a century. Ninety new banks were chartered in a slap-dash way between 1831 and 1833. "Many of these," says Mr. Whitney, "were established with little or no capital, the specie which the law required them to have being borrowed one day and replaced with stock notes the next."

Under such circumstances the Suffolk took upon itself the office of a Comptroller of the Currency. It did not admit a new bank to the fellowship of the system merely because it had procured a charter, perhaps by favoritism, perhaps by bribery. It first satisfied itself that the shareholders were men of good character and that the institution had been started in good faith. It took the same steps which the National Banking Law requires the Comptroller to take, and it held the power, as the Comptroller does, to refuse the privileges of the system to any bank, without assigning any reason except that it was not satisfied with the looks of the new candidate. Of course, the Suffolk could not prevent the newcomer from issuing notes, but it could withhold its passport and thus prevent it from getting any circulation, except a small local one. It should be added that it was not incumbent on the Suffolk bank to take these precautions, not even for self-protection, since it required a preëxisting deposit for the redemption of notes, and never pledged itself to advance a cent to any bank for this purpose. Whenever it made advances, it did so on the same terms and conditions as the discount of other commercial paper. The precautions which it took in admitting newcomers were taken for the

**A Comptroller of the Currency.**

credit and good name of the system and of New England banking.

The punishment which the Suffolk was able to inflict was shown by an incident related by Mr. Whitney. In 1852 the Bank of South Royalston, Vermont, refused to comply with some customary regulation and withdrew from the system. The Suffolk sent home $10,000 of its notes for redemption. Some charge was trumped up against the messenger and he was put under arrest, payment being delayed in this way. The messenger was soon released and the Suffolk then gave notice that it would receive no more notes of the South Royalston Bank. The latter would have been discredited and ruined had not the other banks of Vermont interceded and prevailed on the Suffolk to reinstate it.

There were some disastrous bank failures in New England during the Suffolk régime. The year 1837 was the most trying one to banks, and to business generally, that the country has ever known. All the Massachusetts banks suspended specie payments for one year, and, of course, the rotten ones did not resume when the sound ones did, in 1838. The rotten ones were eleven in number. Their outstanding circulation was $520,627; their assets paid $280,575 of the notes, leaving a deficiency as regards circulation of $240,052, but at this time the noteholders did not have a first lien on the assets. The total number of banks in the State then was 119 and their circulation $9,400,000.[1]

**Panic of 1837.**

The Suffolk made some losses in consequence of advances made by it to the failing concerns, but these did not prevent it from declaring dividends at the average rate of 11½ per cent per annum from 1818 to 1864, when it changed itself into a National Bank. The losses which it incurred from counterfeits and alterations in notes were surprisingly small.

[1] Reports of Massachusetts Bank Commissioners, 1838–1842.

From 1836 to 1846 the losses by counterfeit notes were only $1107, from alterations $766, and from counterfeit signatures on genuine notes $82, although the redemptions at this time exceeded $100,000,000 per year. It is an interesting fact that before the day of railroads the exchanges of bank notes between Boston and Providence were made in a canvas bag, which was carried in the boot of a stage coach without other guard than the driver, and that it was never molested, although on one occasion it was delivered by the porter of the Suffolk Bank to a thief who passed himself off as the stage driver's assistant. It was afterwards recovered.

**Small Losses.**

The Suffolk system presents the fairest example of the workings of the "banking principle" that this country affords. This is a term used in contra-distinction to the "currency principle" which assumes that a certain amount of paper notes will be wanted by the public at all times and will never be presented for redemption, which amount the government will furnish either directly, or through an agency, like the Bank of England for example. All notes wanted over and above this fixed sum must be "bought" with gold, *i.e.*, the bank must issue its £5 note for every five sovereigns offered to it, or for gold bullion of the value of five sovereigns. The banking principle was so perfectly illustrated by the Suffolk system that any other description of it would be superfluous. Any person engaged in a legitimate trade, in any part of New England, could exchange his promissory note, running sixty or ninety days, for the notes of a bank payable on demand, with which he could pay the wages of his employees or buy the materials of his industry in any part of the United States or Canada. The notes would float a certain length of time, and finally turn up at the Suffolk Bank, where they were redeemed, not necessarily

**"Banking Principle."**

**"Currency Principle."**

with gold, not generally with gold, for although any note-holder could have gold if he wanted it, gold was seldom asked for. They were redeemed with the proceeds of the bank's bills receivable. The man whose promissory note the bank had discounted, and by means of which it had put its own notes in circulation, had by this time sold his products. If he had sold them in Boston, his draft on the Boston merchant would pay his note at the local bank, and this would enable the latter to keep its balance good at the Suffolk. If he had sold them in New York or Chicago, he would get his pay in a draft on Boston which would answer the same end. If he had sold them at home and taken his pay in New England bank notes, the local bank could use these to keep its balance good at the Suffolk. New England trade was carried on by an endless chain of offsets and book balances at the Suffolk Bank. All seasons and all years were alike to it, except that its business was continually on the increase, so that while two clerks could do the work in the assorting department in 1824, seventy were necessary in the year 1855, the redemptions reaching $400,000,000 per annum. All this work was done with the minimum amount of specie.

**Specie Reserve.**

It was not until 1858 that the State of Massachusetts established a legal reserve of specie against both deposits and circulation. This was done in consequence of the panic of 1857; the reserve was fixed at 15 per cent, but country banks might count their balances in Boston banks, payable on demand, as specie. Prior to the passage of this law the specie reserve of the State had been extremely variable, ranging from 44 per cent in 1843, to 7½ per cent in 1851. There was a heated controversy over the passage of this law. The bankers were generally opposed to it on the ground that it was unnecessary meddling, but public opinion sustained it. After the passage of the law, the specie reserve rose considerably

above the legal requirement and afterwards oscillated around it, being sometimes a little more, and sometimes a little less than 15 per cent. This law, of course, did not touch the other New England States whose banks were integral parts of the Suffolk system. In 1859, Maine, Rhode Island, and Connecticut each had 10 per cent of specie as against circulation and deposits, New Hampshire 7½ per cent and Vermont only 6 per cent.

**End of the Suffolk System.**

About the year 1855 a movement was started among the country banks to establish a bank of their own in Boston to do the work that had been hitherto done by the Suffolk, in order to reap the profits of the operation. This was the Bank of Mutual Redemption. It did not get fairly started until 1858. It divided the business with the Suffolk, but the latter continued to redeem country bank notes more or less till 1866. The National Banking system had then gone into operation. By making each bank receive the notes of every other bank at par it superseded the old system, and accordingly the Suffolk became an ordinary commercial bank and remains such to this day.[1]

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## CHAPTER X.

### BANKING DEVELOPMENT IN NEW YORK.

New York has made two contributions to banking science of the first importance, viz.: (1) The Safety Fund system, or mutual insurance of circulating notes. (2) The Free Bank and Bond Deposit system for securing circulating notes.

During the first half-century banking in New York was an integral part of the spoils of politics. Federalists would

[1] Since these pages were written an admirable monograph on New England Bank Currency, by L. Carroll Root, has been issued as a tract by the Sound Currency Committee of the Reform Club, New York.

grant no charters to Republicans, or Republicans to Federalists. After a few banks had been established the ins joined hands to prevent the outs from getting charters, regardless of politics. The common-law rights of banking had not yet been circumscribed, but people who exercised these rights were subject to unlimited liability. The State was growing rapidly, and more banks were needed. Charters were applied for and refused. The applicants then began business on the common-law plan. At the instigation of the favored ones the politicians passed a law to suppress all unchartered banks. The latter put money in their purses, went to Albany and bribed the Legislature. This was done so often, and the scandal became so great that a political upheaval was the consequence. It led to the Free Bank system of 1838. Politics and patronage, and monopoly dependent upon politics and patronage, form the key to banking in the State. Hammond's "History of Political Parties in the State of New York" furnishes the best account of these intrigues.

**Banks and the "Spoils System."**

In March, 1784, Alexander Hamilton wrote to J. B. Church on the subject of a Land Bank scheme fathered by Chancellor Livingston. According to this project, the subscribers were to pay one-third of the capital in cash and give land security for the other two-thirds. Hamilton used the same arguments against it that he used against land banking in his subsequent report on the Bank of the United States. He dissuaded several city merchants, who had looked favorably on the project, from going into it, and they then turned their attention to a plan for a "money bank" and asked him to draw up the articles of association for it, which he did. This was the Bank of New York. It began business without a charter June 9, 1784, and issued a notice saying that no

**Bank of New York.**

paper would be discounted having more than 30 days to run, and that no note or bill would be discounted to pay a former one, nor would overdrafts be allowed. These rules made the bank unpopular among the class of people who were not likely to do much business with it, but it brought a goodly lot of depositors and the business was prosperous from the start. About this time the State began to issue post-revolutionary bills of credit. The bank refused to receive them except as special deposits. Accordingly the bank's customers generally kept two accounts, one for paper and one for specie, and a notice was posted that discounts in paper would be made on Tuesdays and in specie on Thursdays.

A petition for a charter was presented to the Legislature in 1789 in order to limit the liability of the shareholders, but it was not granted till 1791. At that time its capital was $318,250, and it had circulating notes outstanding $181,254. It issued both post notes and demand notes. Post notes, as the name implies, are bank notes redeemable at any time after a future fixed date. They were extensively employed in all parts of the country in the first half of the present century.

The charter fixed the capital at $900,000 and authorized the State to become a subscriber for $50,000 additional. The debts of the bank (over and above deposits) could not exceed three times the capital actually paid in, and it was not allowed to pay its debts in bills of credit of the State. It was not allowed to hold land except sufficient for the accommodation of its business, or such as might be mortgaged to it *bona fide*, and it was not allowed to trade in goods or stocks.

**Charter of 1791.**

After Hamilton became Secretary of the Treasury he continued to take a fatherly interest in the bank. It held the public deposits at New York prior to the establishment of

the Bank of the United States and for some time after. Hamilton wrote to Wm. Seton, the cashier, saying that ultimately he should have to deposit the public funds in the branch bank, but that he should not act precipitately. In January, 1791, a new bank was projected in New York, called the Million Bank. Hamilton considered it a graceless speculation. In a letter to Seton he called it "the newly engendered monster." In another letter to Seton written early in 1791 he said: "I consider the public interest as materially involved in aiding a valuable institution like yours to withstand the attacks of frantic, and, I fear, in too many instances unprincipled gamblers. Adieu. Heaven take care of good men and good views." One cannot help asking whether he was thinking of Burr when he wrote those lines. Both Hamilton and Burr were stockholders in the Bank of New York, and Talleyrand was one of its depositors. Some of Talleyrand's checks are still preserved.[1]

**Hamilton, Burr, Talleyrand.**

The Bank of New York was controlled by Federalists. The anti-Federalists knew that the Legislature would not grant a charter to them. Burr conceived the idea of procuring one by stealth. Accordingly a petition was presented for a charter for a company with a capital of $2,000,000 to supply New York City with pure water. In it was a clause authorizing the company to use any surplus of capital, over and above the amount needed for the water works, in any moneyed transactions not inconsistent with the constitution and laws of the State or of the United States. The city had recently been scourged with yellow fever, the ravages of which were attributed in part to the bad water. The charter was granted and the company applied one-half of its

**Burr and the Manhattan Company.**

[1] History of the Bank of New York, 1784–1884, by Henry W. Domett.

capital to water works and the other half to the banking business. The Council of Revision (of which John Jay was president), whose approval was necessary, did not suspect that banking powers were concealed in the charter. This was the Manhattan Company. It ceased to be a water company in 1840, but it has never ceased to be a bank.

When the Republicans came into power they refused all applications for bank charters to Federalists, and the existing banks, of which there were six in the State prior to 1804, made common cause to prevent any new ones from entering the field. In that year the Merchants' Bank of New York City, which was already in operation under the common law, applied for a charter. The Legislature not only refused it, but passed a law prohibiting all unincorporated companies from doing a banking business, and declaring all promissory notes of such companies and all obligations for the payment of money to them absolutely void. In 1805 this bank made another application for a charter. The Republican newspapers opposed it on the ground that the applicants were Federalists. The bank then bribed the Legislature and got the bill through. There was great excitement over it in the Senate. Judge Purdy and Judge Taylor came to blows in open session and Taylor knocked Purdy down. Judge Spencer in the Council of Revision protested against the bill on the ground that no more banks were needed in New York, and because the bill had been passed by corrupt means. Nevertheless a majority of the council approved it. At the next nominating convention of the Southern District resolutions were passed reproaching the Republicans in other parts of the State "for granting a charter to our political enemies."

**Merchants' Bank.**

**Legislature Bribed.**

In 1811 a company was formed to create the Bank of America with a capital of six millions. Governor Tompkins

in his annual message took ground against any more bank charters or any considerable increase of bank capital. The bank offered an extravagant bonus for a charter : $600,000 to the State, besides a loan of $1,000,000 at 5 per cent for constructing canals. On a preliminary vote in the Assembly the bank had 52 supporters against 49 opponents. Hereupon disclosures were made of attempts to bribe members to support the bill, but these disclosures, so far from preventing its passage, had the contrary effect. The bill passed by 58 to 39. In the Senate a motion was made to reject the bill. It failed by 15 to 13. Thereupon the Governor prorogued the Legislature till the 21st of May, assigning as a reason that the friends of the bank had used corrupt means to procure a charter. When the Legislature reassembled the Senate passed the bill by 17 to 13.

**Bank of America.**

In 1821 the good people of the State sought to put an end to these scandals by a clause in the constitution of that year requiring a two-thirds vote of both branches of the Legislature to pass a bank charter, but the only effect, says Hammond, was "to increase the evil by rendering necessary a more extended system of corruption."

In the session of 1824–1825 several bank charters were granted, that of the Chemical Manufacturing Co. (now the Chemical Bank) among them. After they were passed a charge was made that corrupt means had been employed and an investigation was ordered. "The evidence given before the committee," says Hammond, "afforded a most disgusting picture of the depravity of members of the Legislature and indeed I might say of the degradation of human nature itself." The politicians and the existing banks had attempted to put a hoop around the banking business and to prevent its growth. In order to accomplish this more effectually they had passed

**More Bribery.**

a new restraining law in 1818 much more severe in its terms than that of 1804. It prohibited all persons and corporations from receiving deposits or discounting notes except those expressly authorized by law to do so. The banking business, which must needs grow with the growth of the State, followed the line of least resistance. The frailest barrier was the virtue of the Legislature. "That such a heartless controversy," says Hammond, "should repeatedly have convulsed and broken up great political parties, that it should in its progress have blasted the prospects and destroyed the usefulness of so many talented and in other respects worthy citizens and finally that it should have marred the character for purity of our State legislature and fixed an indelible and enduring stain upon the reputation of the Empire State, is deeply to be deplored."

**Its Cause.**

Notwithstanding these bad auspices, bank failures were extremely rare. The first one occurred in 1819, at which time there were 33 banks in operation with an incorporated capital of $25,190,000.[1] Down to 1830 there were 43 banks and 8 failures.

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## CHAPTER XI.

### THE SAFETY FUND SYSTEM.

On the 24th of January, 1829, Joshua Forman, of Syracuse, addressed a letter to Martin Van Buren, Governor of the State, proposing a plan for the mutual insurance of bank notes — the plan now known as the Safety Fund system. Judge Forman's paper is one of the soundest and ablest discussions of a

**Joshua Forman.**

[1] New York Bank Currency, by L. Carroll Root. Tract of the Sound Currency Committee of the Reform Club, New York, 1895.

financial question that can be found in the literature of money. On one branch of the subject he was clearly wrong, but it did not affect the main purpose of his paper. He thought that banks should be compelled to invest their entire capital in public stocks, or in bonds and mortgages on long time, using only their deposits for the discount of commercial paper. In other words the entire fund which serves as a guarantee to the depositors should be put in a place where it could not be easily reached. His argument was that if invested in the way proposed it would always be safe. Such a fund would be terribly safe. The bank might easily fail, and half its customers might fail in consequence, while waiting for this very money.

Aside from this eccentricity Mr. Forman's suggestion was that each bank should be required to contribute annually to a common fund for the payment of the debts of such banks as should fail and that this contribution should continue till it should reach half a million or a million dollars, and be kept up to that sum by further contributions when needful. He told how this idea had been suggested to him. "The propriety of making the banks liable for each other," he said, "was suggested by the regulations of the Hong merchants in Canton, where a number of men, each separately, have, by a grant of the government, the exclusive right of trading with foreigners, and are all made liable for the debts of each in case of failure. The case of our banks is very similar; they enjoy in common the exclusive right of making a paper currency for the people of the State, and by the same rule should in common be answerable for that paper. This abstractly just principle, which has stood the test of experience for seventy years, and under which the bond of a Hong merchant has acquired a credit over the whole world not exceeded by that of any other security, modified and adapted to the milder

**The Hong Merchants.**

features of our Republican institutions, constitutes the basis of the system."

Governor Van Buren referred Mr. Forman's plan to Thos. W. Olcott, cashier of the Mechanics and Farmers' Bank, of Albany. "Mr. Olcott," says Hammond, "at first view of the scheme of Mr. Forman, discovered that cautious and careful banking companies never would consent to make themselves liable for the performance of contracts of the various banks scattered over this great State from Long Island to Lake Erie; and yet he was struck with the great benefits which would result to the public by the adoption of some plan which would render it the interest of each bank to sustain the credit of all other banks; and it was to his skill and sagacity aided by his experience and influence, in connection with the personal influence among the members of the Legislature of Mr. Benjamin Knower and a few other intelligent and patriotic bankers, that the New York public are indebted for the most perfect system of chartered banking which ever was invented." [1]

**Governor Van Buren's Action.**

The law provided that every bank whose charter should be granted or extended thereafter, should pay into the "Bank Fund" one-half per cent of its paid up capital each year, until the contributions should be equal to 3 per cent of its capital stock. This fund was to be applied solely to the payment of "the debts" of failed banks belonging to the system. The fund was not to be used, however, until the assets of the failed bank had been exhausted and the deficiency determined by judicial proceedings. Whenever the fund should be reduced in this way the comptroller should call on the banks for fresh contributions, at the same rate, as to time and amount, as the original ones. The same act pro-

**Safety-Fund System.**

[1] Hammond, ii, 298–299.

vided for the appointment of three commissioners to examine all the banks three times each year, or oftener if required to do so. Any three banks might call for a special examination of any bank in the system.

The experience of the State under the Safety Fund system has been collected and arranged in a systematic and thorough way by John J. Knox[1] and still more so by Mr. Root in the pamphlet already referred to. I am indebted to the latter for the following items:

**Actual Working of the System.**

In 1837 three safety fund banks, all in the City of Buffalo, were reported to be in difficulties. The Legislature passed a law authorizing the Comptroller to apply two-thirds of the Bank Fund to the immediate redemption of their notes. This was done. There was no depreciation of the notes and the Bank Fund was made good out of the assets of the failed banks. Two other banks failed soon afterwards and their notes were paid and the fund replenished in the same way. There were no more failures till 1840. During that and the two following years eleven banks failed. The fund now had about $900,000, of which $600,000 was applicable under the law of 1837 to the immediate redemption of circulating notes, the remainder being reserved for depositors. Those of the first three banks in the order of failure exhausted this sum. The Bank Commissioners, in their annual report for 1841, said that the Bank Fund was primarily designed for the protection of note-holders, not depositors or general creditors. The fact that the law put all creditors on the same level was not understood by the public or by the bankers themselves, and its expediency was called in question. In 1842 the law was amended so that after the payment of all the liabilities charged against the Fund at that time the note-holders should have the first lien on it.

**Notes Made a Prior Lien.**

[1] In *Rhodes' Journal of Banking*, April, 1892.

In the Constitution of 1846 note-holders were made preferred creditors of all failed banks. This valuable principle was first adopted by the State of Connecticut in 1831. It was made a feature of all charters granted in that and subsequent years, in these words: "In case of the failure of said bank, the holder of the notes of said bank or corporation, of the denomination of $100 and under, shall have a lien on all the assets of said bank or corporation, both real and personal, in possession, remainder and reversion, and on all debts due to said bank, and on all claims in favor of said bank, of every nature whatsoever, and on all moneys and property of every description in the custody and possession of said bank at the failure thereof; and that every conveyance, assignment or transfer of any of the property and estate hereinbefore specified, and in expectation of the insolvency of said bank or corporation, or with a view to the same, shall be void." [1]

**Reason for this.**

The reason why note-holders should be preferred creditors of failed banks is that usually it is not a matter of choice whether persons shall or shall not accept bank notes when offered in payment. This is especially true of wage-workers and the poorer and more helpless classes of the community, who are liable to lose situations, or favor, or patronage, if they object to the kind of money offered to them, and who are less able to form opinions for themselves on the soundness and standing of particular banks.

Unfortunately the charges against the Bank Fund before the act of 1842 took effect were sufficient to absorb everything it was likely to receive from the one-half per cent annual contribution. In 1845 the State issued its own stock for $900,000 to make prompt payment to the creditors of the failed banks, taking a mortgage on the fund for repay-

[1] I am indebted to Mr. L. Carroll Root for this find.

ment. It was all reimbursed out of the fund, principal and interest. Moreover, the fund redeemed a large amount of notes fraudulently overissued, a result due to the lack of any system of registration by public authority in the original act. This omission was rectified in 1843, but after the mischief had been done. The whole amount of payments into the Safety Fund was $3,104,999, and of payments out of it to note-holders and depositors $2,600,000, the remainder having been paid as interest on the State's advances.

**Fraudulent Overissues.**

If the people of New York had known at the beginning all that they knew at the end of this experiment they would have made the Safety Fund liable only for circulating notes. They would have made the average amount of the circulation of each bank, and not its capital stock, the basis of contributions to the fund. That would have necessitated some machinery for ascertaining the circulation and would probably have prevented overissues. It would also have been more consonant with justice, and would have reconciled the large city banks to the system.

**Errors of Detail.**

By reason of these errors of detail the opinion got abroad that the New York Safety Fund system was a failure. How far from the truth this is we may learn from the report of Millard Fillmore, Comptroller, in 1848, in which he said: "It is therefore apparent that the Safety Fund would have proved an ample indemnity to the bill holder had it not been applied to the payment of other debts of the banks than those due for circulation." Mr. Root proves the truth of Mr. Fillmore's statement by figures. "It is plain," he says, "as the result of calculation from experiments of 36 years (1829–1865), that, had the Safety Fund system — as perfected prior to and in the constitution of 1846 — been left untouched as that upon which New York State bank

currency was based, not merely would every dollar of circulation have been kept good, but the total assessment to keep the fund good would have averaged less than ¼ per cent on the banking capital, or about ⅜ per cent on the average circulation outstanding."

The Safety Fund system, apart from some infantile disorders, was a grand success, and although it was buried thirty years ago, at the place of its birth, is alive and in high esteem in a neighboring country. It was adopted in Canada in 1890, in order to secure the prompt redemption of the notes of failed banks, *i.e.*, to avoid a discount on the notes of such banks pending liquidation. Under the Canadian system, the circulating notes are the first lien on the assets, and it is believed that the assets will always suffice to redeem the notes, but the delay in converting them into cash, prior to the establishment of the Safety Fund, had led to a temporary discount on such notes. There is now in the Canadian "Bank Circulation Redemption Fund" $1,800,000, and it is believed to be sufficient to meet all casualties of this kind. Under the Canadian law the government is not responsible for the notes of failed banks, but such notes draw interest at six per cent. The maximum amount of the fund is five per cent of the outstanding circulation of all the Canadian banks, and it must be kept up to this maximum, the Minister of Finance having power to call on the banks for additional contributions, when necessary, not exceeding one per cent in any year. When the assets of failed banks are paid in, however, refunds may be made to the contributing banks of the excess over five per cent.

**The Safety Fund System in Canada.**

During all this time banking was still a monopoly. Bank charters were granted only to the friends and supporters of the party in power, and when they were granted the Bank Commissioners parcelled out the right to subscribe for shares

as so much spoils and party plunder. Originally two of the three Bank Commissioners were selected by the banks themselves. The law was subsequently changed so as to give the appointment of all of them to the Governor and Senate. This was done for the purpose of controlling the distribution of bank shares party-wise. Their report for 1837 says: "The distribution of bank stocks created at the last session has in very few, if any, instances been productive of anything like general satisfaction. In most instances its fruits have been violent contention and bitter personal animosities, corrupting to the public mind and destructive of the peace and harmony of society."

**More Political Spoils.**

These scandals and squabbles produced nearly universal disgust and led to a revolt in the Democratic party in 1835. A faction sprang up calling themselves the Equal Rights party. They came to be known afterwards as the Locofocos. They went, one evening, to a Tammany Hall ratification meeting in such force that they were able to outvote the regulars. The regulars turned off the gas. Evidently the Equal Rights men had received notice of the designs of their enemies, since they came to the meeting provided with candles and locofoco matches with which they lighted the hall and continued the struggle. The next day the *Courier and Enquirer* dubbed them the Locofoco party, and the name stuck, and became attached as a term of derision to Democrats generally.

**The Locofocos.**

The Locofocos did not succeed at the first election, but they adopted a platform in which they declared "hostility to any and all monopolies by legislation, because they are violations of the equal rights of the people." As they gained strength they enlarged their plans and set out to reform the earth. They condemned paper money in all its forms, and they resolved that all charters passed by preceding legis-

latures might be altered or repealed by their successors, and ought to be when necessary for the public good, or when required by the majority of the people. These doctrines were deemed much too radical, and they prevented some influential people from giving the Locofocos an unreserved support. Hammond says: "Perhaps no political party ever existed in the State which has been the subject of more severe animadversion and attack than this party. All the chartered moneyed institutions and the whole influence of associated wealth were against them. The newspaper press of both parties with the single exception, I believe, of the *Evening Post*, then conducted by those unshaken and indomitable Democrats, William Leggett and William C. Bryant, was loud in its denunciations. The *Evening Post* did not justify their organization as a distinct party, but it advocated with great zeal and ability many of their principles."

**Revolt against Bank Monopoly.**

As the Democratic party remained deaf to the demands of the Locofocos the latter nominated some distinguished Whigs as candidates for Congress and the Legislature in the city districts, in the autumn of 1836, and the Whig party ratified the nominations. The combination was successful. The experiment was repeated in the city election in the spring of 1837 and was again successful. These successes prompted the Locofocos to hold a State Convention in September, 1837, at which they passed a resolution that "The Legislature shall not charter or create any corporate or artificial body, nor confer on any individual or company either exclusive advantages or special privileges."

**Successful.**

In the election of 1837 the anti-bank men cast their votes for the Whig candidates and swept the State. Out of 128 members of the assembly they carried 101, and also 6 out of 8 senatorial districts. This victory led to the free bank-

ing law of 1838, and after it was passed the Locofocos, as a rebellious faction of the Democratic party, disappeared.[1] Thus the uppermost thought of the Legislature in 1838 was equal rights rather than banking, and its wits were exercised to devise a system which should meet a political rather than a financial exigency.

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## CHAPTER XII.

### THE FREE BANK SYSTEM.

THE first suggestion of the Free Bank system that I have met with is contained in a letter of the Rev. John McVickar, Professor of Political Economy in Columbia College, dated February 17, 1827. It is written to an unnamed correspondent, and is printed as a pamphlet.[2] In it he makes the two following suggestions:

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

"II. The amount of banking capital of such individual or association to be freely fixed, but to be invested one-tenth at the discretion of the bank, the remaining nine-tenths in government stock, whereof the bank is to receive the dividend, but the principal to remain in pledge for the redemption of its promissory notes, under such securities as to place the safety of the public beyond doubt or risk."

In 1833 there was published in London "The Principles of Political Economy," by G. Poulett Scrope, M.P., on page 424 of which occurs this paragraph:

[1] Hammond, ii, 489–503.

[2] I am indebted to Professor Seligman of Columbia College for an inspection of this pamphlet, which is a part of his own extensive collection of works on money and banking.

"The issue of paper money by banks in the country, if permitted at all, should only be allowed on the deposit of securities to its full amount in guarantee of its payment."[1]

Whether either of these suggestions was present to the mind of Mr. Abijah Mann when he brought his bank bill before the Legislature of 1838 is not known.

**Abijah Mann.**

This bill, as amended and passed, provided that any person or association of persons might receive from the Comptroller circulating notes, and after signing them might issue them as money, by first depositing with him stocks of the United States, of the State of New York, or of any other State approved by the Comptroller, made equal to a five per cent stock of the State of New York, or bonds and mortgages on improved, productive, and unincumbered real estate, worth double the amount of the mortgage, exclusive of the buildings thereon, and bearing interest at not less than six per cent per annum. The banks might deposit stocks only, or half stocks and half bonds and mortgages, and the printed notes should specify to which class they belonged. In case default should be made in the redemption of any such notes and such default should continue for ten days, the Comptroller should sell the securities and apply the proceeds to the redemption of the notes. The State was not in any way responsible for the payment of the notes beyond the proper application of the securities to that purpose. The persons or associations depositing the securities should receive the interest on them as long as they redeemed their notes on demand, unless in the opinion of the Comptroller they had depreciated so as to be no longer adequate security.

**Free Banking Law.**

[1] Mr. Theodore Gilman (in the *Banker's Magazine*, February, 1895) mentions two other English writers (Drummond and Joplin), who had made similar suggestions in 1826 and 1827 respectively.

The free banking law was extremely popular, 133 banks being started under it before December 1, 1839, of which 76 were in full operation.[1] Experience under this law was at first disastrous. There were some failures in 1840, among them the bank of Tonawanda, the sale of whose securities realized only 68 per cent of the outstanding notes. This led to a change of the law regarding State stocks, which were now restricted, as to banks subsequently established, to those of New York. The mortality of the free banks was so great, by failure or voluntary liquidation, that in 1842 only 46 remained in operation. In 1844 the Comptroller reported that 26 free banks had failed up to that date, and that their circulation has been redeemed at the average rate of 76 cents on the dollar. The banks still in operation had securities deposited of the nominal value of $3,744,829, but valued by the Comptroller at $2,745,156.

**A Bad Start.**

The practice of issuing notes at interior towns and villages by individuals residing in New York City, or even in other States, was now discovered to be prevalent. A law had been passed in 1840 requiring that all country banks should redeem their notes in New York City or Albany at a discount not exceeding one-half of one per cent. Under the free banking law a man could issue notes in New York City, but dated at some remote place in the interior, and then redeem them at a discount of one-half per cent at their real place of issue. This was more freedom in banking than had been contemplated. An act was accordingly passed in 1844 providing that nobody should transact business as a banker except at the place of his actual residence. Banks established for circulation only were the subject of reproof and admonition in a report made by a Senate Committee in 1845. A law was passed in 1848 providing that "all banking associa-

[1] Root, page 17.

tions and individual bankers shall be banks of deposit and discount as well as of circulation," but it was evaded. The Comptroller reported in 1851 that many of the free banks were banks of circulation alone, and were established for that purpose alone; that their notes were put in circulation by agents in distant cities and that the banks which issued them afforded no business facilities to the community. They had sold to the public a lot of State stocks, and bonds and mortgages, in such a way that they could draw the interest themselves while the public, *i.e.*, the note-holders, had paid for the principal; and that was the only banking there was in it. In 1854 the Superintendent of Banks said that all the bonds and mortgages that had been sold under the provisions of the free banking law had not realized over 75 per cent of their par value, and that that form of security could not be considered adequate for the prompt redemption of bank notes.

**Banks of Circulation only.**

Until 1846, when the State adopted a new constitution, the comparative results of the Safety Fund and Free Bank systems had been in favor of the former. Comptroller Flagg, in his report of that year said: "In the security of the public under each system, our experience in the failure of ten safety fund banks, and about three times that number of free banks, proves that the contribution of half of one per cent annually on the capital of the safety fund banks has thus far afforded as much protection as the deposit with the Comptroller, by the free banks, of a sum nominally equal to all the bills issued to them. It will be seen, by reference to a statement under the head of insolvent free banks, that the loss to bill-holders, on the supposition that all the securities had been stocks of this State and bonds and mortgages, would have been over 16 per cent, while the actual loss has been nearly 39 per cent."

**Results to 1846.**

The constitution of 1846, however, prohibited the granting of any special charters for banking purposes. As all the safety fund banks were of this kind this clause was a decree of slow death to the system, according as the existing charters expired. Other banking clauses in this constitution were that after January 1, 1850, stockholders should be individually responsible for an amount equal to their respective shares of stock in addition to the amount paid in (a very important step); that all circulating notes should be registered by public authority and that ample security for their redemption should be required; that in case of insolvency note-holders should be preferred creditors, and that the Legislature should have no power to pass any law sanctioning the suspension of specie payments. It was provided also that all future acts of incorporation, whether general or special, might be altered or repealed from time to time. All these provisions are distinctly traceable to the Locofoco uprising of 1836–37.

**New Constitution.**

Thirty-two free banks failed up to 1850, with a circulation of $1,468,243, which was redeemed at various rates from par down to 30 cents on the dollar, the aggregate loss being $325,487. From 1851 to 1861 there were 25 failures with a circulation of $1,648,000 and a loss of only $72,849, showing a steady gain as the result of experience. After 1861 there were no failures that resulted in loss to note-holders, except perhaps by delay in realizing on the securities. The system was now perfect so far as security was concerned.

**System Perfected.**

Mr. Root makes a comparison of the results of the Safety Fund and the Free Bank systems as to security, as to cost, and as to elasticity. As to security he finds very little room for preference between them. Each of them, when cured of its early mistakes of detail, was satisfactory in this particular. As to cost, the safety fund system might call for one-

half per cent per annum from the associated banks. The losses to the Free Bank system consisted in the sacrifice of their deposited securities, which would be sure to depreciate when any considerable number of failures occurred about the same time. The data are not sufficient to form any decided opinion as to relative cost. As to elasticity, or the power to respond quickly to the demands of business for more bank notes, the advantages were largely with the safety fund system since it was not necessary to buy securities in the market, and lodge them with the State officials and go through various formalities before meeting the demand. In the Free Bank system the principle of credit is expunged from circulating notes. These banks, after buying their notes from the State Comptroller, could not put out any more of them than the safety fund banks could of theirs, which cost nothing, nor keep them out any longer. When the notes of the free banks came back to their counters they became dead capital, earning no interest, although they had cost something more than 100 cents per dollar. Hence those banks would take out, *i.e.*, buy from the Comptroller, no more than the average amount which they could keep in circulation. This would leave them little or no margin for special occasions, whereas the safety fund banks could meet every demand as it came without expense. Accordingly there was a regular rise and fall of the circulation of the safety fund banks according to the seasons and the state of trade, while that of the free banks was comparatively rigid. The workings of the two systems are represented by charts in Mr. Root's pamphlet.

**Comparative Results.**

By the act of April 29, 1863, bonds and mortgages were wholly discarded as security for circulating notes, but they were restored in 1892 in the statutory revision. Such mortgages must now be on "improved, unincumbered real property of the State of New York worth 75 per cent more than

the amount thereon loaned." The other securities allowed to be received for circulating notes are "interest-bearing stocks or bonds of the United States, or of the State of New York, or of any county or incorporated city of this State authorized to be issued by the Legislature," the aggregate amount of notes issued to any bank or individual banker not to exceed 90 per cent of the market value and in no case 90 per cent of the par value of the securities. Of course, all these provisions for the issue of circulating notes are inoperative while the Federal 10 per cent tax on the notes of the State banks remains in force.

**Mortgage Security.**

The free banking law harmonized so well with the idea of equal rights and gave such promise of security to noteholders that it became popular and spread over the country and to Canada. It was enacted in sixteen States. It was adopted permissively in Massachusetts, Ohio, and Louisiana, but failed to take root there because the ground was already occupied by other satisfactory systems.

The State of Illinois passed her free banking law in 1851. It was submitted to a vote of the people in November of that year and ratified. It provided that any number of persons might organize a bank, but that no bank should have a less capital than $50,000. It did not require that a bank should have any directors. The bank's capital might consist wholly of bonds of States or the United States deposited with the State Auditor as security for its circulating notes. The auditor could deliver to the bank in circulating notes eighty per cent of the market value of the securities. No examination of the affairs of the banks by public officers could be had except on the affidavit of the shareholders, and then only for the purpose of ascertaining the safety of the investments. A subsequent amendment provided for an annual examina-

**Free Banks in Illinois.**

tion by bank commissioners of the securities deposited against circulating notes. The banks were allowed to pay out the notes of any specie-paying banks of the United States or of Canada, no matter how remote. These institutions, of which there were 120 at one time, were banks of circulation only. Their business was that of converting State bonds into circulating notes, getting these into the hands of the people for value, and taking measures to prevent the note-holders from calling on them for specie. There were attempts at first to do a legitimate banking business in the large towns under this law, but they were ineffectual because the notes of such banks would be returned for redemption while those of remote and inaccessible places would remain in circulation. In practice it was hardly necessary for the bank to have a place of business if its notes were secured. In some instances where attempts were made in Illinois to present notes for redemption at the bank's counter, no counter was found, but merely a hired room in some place remote from any railway station and situated on some bottomless prairie road.

The Chicago *Democrat* of September 27, 1857, thus describes the process of starting a free bank in Illinois:

"A number of men get together, mostly old broken-down politicians. They want to build a railroad. They have no money — one would think a very serious objection. Not so, however, in these times, when it can be manufactured to order by wholesale. They employ John Thompson to purchase State bonds for them and pay therefor, trusting them for his pay till the first batch of bank notes founded on them is issued. They issue their railroad bonds, hypothecate them in Wall Street and pay John Thompson for the State stocks. They are then ready with a State stock secured circulation to commence the road. The only trouble is to keep the bills afloat. But

**The Modus Operandi.**

this is managed very easily. The bank need only to locate where it will not pay for any one to run on it; for example either in Rhode Island, or Maine, or in some back county in this State. The people take the money as long as it goes, while the Chicago and other bankers, to whom exchange is at all times a prime necessity, are afraid to run upon it for fear of breaking it and thus creating a panic. The owners of the bank in this way trusting to luck or the progress of events, keep the institution going as long as they can, and when they can't do so any longer let it break, almost invariably themselves taking care to be ready to stand from under when the crash comes."

John Wentworth, the editor of this paper, was opposed to all banks and was somewhat given to exaggeration, but in this case he told the unvarnished truth.

So disastrous was the breakdown of the Illinois free banks in the panic of 1857 that in the early months of 1858 Eastern exchange was at 15 per cent premium in Chicago. The banks really had no capital except the security bonds in the hands of the State Auditor. They were not engaged in the banking business in any proper sense of the word. Nevertheless they got on their feet again in the course of the next three years, so that in 1861, when the war began, there were 112 so-called "solvent banks" in existence, meaning those that had survived the disasters of 1857 or had been established subsequently. When the political sky became overcast the banks began to quake again, because the security bonds began to decline. The depreciation of the notes was rapid. Lists of banks, with the rates at which their notes would be received in trade, were posted in all shops, railroad offices and brokers' offices, and published in the newspapers. There was a merchants' list, a bankers' list, and a railroad list, and these

**Breakdown of 1857.**

**Of 1861.**

were subject to change without notice. In August, 1861, the system collapsed. At the end of the year only seven free banks remained, with a total circulation of $147,000.

The Legislature was bewildered by the crumbling of the system on whose security such extravagant hopes had been built. An act was passed providing that no bank should have a circulation exceeding three times its capital, and that the bonds deposited to secure its circulation should not be considered as evidence of capital. The system never recovered from the shock. The circulation outstanding at the beginning of 1861 was $12,320,694. The average loss to note-holders was 40 per cent.[1]

**Collapse.**

The free banking law of Indiana, passed May 28, 1852, was very similar to that of Illinois. The differences were, that in Indiana the Auditor might issue circulating notes to the full amount (instead of eighty per cent) of the securities deposited, and that each bank must have specie in its own vaults equal to twelve and one-half per cent of its circulating notes. The free banks of Indiana were as worthless and predatory "wild cats" as ever disgraced a civilized community. Hon. Hugh McCulloch has given us their *modus operandi:*

**Indiana.**

"A single case [he says] illustrates the operation of free banking in Indiana under the first free bank act. An enterprising gentleman, whose cash capital did not exceed ten thousand dollars, in connection with two others who were utterly impecunious, bought, mostly on credit, fifty thousand dollars of the bonds of one of the Southern States. These bonds he deposited with the Treasurer, and as soon as they could be engraved he received an equal amount of notes, with which he paid for the bonds. This transaction having been completed, more bonds were bought and paid

[1] History of Chicago, by A. T. Andreas, ii, 616–624.

for in the same manner; and the operation was continued until the financial crisis of 1857 occurred; at which time this bank, which had been started with a capital of ten thousand dollars, had a circulation of six hundred thousand dollars, secured by State bonds, on which the bank had for two or three years been receiving the interest. . . . These free banks, organized as most of them were as banks of circulation only, had nothing to do but to put out their notes and draw interest on their bonds. Their life was pleasant but short; their demise ruinous and shameful. As soon as their notes began to be presented for payment they died without a struggle. . . . Upon the failure of a bank the treasurer offered to surrender the bonds, dollar for dollar, for the notes which they were pledged to secure. The money dealers were prompt in availing themselves of this offer. Never was so active and profitable a business done by the brokers of Cincinnati, Indianapolis, and other cities as was done by them in buying, assorting and exchanging with each other the notes of the suspended banks, and in receiving for them the bonds which were held by the treasurer. The brokers were enriched by the operation; the losers were the note-holders, and these, as is usually the case in bank failures, were mostly of that class which is the least able to bear losses." [1]

The free banking law of Wisconsin, passed in 1853, allowed the bank comptroller to issue circulating notes to the full amount of the bonds of States deposited with him by banks. It allowed him also to receive the first mortgage bonds of any railroad in the State twenty miles long, or divisional mortgage bonds on sections of road of not less than forty miles, such road to be first inspected as to its physical condition by the Governor, the Attorney-General and the

[1] Men and Measures of Half a Century, by Hugh McCulloch, pp. 125, 126.

bank Comptroller, or any two of them. On such securities eighty per cent of circulating notes could be issued, and one-half of the securities of any bank might consist of railroad bonds of this description. Directors or stockholders were required to give their personal bonds to the extent of one-fourth of the amount of the circulating notes, as security against depreciation of the other securities. Except in this particular the shareholders were not liable beyond the amount of their capital invested. The banks might lend money on real estate security to any extent. This law was really worse than that of Illinois or Indiana, but it was better administered. The Comptroller was more careful about the securities he took and as a consequence the banks were better fortified when the strain came.

**Wisconsin.**

Nevertheless there were some serious troubles in Wisconsin. At the outbreak of the war in 1861 there was a heavy decline in the securities deposited for circulation. The Bank of Eau Claire and the Koshkonong Bank failed. The securities of the former netted 84 cents on the dollar for the note-holders and those of the latter only 54¾ cents. The Comptroller made a call on the banks for 8 per cent of additional security. "Fifty-eight banks failed to respond and forty did not even acknowledge the receipt of the notice of the call." The sound banks in Milwaukee, in order to protect themselves, were obliged to discriminate between the good and the bad notes in circulation. Employers of labor were obliged to pay their workingmen the same money that they received, and when the latter found that the stuff was uncurrent they put the blame on the good banks, which had thrown out the bad notes. Bank riots broke out on the 24th of June. "On Monday morning a mob of several hundred people with a band of music marched down to the corner of Michigan and East Water streets, where stood the

Wisconsin Marine and Fire Insurance Company's bank on one corner, and the State Bank of Wisconsin on the other. Alexander Mitchell, after locking up all the books, currency, and valuables, attempted to address the crowd; but it only hooted and yelled. Then a volley of stones was hurled against the windows, demolishing nearly all the panes of glass in the front of the buildings. This so delighted the mob that now, under the control of the worst rioters, it made a rush for the offices; attacked the bank officials and employees; tried to break open the safes and vaults, and finally, piling up all the broken furniture in the several offices, applied the torch. . . . Threatened riots kept the city in alarm for some days after. State troops were called to Milwaukee and the disturbance conclusively showed that the issues of all banks that could not be put in shape to meet specie payments in December must be retired from circulation."[1] During the year the rate of exchange on New York ranged from 3 to 20 per cent premium.

The Free Banking system was adopted permissively in Canada in 1850. Its advocates predicted great things for it. Only six banks were organized under it, although special advantages were offered in the way of exemption from taxation. Their circulation, which reached $1,080,684 in 1856, ran down to $495,631 in 1860, and the next year three of the six practically withdrew from the field, and now only one remains. The reason for the failure of the system was that the free banks could not compete with their neighbors and rivals in business. When the system was started the Canadian government debentures paid six per cent interest and could be bought at a price which netted seven per cent to the investor. The advocates of the system said that this would furnish a splendid

**Free Banking in Canada.**

[1] History of the State Banks and Early Banking System of Wisconsin, by Clarence Bernard Hadden.

margin of profit. The banks would get 7 per cent on their deposited bonds plus whatever they could obtain from the loan of their circulating notes. This was a half-truth. The fact was overlooked that the other banks, having their capital free (not locked up in government debentures), could lend it to the trading community at higher rates generally than government securities paid, and could lend their circulating notes just as well as the free banks could lend theirs. Thus the business opportunities were in favor of the chartered banks, and this is proved by the fact that they crowded the free banks to the wall. The Canadian free banking act was repealed in 1866.[1]

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## CHAPTER XIII.

### ECCENTRICITIES OF BANKING.

THE usual method of forming a bank sixty years ago was as follows: First, get a charter from the State Legislature. This would form the basis of a speculation in shares. It was customary to subscribe for a much larger number of shares than one expected to get. One bank is mentioned with an authorized capital of $100,000, where the subscriptions amounted to eight millions. In Philadelphia the struggle at the windows of the offices where subscriptions were taken was often attended with severe personal injury. "The most disgraceful riots that occur in Philadelphia," says Gouge, "are those which are produced by the opening of the books of subscription for a new bank." If the competition had been very brisk the shares would generally command a premium

**Auld Lang Syne.**

[1] The Canadian Banking System, 1817–1890, by R. M. Breckenridge, pp. 103–117.

after the books were closed. This was the principal part of the game.

The charter usually provided that the subscriptions should be paid in installments of five or ten per cent each and that after one or two had been paid the bank might begin business. The first installment having been paid, the bank would buy office furniture and procure plates for the printing of circulating notes. It would then be ready to discount commercial paper, giving its own notes for those of merchants and manufacturers. When the next installment of the stock subscription became due the subscribers would put in their own promissory notes, the bank would discount them, paying its circulating notes out at one counter and receiving them back at another, as payment of the stock subscriptions. This process would be continued until all the "capital," so called, was accounted for. The interest due on the stock notes would be offset by the bank's dividends, with a surplus besides, provided the bank did not break. If the times should be unpropitious and a suspension of specie payments should befall, the State legislatures were lenient, the banking fraternity was powerful and public opinion was so lifeless that the banking business might go on just as well as before, or even better since there would now be no restraint upon the bank's issues.

**Fictitious Capital.**

It is impossible to say what percentage of the banking capital of the country was of this fictitious character. Mr. Raguet, writing in 1839, said: "It is, perhaps, not probable that many of the banks of the United States have been *entirely* established upon this principle, but no small number of them have been partially so." The published statistics of bank capital at this period are, therefore, not to be depended on. Mr. Gouge thinks that all other bank statistics, even as to the number of banks existing and the number

that had failed, were worthless. "We have been for seven years," he says, "collecting the accounts of the banks, but so little success has crowned the labors of Mr. Crawford, Mr. Gallatin, and Mr. Niles, that we do not think it worth while to arrange our own materials."

There was a general bank suspension except in New England and a very few Southern and Western banks in August and September, 1814. There had been a bank mania in Pennsylvania, early in the year, forty-one new banks having been chartered in spite of the Governor's veto, and organized on a capital consisting principally of stock notes.

"At the time of the suspension of our city banks," says a report to the Pennsylvania Legislature in 1820, by a committee, of which Mr. Raguet was chairman, "a public meeting of merchants and others was held who publicly sanctioned the measure under a pledge given by the banks that as soon as the war was terminated specie payments would be resumed." News of the treaty of peace came within six months, but specie resumption did not take place. "The redemption of the pledge," the report continues, "was not demanded by the public at the stipulated time, and the banks, urged on by cupidity, and losing sight of moral obligation in their lust for profit, launched out into an extent of issues unexampled in the annals of folly." Bank notes instead of rising in value after the close of the war sank lower, those of Philadelphia being depreciated 16 to 20 per cent, those of the interior of Pennsylvania 25 to 50 per cent. The New England banks and a few others continued to pay specie, but that did not prevent their notes from depreciating, "for," says Gouge, "nobody knew how long any distant bank would continue to pay specie. All the banks whose notes were at a discount at New York of less than 5 per cent were understood to pay specie on demand."

**Note Issues of Banks while Suspended.**

As long as the banks could continue to issue notes without the necessity of redeeming them they had prosperous times and made large dividends, and the longer this system lasted the less reason did they see for making any change. They were simply swapping their notes for those of private citizens, on condition that the latter should pay 6 to 10 per cent interest, together with the principal at maturity, while the former paid neither interest nor principal. This one-sided arrangement did not escape criticism, but such was the supineness of public opinion that months and years passed without any effective movement to compel resumption. Meanwhile, the United States government was receiving the notes of suspended banks in payment of duties and Congress refused to pass a law to discontinue this slovenly practice. The usual plea that bank notes had not fallen in value, but that specie had risen, was industriously promulgated and Niles says that it was seriously contemplated to legalize suspension as a permanent policy by act of Congress.

In January, 1817, the new Bank of the United States, which was itself a specie-paying institution, persuaded the local banks of Philadelphia to enter into an agreement to resume specie payments on the 21st of February, following. "The city banks," says Mr. Raguet's report, "sensible that their power over the community was so great that few individuals would have the boldness to make large demands upon them for coin, and relying upon that forbearance which had hitherto been extended to them by an injured public, who had been for two years and a half paying them 6 per cent per annum, for the use of their dishonored bills, consented to the arrangement; and specie payments were *nominally* resumed on the appointed day." That the resumption was only nominal was proved by the fact that coin, both American and foreign, continued to bear a premium in the City of Philadelphia. "Depreciation," says the report, "can

as well result from the forbearance of the public to demand their rights as from the refusal of the banks to pay their engagements." Such a state of public opinion is now hard to understand, but I can recall a time shortly before the civil war when drawing specie from a bank was considered disgraceful. Any demand on a bank for coin unless the person making it had a good reason — one which would pass muster in the neighborhood — was considered a "run," and the bank was held to be justified in paying the most inconvenient kind of coin and in taking the longest time to count it, especially if the person demanding specie intended to take it out of town.

**Public Opinion.**

In the midst of the hey-day of rickety banking and wild speculations the panic and crash of 1818 arrived, one of the most disastrous in our history. Both Gouge and Raguet think that the wild speculations were caused by the over-issues of bank notes, but they give no conclusive reasons for thinking so. The two phenomena were simultaneous, but it does not follow that the one was caused by the other. Another diagnosis of the disease existing in 1818–19 was sketched in a report made to the Pennsylvania Legislature in 1820 by a committee of which Wm. J. Duane was chairman, thus :

"In defiance of all experience and in contempt of warnings almost prophetic, which were given to them at the time, the people of Pennsylvania during an expensive war and in the midst of great embarrassments established forty-one new banks with a capital of seventeen and a half millions of dollars and authority to issue bank notes to double that amount. In consequence of this most destructive measure the inclination of a large part of the people, created by past prosperity, to live by speculation and not by labor, was greatly increased ; a spirit

**Pennsylvania in 1820.**

in all respects akin to gambling prevailed; a fictitious value was given to all descriptions of property; *specie was driven from circulation as if by common consent*, and all efforts to restore society to its natural condition were treated with undisguised contempt." In other words, the excessive issues were merely part and parcel of the general speculation.

Banking in the South, was, if possible, more lawless than in the Central States, and public opinion was even more debauched. A report made to the Legislature of North Carolina in 1828, disclosed the following facts: The Bank of Cape Fear and the Bank of Newbern were chartered in 1804. The law in each case required that their capital should be paid in gold or silver. It was not so paid. A few years later the charters were amended so as to increase their capitals about threefold. Not a dollar of this was paid except in the form of stock notes. The nominal capital of each was now $800,000. Upon this fraudulent basis they issued notes to the amount of between $3,000,000 and $4,000,000, with which they discounted paper, drawing 6 per cent interest, "so that, for the use of their notes, which, intrinsically, were of no value at all, the stockholders of these two banks have drawn from the people by way of interest something like $200,000 annually."

**North Carolina.**

The State Bank of North Carolina was incorporated in 1810 with a capital of $1,600,000, of which the State subscribed $250,000. The law required that three-fourths of the capital should be paid in gold and silver and one-fourth in old legal tender notes issued by the State before the adoption of the Federal Constitution. Only $500,000 was paid in specie, $424,000 being paid in the notes of the bank itself and the remainder in the notes of other banks. On this foundation it issued circulating notes to the amount of nearly $12 to $1 of the specie in its vaults.

In 1819, *i.e.*, five years after the war, the three banks entered into an agreement with each other not to pay specie, and their circulating notes immediately fell to 15 per cent discount. They then had the impudence to introduce a clause into the promissory notes which they discounted, requiring payment in specie; that is, they lent their own irredeemable notes to the public on condition that payment should be made in coin. The specie so received was used to buy up their own circulating notes at a discount. They made false statements to the Legislature. They bought stock in the Bank of the United States in direct violation of their charters. At the time when the investigation was made, the State bank had less than $1000 specie in its vaults.

The recommendation of the committee in view of these shocking revelations was that the Attorney-General should be directed to institute proceedings for forfeiture of charter. Even this suggestion failed. The banks threatened in a lordly way to call in their loans. The Legislature immediately became deaf and the people dumb.[1]

**Georgia.**

The State of Georgia, in granting a charter to the Bank of Darien in 1818, put in a clause providing that in every case where a demand was made on it for the redemption of its notes in specie the cashier might require the person making the demand to take an oath in writing "that such notes or bills so presented for payment are not the property of any other bank, company or incorporation." The bank enlarged this privilege by adopting a rule that every person presenting its notes for redemption must take an oath in the bank, before a justice of the peace and in the presence of five directors and the cashier, that he was the owner of the notes and was not acting as the agent of anybody else. Of course, if it was very inconvenient for the bank to pay, it would be very difficult for the other

[1] Short History of Paper Money and Banking, by W. M. Gouge.

party to bring a justice of the peace, five directors and the cashier together. One of the devices of the State Bank of North Carolina was to require every person presenting its notes for redemption to take an oath that he was not a broker.

In 1815 the government issued treasury notes bearing only a nominal rate of interest. A committee of the House reported that this was a violation of law, but nothing was done about it. The notes were not legal tender, but they formed a part of the circulating medium. All United States notes issued prior to the civil war, except these, bore interest at a sufficient rate to give them the character of exchequer bills.[1]

Among the minor abuses of banking at this time, was the practice of requiring borrowers to leave on deposit a certain proportion of the amount borrowed, in some cases forty per cent, so that the bank could lend the difference to somebody else and thus get double interest. Another was the practice of issuing post notes, payable thirty or sixty days after date, this feature being, in some cases, printed in very small letters so that an ordinary observer would not notice it. When a merchant accepted sixty-day post notes in exchange for his own sixty-day note he simply made a present to the bank of the interest for that period of time, yet the practice was extensive throughout the United States. Some of the States had laws forbidding the issue of post notes, but they were evaded by the device of lending notes on condition that they should be put in circulation at a certain distance from the bank, or should be kept out a certain length of time, or should only be used as collateral security for loans at other banks. One of the most common practices in discounting mercantile paper was to pay out the notes of distant banks that were at a discount. Mr.

**Minor Abuses.**

[1] See Knox's United States Notes, *passim*.

Raguet gives the following account of the small bank notes of the period:

"Prior to the suspension of specie payments in August, 1814, I am not aware that any notes of less denomination than five dollars were anywhere issued, although there may have been, in a few of the States. By that event specie disappeared wholly from circulation in all the States except those of New England, where the banks, coerced by efficient laws and public opinion combined, continued to fulfill their engagements, and its place was supplied by emissions of notes by banks from three dollars down to twenty-five cents, some with the sanction of law granted for the especial occasion, and some without it; and by other emissions by all sorts of corporations, public officers, private institutions and even by individuals, who generously accommodated the public with their credit for sums as small as five cents, in the hope that the notes would be worn out or lost, and that they never should be troubled with a demand for their payment. This wretched state of things continued for some time after the restoration of specie payments in February, 1817."

**Shinplasters.**

Pennsylvania prohibited her banks from issuing notes smaller than five dollars after October, 1817, in order to introduce silver money, but did not prohibit the circulation of such notes from other States. She was immediately flooded with the small notes and tickets of New York, New Jersey and Delaware, and when a bill was introduced in the State Senate by Mr. Raguet in 1820 to prohibit the circulation of these foreign issues it was rejected on the ground that the people would have no small change. So the result was that Pennsylvania simply exchanged her own small notes and tickets for another lot that she knew nothing about and could not control. This whimsical state of things lasted nine years.

Michigan had fourteen chartered banks before 1837. In that year she passed a free banking act which closely resembled the New York law of 1838. If the Michigan act had been put in successful operation that State would have been justly considered the originator of the system. As matters turned out, the only fame she gained was that of adding the useful phrase "wild-cat" to the literature of banking. The law provided that any number of freeholders not less than twelve might organize themselves as a bank and open books of subscription to the capital stock thereof, ten per cent to be paid in specie at the time of subscribing, and not less than 30 per cent before commencing business. The banks were required also to deposit security with the auditor-general of the State for their circulating notes and other liabilities. The securities might be bonds and mortgages, or the personal bonds of resident freeholders, to be approved by the treasurer and clerk of the county, and they were to be held for the debts of the banks in case the other assets should prove inadequate.

**Michigan Wild Cats.**

At one time or another the people of every section, State and hamlet in the Union have been mad with the conceit that everybody could be made rich by means of paper money. This craze was now rampant in Michigan. The law furnished ample facilities for its realization and was accordingly very popular. Only four members of the Legislature voted against it. In the following December another act was passed providing for the appointment of three commissioners to visit and inspect all the banks every three months and especially to examine their specie. This act also made a change in the system of deposited securities by providing that they should consist of bonds and mortgages only.

**Paper Money Craze.**

The commissioners started on their journey in January, 1838. They found that the State had been plentifully

sprinkled with banks and bank notes, but that one lot of specie had served as the basis for most of them, being used in each case until the formalities of the law were complied with, and then passed on to the next. In other cases no specie had been seen at any time, but incantations had been held with imaginary gold in the form of specie certificates and specie checks. Mr. Alpheus Felch, one of the four members of the Legislature who voted against the bill, says:

"The Farmer's Bank of Genesee was organized by the use of stock notes instead of specie, and in making its reports specie certificates to the amount of $35,500 were used. For the Exchange Bank of Shiawassee specie certificates to the amount of $27,000 were used. The Bank of Kensington used stock notes and specie checks. The Bank of Lapeer used a specie certificate to the amount of $15,000. This certificate was given by an individual interested in getting up the Lapeer Bank, without making any deposit or having anything to his credit, and was cancelled by the check of the pretended depositor made simultaneously with the certificate. The Wayne County Bank had specie certificates to the amount of $30,000, but was originally put in operation on checks of stock-holders which were never presented, acknowledged or paid."[1]

**Imaginary Specie.**

The commissioners learned that a watch was kept on their movements and that when they were expected to visit a certain bank the requisite amount of specie would be sent ahead one day or one night, so that it might be inspected, and then withdrawn for the use of the next bank. The specie in circulation at that time was mostly of foreign origin. After a particular lot had been inspected two or three times it could be identified by the preponderance of coins of this or that country, or by special marks on some of them. In this way the commis-

**Fraud and Perjury.**

[1] Early Banks and Banking in Michigan, by Alpheus Felch.

sioners easily discovered the deception. Yet in every case somebody was found to swear that the specie belonged to the bank, and that it was intended to be kept there for the usual and sole business of that bank. The bookkeeping was as free as any other part of the banking. Twenty-four thousand dollars of the notes of one bank were outstanding without any entry on the books at all, or any scrap of paper to represent them. The specie owned by this bank was less than $100. Several instances of this kind were found by the commissioners.

In some cases even more unblushing frauds were committed. "The Bank of Sandstone," says Mr. Felch, "never had any specie, and although its liabilities exceeded $38,000 it had no assets of any kind at the time when it was examined. . . . The Jackson County Bank placed before the commissioners a goodly number of ponderous and well filled boxes, but on opening them and examining their contents the top was found covered with silver dollars, but below was nothing but nails and glass. Another box containing silver was then brought from another room and sworn to by a director present as the property of the bank, but he afterwards brought an action against the receiver of the bank claiming it as his own individual property. This bank, with an indebtedness of some $70,000, had not more than $5,000 of available assets."

Many of these institutions were located in the depths of forests where there were few human habitations, but plenty of wild cats. Thus they came to be known as the wild-cat banks. Forty of these so-called banks went into operation under the law of 1837 with a nominal capital of $3,900,000.

**Dismal End.**

All but four of them failed before December, 1839. The failure of the free banks discredited the chartered banks also, and brought all of them down except three. The people of the State, who did not then number above 100,000, and were very poor,

were left with $1,000,000 of worthless bank notes in their hands. When an attempt was made to realize on the mortgage securities the Supreme Court pronounced the free banking act unconstitutional and void.[1]

The general bank crash of 1837 has been so fully treated by other recent writers that I shall not deal with it here.[2]

It thus appears that an active and intelligent public opinion is indispensable to keep banks, as well as other institutions, in good order; and for this there is no possible substitute. It is not sufficient that the banking laws are good. They must be promptly and inexorably enforced, but they will not be so unless public opinion demands enforcement.

That there has been vast improvement in these matters since the period embraced in this sketch, every one can see. This improvement is due mainly to the national banking law. By bringing all note-issuing banks to one focus it has enabled the public opinion of the country to concentrate itself on a single system and a single set of facts and laws, instead of being dispersed and brought to nought by trying to grasp a great number of varying facts, systems and laws. The principal advantage here is that it brings the most intelligent classes and sections to the aid of the least intelligent, or, if need be, puts them in sharp collision with each other and compels them to fight it out. New England after manifold mishaps and blunders got her banking arrangements into fairly good order, while those of many other States were

**Modern Improvements.**

[1] Mr. Felch's account of "Early Banks and Banking in Michigan" is reprinted in Senate Ex. Doc. No. 38, 52d Congress, 2d session.

[2] Especially valuable are the chapters relating to this event in Sumner's Life of Andrew Jackson, Schurz's Life of Henry Clay, Bourne's History of the Surplus Revenue of 1837, and Kinley's Independent Treasury.

little better than legalized brigandage. If we had had any system then by which the experience and the knowledge of New England had been forced to make battle against the errors and the torpor of other sections, the result must have been a general gain. We see this advantage even now in the prompt and effectual punishment of offenders against the national banking law, in contrast with the slack and uncertain enforcement of the banking laws of some of the States.

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## CHAPTER XIV.

### SOME NOTABLE BANKS.

#### A. — Owned by States.

The sad array of banks owned wholly by States has a shining exception in the Bank of the State of South Carolina. This institution grew out of the troubles of the second war with England. To meet the financial disorders of the period the Legislature decided to form a bank out of funds and securities that the State had in hand, giving it power to lend money on both real and personal security. The act constituting the bank was passed in 1812. Its capital consisted of all the odds and ends of assets that the State happened to have at the time, including United States stock, shares in two other banks and various bonds and notes due to the State. These things realized a cash capital of $102,546 in 1813, which was increased to $338,807 in 1815, after which additions to the capital were made by the State from time to time. The faith of the State was pledged to support the bank, to supply additional funds, and to make good all its losses. All State money was to be deposited in and paid out of the bank. The president and directors were to be elected annually by

**Bank of the State of South Carolina.**

the Legislature, and were declared to be a corporation. The bank might receive money on deposit from individuals, do a regular banking business, discount notes with two or more good names thereon at 6 per cent interest, lend for not more than one year on mortgage security (with power to confess judgment), such loans not to exceed one-third the value of the property, and not to be more than $2000 to one person, the interest to be 7 per cent payable in advance. Mortgage loans might be continued by the directors after they became due, on condition that one-tenth of the principal should be paid each year. Money loaned on mortgage was to be apportioned among the election districts according to the number of members of the Legislature in said districts.

The debts of the bank were not to exceed twice the capital over and above the deposits, and circulating notes might be issued without other limit than this. No other bank in the State should be allowed to issue notes smaller than $5, and no body corporate or politic was allowed to issue notes except banks regularly chartered. The city of Charleston had some circulating notes outstanding and was now required to call them in. In 1814 the Bank of the State was allowed to issue notes smaller than $1 and did issue some as small as 6¼ cents. There were some private individuals issuing notes smaller than $1. In 1816 these were prohibited also.

**Circulating Notes.**

Branches of the bank were established at Columbia, Camden and Georgetown. All public officers were required to make their disbursements by checks on the bank, and the bank managed the public debt of the State.

In 1819 the president and directors made a long and turgid report to the Legislature, arguing that since the object of banking was to dispense as much as possible with the use of the precious metals it would be wise to dispense with them altogether. "It becomes necessary to inquire," they said,

"whether in the present state of the world a metallic currency sufficient for the wants of our currency is obtainable, and whether if it be obtained it will be worth the necessary cost; whether in fact a currency equally good, perhaps better, may not be established without any of those sacrifices which our country already has been obliged to make and which it must for a long while continue to make to secure this fugitive and evanescent object." They thought that value was an ideal thing. They recommended that all money should be issued by the government, as the government only could adjust the quantity to the needs of the community. They had entire confidence in the sound discretion of the government; "that sound discretion to which we submit our lives, our liberty and in so many other modes our property itself." After reiterating these ideas at dolorous length they brought a railing accusation against the Bank of the United States for receiving the public revenues in the form of local bank notes and then presenting them for payment.

**Some Early "Populists."**

This serves to show that men may be good practical bankers while lamentably ignorant of the principles of banking. The Legislature was wiser. It took no notice of their communication.

**Large Profits.**

The cash capital of the bank at various periods and the rate of profit were as follows:

| | Cash Capital. | Rate of Profit. |
|---|---|---|
| 1816 | $444,973 | 16 per cent. |
| 1817 | 722,879 | 13 " " |
| 1818 | 1,052,766 | 12 " " |
| 1819 | 1,196,220 | 9½ " " |
| 1820 | 1,196,220 | 8⅓ " " |

The circulation outstanding in 1821 was $921,916 and the specie on hand $328,000. The average profits from 1822 to

1825 were about 9 per cent per annum. In 1825 a committee of investigation reported that the bank had bad or doubtful debts amounting to $100,000 and that the greater portion of these were loans to directors or their personal friends.

The question of admitting private shareholders to the bank was often agitated and two acts for that purpose were passed by the Legislature at different times and both were repealed before any action was taken under them. In 1838 the State issued $2,000,000 of bonds for the rebuilding of Charleston after a great fire and the bank loaned the money on mortgage in the burnt district. In 1840 a law was passed providing that all banks that should suspend specie payments should pay 5 per cent per annum on their circulation *to the State*, in addition to all other penalties for suspension. In 1843 the House passed a resolution "that the system of borrowing money upon the public faith for the purpose of lending out the same to individuals is unsound in principle and dangerous in practice." This was in the way of repentance for the Charleston loan.

**Various Items.**

In the same year the bank acknowledged that it had lost $473,000 in bad loans although it had earned average profits of 7 per cent after charging them off. This report startled the Legislature and a movement was made to put the bank in liquidation, and this would have been done but for the engagements that the bank had entered into with foreign holders of the Charleston fire-loan bonds. An agent was sent abroad to consult them, and when they said that they had always considered the bank an essential element in the bargain the movement was dropped. Complaints were frequent that the mortgage loans were an embarrassment to the bank, but while they were "slow" the percentage of loss on them was not large.

**Bad Debts.**

A report in 1846 said that the bank could maintain a larger circulation in proportion to its capital than ordinary banks, because the State was responsible for the notes. In 1847 the circulation was $1,460,000. In times of financial disturbance the notes were hoarded, not only in South Carolina, but in the neighboring States also. The notes of this bank bear a close resemblance to bills of credit, which the States are expressly prohibited by the constitution from emitting. They were issued by the authority of the State, by officers chosen by the State, and were intended to circulate as money. The State was responsible for them and received the entire profit from their emission. Yet in an analogous case, *Briscoe vs. the Bank of the Commonwealth of Kentucky*,[1] the Supreme Court held that inasmuch as they were issued by a corporation which had goods and chattels set apart for their redemption, and which could be sued for breach of contract, they were not bills of credit within the meaning of the constitution.

**State Bank Notes not "Bills of Credit."**

There is certainly a distinction between such bills and those which depend upon nothing but the good faith of the issuing government. Lawyers at the present day generally sustain the opinion of the court, although Judge Story dissented.[2] It follows *a fortiori* that ordinary notes of State banks are not bills of credit within the meaning of the constitution. Another reason for this belief is that such notes were in existence when the constitution was formed and were not prohibited. A third and decisive reason is that the issuing of such notes did not depend on State authorization at all. It was a common-law right until restrained by statute.

In 1848 an official report on the affairs of the bank said that it had received and paid out for the State $28,000,000

[1] 11 Peters, 257.

[2] Morse on the Law of Banks and Banking, 3d ed., 665.

without losing a cent, that it had never suspended specie payments and that it had preserved the State's credit in every emergency.

The foregoing facts are culled from a documentary history of the bank published by the legislature in 1848. A few facts relating to its subsequent career are given by Mr. Knox.[1]

In 1852 the charter of the bank was extended to 1871. It passed safely through the war and maintained its high character during that trying period. It preserved its capital intact, paid all its obligations to the State, to private depositors and to noteholders. In 1870, one year before the expiration of its charter, the legislature put it in liquidation. Its history is exceptional in the fact that for nearly sixty consecutive years it was conducted with prudence, honesty and pecuniary profit without the spur of private interest. It must have been in the charge of good bankers all the time.

**Final Liquidation.**

Equally good fortune attended the steps of the State Bank of Indiana and for the same reason. Its success was due to the fact that it was always in the hands of good bankers. This institution was in some respects *sui generis*, and hence calls for careful study. It was established by the State in 1834, with a capital of $1,600,000. One-half was owned by the State and the other half by private individuals, but the State advanced 62½ per cent of the private subscriptions as a loan at 6 per cent interest, taking mortgage security and a lien on the shares for the repayment. Thus the State supplied $1,300,000 at the beginning and private persons $300,000. The State procured the money by a loan negotiated in London. The securities issued for it were called "bank bonds," drawing interest at 5 per cent. They were to run for a term a little

**State Bank of Indiana.**

[1] In *Rhodes' Journal of Banking*, October, 1892.

longer than the charter of the bank and were specially secured by the State's shares in the bank and her lien on those of the private shareholders. A special board known as "commissioners of the sinking fund" had charge of all matters connected with the State's dividends, all interest payments due to the State for advances to private shareholders, and the interest payments to the holders of the bank bonds. Thus the bank bonds bore a premium during the whole term of their existence, although the general credit of the State was at one time seriously impaired.

The charter was to continue twenty-five years, and no other banking corporation was to be created or permitted in the State during that time. The bank was to consist of one parent institution at Indianapolis and ten branches. Each branch had a capital of $160,000. The parent institution had no capital under its immediate control and performed none of the details of the business. It consisted of a president and board of directors who supervised, examined, and controlled the whole. The president and four directors were chosen by the Legislature to hold office five years, and one director was chosen by the private shareholders of each branch. The branches were managed by the private shareholders, subject to the central board at Indianapolis. The number of branches was afterwards increased to thirteen by additional capital, of which the State contributed one-half. All the capital was required to be paid in specie, and was actually paid in Spanish and Mexican dollars. The earnings of each branch belonged to its own shareholders exclusively, but the dividends were declared only by the parent bank. Interest on loans unpaid, whether due or not due, could not be included in dividends. Each branch was liable for the debts of every other branch, and in case of insolvency must pay them within one year; and the State had a first lien on the assets

**Its Peculiar Constitution.**

of any failed branch for the reimbursement of its stock. They were independent of each other as to assets, but were united as to liabilities. This was the keystone of the arch. It had the effect of inducing vigilance on the part of all the members in watching each other, and increasing public confidence in the stability of the whole. After the crisis of 1837 (in which it suspended), it gradually acquired extraordinary credit, and was as little questioned in Indiana and the neighboring States as the Bank of England is in Great Britain to-day.

**Circulating Notes.**

The only limit to its issue of circulating notes was embraced in a provision that the debts due to or from any branch (except deposits) should not be more than double the capital of that branch. Theoretically, therefore, each branch might have notes outstanding to double the amount of its capital minus any debts it owed to other banks. Its maximum circulation was $3,860,000 in 1852. The note issues were regulated by the parent bank at Indianapolis, and were dealt out from that place exclusively. They were usually taken from the parent bank by the presidents or directors of the branches traveling on horseback. Mr. McCulloch (afterwards Secretary of the Treasury), was president of the Fort Wayne branch. He says: "Fort Wayne was three good days' ride from Indianapolis, mostly through the woods. For fifteen years I made this journey on horseback and alone with thousands of dollars in my saddle bags, without the slightest fear of being robbed. I was well known upon the road and it was well known that I had money with me and a good deal of it, and yet I rode unharmed through the woods and stopped for the night at the taverns and cabins on the way in perfect safety."

**Carried on Horseback.**

The bank was not forbidden to lend on mortgage security, and in the first few years of its existence it did lend in that

way to a large extent. Experience, however, taught the managers that such loans, although usually safe, were sluggish and not suited to a commercial bank. Mortgage loans were accordingly discarded, but loans to farmers were continued on a large scale. They were made on personal security and were taken up by bills of exchange drawn against shipments of produce. No branch could lend money on the security of its own stock. No officer or director could borrow on terms different from the public, nor could they endorse for each other nor could they vote on questions where they were interested. On all applications for loans above $500, a majority vote of five-sevenths of the board was necessary, and this must be entered on the minutes with the names of the directors so voting. Directors were individually liable for losses resulting from infraction of the law, unless they had voted against the same and caused their votes to be entered on the minutes, and had notified the Governor of the State of such infraction forthwith, and had published their dissent in the nearest newspaper. Any absent director should be deemed to have concurred in the action of the board, unless he should make his dissent known in like manner within six months. Mr. McCulloch says that "the stockholders of each branch were liable for the debts of the branch to an amount equal to the par value of their shares."[1] This is a matter of importance, and the statement is not quite accurate. The charter provided that the insolvency of any branch should be deemed fraudulent unless the contrary were proved, and that in any case of insolvency adjudged to be fraudulent the directors should be liable for the debts without limit, and that after their estates were exhausted the other stockholders should be liable for an amount equal to their shares in

**Regulations as to Loans.**

**Double Liability.**

[1] Men and Measures, p. 118.

addition to the amount that had been paid, or ought to have been paid thereon. This idea was evidently borrowed from the charter of the State Bank of Boston, Mass.[1] The first introduction on this continent of the "double liability clause" as to all debts of a bank, so far as I have been able to discover, was in that of the Gore Bank of Hamilton, Canada, in 1835. It had been strongly recommended by the Lords of Trade in 1833 as a feature of the bank charters of Upper Canada, but did not meet with favor at first.[2]

**Practical Management.**

The administration of the bank was as scientific as any part of it. The main thing in banking operations is to have good paper maturing within short periods. In order to check any tendency to bad or risky loans, examinations are necessary, and here the State Bank of Indiana was well served from first to last. "As no notice was ever given of the time when these examinations were to be looked for," says Mr. McCulloch, "no special preparations could be made for them by the officers of the branches, and they were always of the most searching and thorough character. So searching and thorough were they that fraud or mismanagement could hardly have escaped detection. I can bear testimony to the intelligence, the industry and honesty which were displayed in the examinations by Samuel Merrill, the first president, and his successor James Morrison. The thoroughness of these examinations did much, I am sure, to keep the business of the branches in a safe and healthy condition."

**Enormous Profits.**

Such were the leading features of this renowned bank. It continued until the expiration of its charter to be a great and beneficent financial institution, highly profitable to its shareholders and advantageous to the community. The State realized from it, in the 25 years of its existence, a net profit of $3,500,000,

[1] Pages 320-321. [2] Breckenridge, pp. 55, 56.

over and above the interest paid on the bank bonds. This money became a part of the State School Fund. Speaking of the State's loan to the stockholders of the Fort Wayne branch, Mr. McCulloch says: "The profits so much exceeded 6 per cent that the loan was paid, if I recollect rightly, seven years before the expiration of the charter (during which period the largest profits were made), and the borrowing stockholder received for that period the dividends on the full amount of his shares. Nor was this all. At the winding up of the business of the branch he received not only the par value of the stock, but an equal amount from the accumulated surplus." Another account says the profits were between 12 and 14 per cent per annum besides doubling the original capital. Mr. McCulloch says that although its capital was little more than two millions its loans sometimes amounted in a single year to ten or fifteen millions.

Early in the fifties the State was connected by railway with the East and began to grow rapidly. There was a demand for more banks. The monopoly feature of the State Bank's charter became insupportable. In a new constitution adopted in 1851 a clause was inserted authorizing the Legislature to pass a general banking law, and another prohibiting the State from becoming a shareholder in any bank. The convention which framed the constitution refused to authorize the extension of the charter of the State Bank, but did not prohibit it. The first Legislature which assembled after the ratification of the constitution passed the free banking act previously mentioned. The monopoly of the State Bank still had seven years to run, but the directors deemed it unwise to take any legal steps to enforce their rights. It turned out that the new banks, although disastrous to the people, were not in the least harmful to the State Bank, whose profits during these seven years were the largest in its history.

**State Constitution of 1851.**

The bank was put in liquidation in 1859, when its charter expired. Although the directors had had no expectation of continuing the business and had taken no steps to that end, certain politicians of a speculative turn had conceived the idea of getting a similar charter from the Legislature in order to sell it. They succeeded in doing so. The charter of the "Bank of the State of Indiana" with twenty branches and an authorized capital of $6,000,000 was passed by the Legislature in 1855, was vetoed by the Governor, but was passed over his veto. It was almost an exact copy of the old charter except that the State was not a shareholder. It did not require the deposit of securities for circulating notes. The owners of the charter then opened negotiations with the proprietors of the expiring bank for the sale of it. The negotiation was successful and Mr. McCulloch became the president of the new bank. It began operations on the first of January, 1857, with a capital of $2,000,000, which was soon increased to $3,000,000. In the panic, which came in the autumn of that year "all the Eastern banks," says Mr. McCulloch, "except the Chemical Bank of New York, which weathered the storm twenty years before, and all the Western banks except the Kentucky banks and the Bank of the State of Indiana, suspended specie payments." The latter redeemed its notes in gold throughout. Its customers did not ask or expect gold for ordinary deposits. It was a part of the common law of banking in the West at that time that persons who deposited bank notes should draw bank notes, and this custom was universally observed. Under the circumstances the notes of the Bank of the State of Indiana during the panic commanded a premium of five per cent over the notes of the State Bank of Ohio, a really solvent institution, temporarily crippled by the failure of its New York agent, the Ohio Life and Trust Co.

**New Bank of the State of Indiana.**

**Panic of 1857.**

The career of the Bank of the State of Indiana was prosperous until the ten per cent tax on State bank notes was imposed by Congress. As its constitution could not be adapted to the national banking system it went into voluntary liquidation. Its disappearance was a loss to the state and to the nation. It lived long enough to prove that the monopoly feature was not essential to a bank possessing the character and credit which it enjoyed. Considered as one institution, substantially, from 1834 to 1866, it was a monumental bank, of which the nation may well be proud, and fit to be compared with the most illustrious that the world has ever seen.

**The "Tout Ensemble."**

### B. — Owned by Citizens.

The State Bank of Ohio had a different origin and was of later birth. It was made a part of a banking law of wide scope passed in 1845. It seems to have been modeled after the Indiana law, with a few differences. The State of Ohio had no pecuniary interest in it. There were a number of banks existing in the State when the law of 1845 was passed, and the law authorized the formation of others, but restricted the aggregate amount of capital to a fixed sum and appointed commissioners to parcel it out, as though banking were a necessary evil, like dynamite. The law provided that any number of banks, not less than seven then existing, or to be organized thereafter, might become branches of the State Bank of Ohio. The latter, like the State Bank of Indiana, was a mere Board of Control, and was so denominated in the law.

**State Bank of Ohio.**

The central and governing idea of this law was the security of the note-holders. Note issuing was proportioned to capital in the following manner: any branch might issue $200,000 of notes for the first $100,000 of capital; $150,000 of notes for the second $100,000 of capital; $125,000 of

notes for the third $100,000 of capital; $100,000 of notes for the fourth $100,000 of capital, and $75,000 of notes for each additional $100,000 of capital. Each branch was required to deposit with the Board of Control ten per cent of the amount of its circulating notes, either in specie or in bonds of the State of Ohio or of the United States, as a safety fund for the protection of the holders of notes of any or all the branches. The Board of Control might invest any money belonging to the safety fund in the bonds of Ohio or of the United States, or in mortgage on real estate in the county where the branch was situated, worth double the amount of the loan exclusive of buildings or other destructible property. Each branch was liable for the circulating notes, but not for the general debts for the other branches. In case of the failure of any branch to redeem its notes, the Board of Control was to make an assessment *pro rata* on the other branches, and reimburse them as soon as the assets in the safety fund could be disposed of; and then the safety fund was to be reimbursed out of the assets of the failed branch before any other creditors were paid. The State Bank of Ohio had thirty-six branches and was highly successful. It was justly regarded as one of the soundest institutions in the country.

**A Notable Success.**

One of the notable banks existing before 1850 was the Wisconsin Marine and Fire Insurance Company, which was started by George Smith, a native of Scotland, at Milwaukee, in the year 1839. It had a great influence in the Northwest and laid the foundation of one of the largest private fortunes in the world. Mr. Smith was born in the rural hamlet of Old Deer, Aberdeenshire, in 1809. He came to America seeking his fortune in 1834. That year found him at Chicago, then a place of very unpromising appearance, but which he

**George Smith.**

judged to be the site of a future great emporium. Here he invested what money he had in real estate, and as the era of land speculation which culminated in the panic of 1837 was then in its height he was enabled to realize large gains in a very short time. He pocketed his profits and returned to Scotland. The panic of 1837 threw back on his hands so much of his Chicago property that he came out again to look after it, bringing with him two friends named Strachan and Scott, who were associated with him in both real estate and banking many years. In 1838 Smith took a copy of the charter of the Chicago Marine and Fire Insurance Co. to Wisconsin and got the Territorial Legislature to reënact it. The bill became a law February 28, 1839. The company was organized and directors were chosen a few months later. Among them was Alexander Mitchell, another young Scotchman, who had had some experience in the banking business, and whom Smith had induced to come to America. The first stock subscription was for 4052 shares, on which $2 per share was paid in order to effect the organization. It appears, however, that $225,000 was brought together soon afterward, one-half of which was contributed by persons residing in Scotland and the other half by Smith, Strachan, Scott, and Mitchell.

**Wisconsin Marine and Fire Insurance Co.**

**Alex. Mitchell.**

The charter contained no banking powers, but on the contrary a definite prohibition of them. It was intended by the Legislature to be a charter for fire, marine, and life insurance merely. It provided, however, that "this company may likewise receive money on deposit and loan the same on bottomry, *respondentia*, or other satisfactory security — may employ such capital as may belong to, or accrue to said company, in the purchase of public or other stock, or in any other

**The Company's Odd Charter.**

moneyed transactions, or operations for the sole benefit of said company; *provided* nothing herein contained shall give said company banking privileges." Another clause provided that if the company should receive on deposit any bank notes, and lend them, it should endorse them by the signature of its president and redeem them in specie in case the issuing bank should fail.

**Circulating Certificates of Deposit.**

Although some of the functions of banking were embraced in the charter, the express prohibition of banking privileges meant that the company should not issue circulating notes. Nevertheless, the company began almost immediately to issue certificates of deposit in the similitude of bank notes in this form:

(Cut of harvester.)

(10) Capital, $500,000. Incorporated 1839.
No. (Cut of Ceres.) 36420.

WISCONSIN MARINE AND FIRE INSURANCE CO.

This is to certify that J. C. BATES has deposited with this Institution Ten Dollars which will be paid on demand to bearer. Milwaukee, *June 3rd, 1850.*

ALEX. MITCHELL, Secy. GEO. SMITH, Pres. (10).

The certificates of deposit met a popular want. They were issued in denominations of $1, $3, $5, and $10. They were to be found in the people's pockets all over Wisconsin, Illinois, Iowa, Missouri, and Michigan, and were known everywhere as "George Smith's money." They eventually reached a circulation of $1,470,235. All this was before the day of railroads in the West.

Mr. Smith understood his business perfectly and omitted nothing to keep his institution in good credit. He not only redeemed the certificates at par in specie at the parent office in Milwaukee, but he established agencies at Chicago,

Detroit, Buffalo, Galena, and St. Louis, where he redeemed them in New York exchange, at the current rate.

The Legislature could not avoid taking notice of this exercise of "banking privileges" in the face of an express prohibition. At the Session of 1843 a committee was appointed to investigate the company. A report was made in the following year. The finances of the company were found to be in a sound condition, but it had issued upwards of $52,000 of certificates of deposit in the form and likeness of bank notes in violation of a clause of its charter. Consequently the committee recommended that the charter be repealed.

**Efforts to suppress Smith.**

A few days later, Alexander Mitchell, the Secretary of the company, presented to the Legislative Assembly a communication denying the power of the Legislature to repeal the charter and contending that the company had been guilty of no violation of law. The question of violation of charter, he said, could only be determined by the courts. The communication was referred to a committee which presented a majority and a minority report. The majority sided with Mr. Mitchell and held that a court of law was the proper place to determine the question whether the charter had been violated, but it did not recommend the beginning of a suit to test the matter. The minority recommended a joint resolution ordering that such a suit be instituted at once. There was an exciting debate on the resolution, which was finally defeated by a majority of two.[1]

In the year 1846 the Legislature repealed the charter by a decisive vote in both branches, but failed to pass a resolution instructing the Attorney-General to institute proceedings for forfeiture. The only notice that the company took of the repealing act was to issue a circular, saying: "The recent action of the Legislature of the Territory in reference to

[1] History of Wisconsin Territory, by Moses M. Strong.

this institution will not in any way affect its rights or interrupt its business. This notice is deemed proper for the information and protection of the holders of its paper, which will be redeemed by its correspondents in New York, Buffalo, Detroit, Chicago, Galena, and St. Louis, as heretofore." The circulation of the company had now increased to $180,372, and went on increasing with great rapidity till it reached the maximum sum already mentioned.

**Not Successful.**

There were repeated runs on Smith's bank for specie with the avowed intention of breaking it, but they were always met with abundant bags of coin. The most notable run was in 1849. On Thanksgiving day Mr. Smith's office in Chicago was closed as usual. Arrangements had been made by rivals in Chicago and Detroit to send a large lot of notes to Milwaukee for redemption simultaneously, and in order to secure coöperation by others, word was sent out without any explanation: "George Smith's bank in Chicago closed its doors to-day." This caused a real alarm. There was no telegraph in those days and no means of correcting false rumors. It was a foul blow. When the news reached Milwaukee the run began. It lasted two days and the redemption of the notes was continued until after dark each night. One hundred thousand dollars in specie was sent to the bank from Chicago, but before it arrived the frightened depositors at Milwaukee had begun to return to it the gold and silver that they had drawn out. In fact the bank never suspended specie payments while Smith or Mitchell controlled it. "During this fruitful period (1850 to 1860) of immigration, settlement, rapid growth and marvelous development of the resources of this great commonwealth, the Wisconsin Marine and Fire Insurance Company was able, in spite of a dubious charter

**Runs on the Bank.**

**Successfully Met.**

and hostile legislation, to supply all the channels of money circulation in the Northwest and in the valley of the Mississippi, with a constantly increasing stream of currency, the integrity of which remained to the last absolutely unquestioned."[1] The notes of this institution are among my earliest recollections.

**Advantages of "George Smith's Money."**

Let us trace the course of any given sum of George Smith's money, say $10,000. He discounts the promissory note of a wheat buyer, Mr. A. by writing $10,000 (minus the interest), opposite A's name in the bank's ledger, and making a corresponding entry in A's passbook. That becomes A's deposit and the bank's liability. The act of writing is *ipso facto* the issuance of the bank's credit. It is immaterial to the nature of the transaction whether A. exercises his right by handing his checks to various people or by drawing the whole amount in circulating notes, but in fact he will draw notes, because the people from whom he buys wheat cannot use bank checks. He disburses them among farmers, who pay them out to country store-keepers, to farm laborers, teamsters, school teachers, clergymen, doctors, etc. By and by they reach the hands of the city merchant who needs to make remittances to New York and Boston. He takes the notes to Smith and gets drafts on those cities at the current rate of exchange. It is no advantage for him to draw gold for the notes, because he cannot send it to New York and Boston as cheaply as he can buy Smith's drafts.

Who gets the profit? First, Smith gets it, but he does not get all of it. The farmers would have received gold for their wheat if they had not taken Smith's notes; but they would have been obliged to wait till the wheat could be sent to the Eastern market and the proceeds returned, or if they

[1] Hadden.

did not wait, somebody must, and this somebody must needs be reimbursed out of the crop for waiting.

Again, if the proceeds of the crop came back in gold, it could not come back in the form of ploughs, axes, nails and other goods, this being the preferable form. Thus while Smith's profits were large, indeed disproportionately so, he did not alone reap the advantages of a paper medium of exchange, which was sound in fact although unsound in principle. It was sound in fact because Smith was a genius in his profession. It was unsound in principle because it was not accompanied by safeguards to protect the public against knaves and fools, of whom the Northwest afterwards had a large experience.

George Smith's money was an elastic currency. There was no limit to his issues, except his ability to redeem them. Within this limit he discounted all the paper that he considered good. He gave his own paper payable on demand for that of merchants payable at a fixed time. His own paper passed from hand to hand and might stay out a whole year. In the fall, when the crops began to move, there was no lack of money for legitimate trade, because it was as easy to put out these certificates at one time as at another. In the winter, when lake navigation was closed the certificates answered all the purposes of a local circulating medium. In the spring, when the steamboats began to move, bringing new settlers and cargoes of goods, the certificates came back to headquarters mainly for the purchase of New York drafts, after which they took their usual round again.

**The "Raison d'être."**

Mr. Smith retired to his native land in 1860 with ten million dollars, and powers of acquisition unimpaired. From rumors that have reached me from time to time I judge that when his estate comes before the court of probate his neighbors will be astounded at its magnitude. He is still living

in a frugal way at the Reform Club in London, where I met him a few years ago. His club name is "Chicago Smith."

In 1842 the State of Louisiana passed a banking law which was, in nearly all respects, a model for other States and countries.

The principal features were the requirements (1) of a specie reserve equal to one-third of all its liabilities to the public; (2) the other two-thirds of its liabilities to be represented by commercial paper having not more than ninety days to run; (3) all commercial paper to be paid at maturity; and if not paid, or if an extension were asked for, the account of the party to be closed and his name to be sent to the other bank as a delinquent; (4) all banks to be examined by a board of State officers quarterly or oftener; (5) bank directors to be individually liable for all loans or investments made in violation of the law, unless they could show that they had voted against the same if present; (6) no bank to have less than fifty shareholders, having at least thirty shares each; (7) any director going out of the State for more than thirty days, or absenting himself from five successive meetings of the board, to be deemed to have resigned, and his vacancy to be filled at once; (8) no bank to pay out any notes but its own; (9) all banks to pay their balances to each other in specie every Saturday, under penalty of being immediately put in liquidation.

**Louisiana Bank Act of 1842.**

This law allowed some loans to be made on mortgage security, but it restricted such loans to the bank's capital. No part of the deposits could be lent except on commercial paper maturing within ninety days. The Louisiana Bank Act of 1842 was eminently scientific. It was the first law passed by any State requiring a definite amount of specie to be kept as a reserve. The Louisiana law required no pledged security for the circulating notes of banks, nor did it put any limit on

**A Scientific Plan.**

the amount of their issues. All this was covered, and amply covered, by requiring thirty-three per cent of specie against all liabilities, whether deposits or notes, the balance of the assets to be in mercantile paper having not more than ninety days to run.

Under this law, Louisiana became in 1860 the fourth State in the Union in point of banking capital and the second in point of specie holdings. I think, however, that the requirement of a thirty-three per cent reserve of coin (or, as we say now, of "lawful money") was excessive, and that the twenty-five per cent in larger cities and fifteen per cent in other places, required of national banks, is ample. It is a matter of history that the Louisiana Bank Act of 1842 was strictly and intelligently enforced until the city of New Orleans was captured during the civil war. None of these banks suspended in the panic of 1857. Their fidelity to engagements was their first consideration. Mr. McCulloch says:

**An Honorable Career.**

"In closing what I have to say about banking in Indiana I cannot forbear to refer to the action of the New Orleans banks towards their Northern correspondents at the outbreak of the civil war. The Southern branches [of the Bank of the State of Indiana] had large dealings with men who were engaged in the Southern (Mississippi) trade, and when measures were being instituted for the secession of Louisiana from the Union, and indeed after the ordinance of secession had been adopted, these branches had large cash balances and large amounts of commercial paper in the New Orleans banks. Against the remonstrances of the secession leaders, and in disregard of threatened violence, these cash balances and the proceeds of the commercial paper as it matured were remitted for, according to directions — not a dollar was withheld. No more able and honorably conducted banks existed in the Union than were those of New Orleans before the war,

nor was mercantile honor anywhere of a higher tone than in that city."[1]

The most celebrated bank in the United States, although not the most important, is the Bank of North America at Philadelphia. Its fame is derived from its patriotic origin. It does not illustrate the principles of banking in any special way. It was chartered by the Continental Congress in 1782 at the instance of Robert Morris, Superintendent of Finance. The continental currency was at its last gasp, having caused, as Morris said, "infinite private mischief, numberless frauds and the greatest distress." He rightly conceived that a bank conducted on true principles might be of great service to both government and people, and so it turned out. By establishing a credit, which was made possible by the lucky arrival of $470,000 specie from France, which Morris lodged in the bank, it was enabled to make large advances to the government for the purchase of army supplies. As some doubt existed as to the validity of a charter from Congress, the bank applied to, and received one from, the State of Pennsylvania.

**Bank of North America.**

After the termination of the war the bank became very prosperous, paying dividends of 14 per cent per annum. These gains prompted the starting of another bank in Philadelphia in 1784, but the Bank of North America headed off the movement by enlarging its own capital and taking in the new-comer. In the following year the "debtor class" took umbrage at the bank's practice of requiring its maturing paper to be paid promptly. A petition was sent in from Chester County charging usury, extortion, favoritism, harshness to debtors and the possession of undue political and commercial influence, and praying that its charter might be annulled.

**Charter repealed.**

[1] Men and Measures, pp. 138, 139.

Strange to say, this petition was granted by the Legislature. The charter was repealed on the 3d of September, 1785, within three years of the time that the bank had rendered inestimable services to the patriot cause in the Revolution. The bank protested that the charter was irrepealable, and continued its business, but took steps to obtain a charter from Delaware, with the intention of transferring itself to Wilmington. Such a charter was granted early in 1786. Then Pennsylvania, fearing lest it should lose the very thing that it had tried to get rid of, granted a new charter to the bank in 1787, under which it continued till the national banking law was passed. It declined at first to enter the National system because, under the rules adopted by Secretary Chase, it would have been obliged to change its name. But a dispensation was granted to it, on account of its illustrious origin, to come in without such change. The Bank of North America is now one hundred and thirteen years old, and it has passed its semi-annual dividend only five times. Of course it must have had an unbroken succession of good managers.[1]

**And reënacted.**

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## CHAPTER XV.

### BANKING IN THE FIFTIES.

THE heterogeneous state of the currency in the fifties can be best learned from the numerous bank-note reporters and counterfeit detectors of that period. It was the aim of these publications to give early and correct information to enable the public to detect spurious and worthless bank notes, which were of

**Counterfeit and Spurious Notes.**

[1] A history of the Bank of North America down to 1882 has been written by Lawrence Lewis, Jr. An interesting account of its origin and early years is given in Sumner's "Financier and Finances of the American Revolution."

various kinds, viz.: 1. Ordinary counterfeits. 2. Genuine notes altered from lower denominations to higher ones. 3. Genuine notes of failed banks altered to the names of solvent banks. 4. Genuine notes of solvent banks with forged signatures. 5. Spurious notes, as of banks that had no existence. 6. Spurious notes of good banks, as 20's of a bank that never issued 20's. 7. Notes of old, closed banks still in circulation.

**A Specimen.**

The number of counterfeit and spurious notes was quite appalling. Nicholas's Bank-Note Reporter had 5400 separate descriptions of counterfeit, altered and spurious notes. There were thirty counterfeits of the notes of the Bank of Delaware, described in Nicholas's Reporter for November, 1858, thus:

BANK OF DELAWARE, WILMINGTON.

| | | |
|---|---|---|
| 5's, | spurious, | vignette blacksmith. |
| 5's, | spurious, | " shield between two females. |
| 5's, | altered, | " Indian and a man. |
| 5's, | spurious, | " rail cars, etc., female on right. |
| 5's, | imitation, | " State arms, Wm. Penn on left. |
| 5's, | " | " man in sitting position and wheel on side. |
| 5's, | " | " Indian on rock, locomotive and cars. |
| 5's, | spurious, | " female, sailor, shipping. |
| 5's, | altered, | " Mercury recumbent, sailor. |
| 5's, | altered, | " Indian, man, separated by shield. |
| 5's, | spurious, | " three females, with key, safe, etc. |
| 5's, 10's, 20's, | | " man cutting grain, some have man offering bag of money to female, others vig. man in car, tools. |
| 10's, | spurious, | " boy, girl, steamer. |
| 10's, | altered, | " marine view, ship, etc. |
| 10's, | letter A, | " a landscape with cows, etc. |
| 10's, | spurious, | " Declaration of Independence. |
| 10's, | " | " three cows. |

10's, 20's, 50's, 100's, a ship, schooner and steamboat.

In addition to these there were a counterfeit 1, three counterfeit 2's, two 20's, and one 50 — in all thirty on one bank.

The known counterfeits of the Bank of Kentucky, Louisville, were three 1's, two 2's, two 3's, one 4, two 5's, four 10's, seven 20's, four 50's, two 100's, and one 500, twenty-eight in all. The same number were catalogued of the State Bank of Ohio, viz., four 1's, five 2's, two 3's, four 5's, nine 10's, two 20's, one 50, and one 100, with the remark appended to the last: "Bank never issued any." There were sixteen counterfeits of the Mechanics Bank, of New Haven, Conn., five of which were alterations and one made by photography.

**Latest News.**

Descriptions of the latest counterfeits were inserted conspicuously on the first page of each number. Thus the first page of Thompson's Reporter for June 11, 1857, had the following warnings, fourteen in number:

LATEST COUNTERFEITS.

10's on the MASSASOIT BANK, Mass., vignette boat builders. TEN across the right end — two 10's and Washington on the left — poor affair; unlike genuine.

2's on the FARMER'S BANK, Bridgeport, Conn., vignette cattle in pasture — portrait of Harrison on the right of vignette, 2 on the left — figure 2 and TWO in upper right corner, the same on lower right corner.

5's on the MONROE BANK, Rochester, N. Y., vignette a spread eagle on a shield.

10's on the PEOPLE'S BANK, N. Providence, R. I., vignette three mechanics at work; two females on the right; ship on the left.

1's on the ORANGE BANK, N. J., are said to be in circulation — an imitation of the old plate; vignette an angel holding up a curtain.

20's on the MARKET BANK, New York City, raised from 1's; vignette drove of cattle — genuine has an eagle for a vignette.

5's on the CLINTON BANK, Connecticut, raised from 1's; vignette train of cars — female with sword, etc., and figure I on the right. ONE and domestic scene on the left.

3's on the VILLAGE BANK, North Danvers, Mass., vignette train of cars and figure *3* on the left — large figure 3, female and scrolls on the right.

10's on the CHEMUNG CANAL BANK, New York, raised from 1's, vignette a train of cars.

5's on the UNION BANK, Boston, Mass., vignette letter *V* on which is the portrait of five persons.

3's on the NATIONAL BANK, Providence, R. I., vignette an eagle on a shield.

20's on the NORTH BANK of Boston, Mass., altered, vignette three females, eagle, shield, book, etc. *XX* and female on the right; *XX*, a steamship, and cars on the left.

6's on the PLANTER'S BANK, North Carolina, vignette an eagle on a tree; female kneeling and reaping on the right; Z. Taylor and *6* on the left.

5's on the RAILROAD BANK, Lowell, Mass., vignette train of cars in lower left half of the note; *5* and five strips of lathe work on the right.

Extras were frequently issued by the publishers giving descriptions of new and dangerous counterfeits or containing important information like the following:

July 1, 1859. "The Farmer's and Merchant's Bank of Tennessee having failed, sharpers have altered its notes to those of the Martha's Vineyard Bank, Mass., Oriental Bank, New York City, and eight others."

August Extra. "Immense quantities of counterfeits on the Oneida County Bank, Utica, N. Y., are afloat, $6,400 having been seized by the police."

August 9. "1's, 2's, 3's and 5's of the Wisconsin Miner's Bank are in circulation. There is no such bank."

August 27. "Notes of the broken Farmer's Bank of Rhode Island are appearing altered to other Farmer's Banks in various cities and States."

New eccentricities were constantly making their way into the circulating medium, for example: From Nicholas, November 20, 1858. "The Maverick Bank, Boston, is troubled by the reappearance of its notes with burned edges, a lot of redeemed notes having been imperfectly burned by the directors in an iron furnace owned by one of them." Another case is mentioned in New York City of a note carried up the chimney flue unburned and picked up in the street.

**Incidents.**

"Two new banks have been started in the District of Columbia, of which nobody can give any good account. The public are warned not to take their notes at present."

"Sackett's Harbor Bank, Buffalo, N. Y., in liquidation. The Receiver has made an assessment on share-holders which they refuse to pay, saying that the assets are sufficient to pay all liabilities, without calling on them."

Tioga County Bank, Pa. "A contemporary says it is all right. It may be so or it may not."

November 27, 1858. Notes of the Manufacturer's Bank of Elizabethport, N. J., are quoted at 50 cents, "but are worth more if the holders can wait till the stock securities are disposed of by the State Treasurer, which is done in most cases at his own pleasure and convenience."

Bank of Charleston, Va. "The notes of this bank are thrown out by the Southwestern Bank of Wheeling, Va. Look out."

"*General Warning to the Public:* The notes of the Tioga County Bank of Pennsylvania are being paid out in Michigan and Illinois. We do not buy these notes at any rate of discount. The bank is owned by the same parties who owned the Macomb County Bank of Michigan and also the same

parties who were mixed up with the affairs of the Litchfield Bank of Connecticut."

"*Beware of Bank Swindles:* We understand that there exists a regular organized body of men whose sole object is to get up bogus banks in different parts of the country and put their notes in circulation in Pennsylvania, Indiana, Michigan and Wisconsin by the ream."

December 25. "Counterfeiters have become possessed of a large batch of the worthless notes of a concern called the Thames Bank, Laurel, Ind., and have commenced altering them to represent bills of various good banks — the Thames Bank of Norwich, Conn., and the Conway Bank, Mass., and others."

January 29, 1859. "The public are warned against notes of the Brownsville Bank and Land Co., Omaha, Neb. No such bank exists, but was at one time in contemplation and the parties interested had a large amount of notes printed."

A correspondent wants to know whether there is such a bank as the Southern Bank of Georgia. The editor believes there is, but is not sure.

February 12, 1859. Failed Warwick Bank, R. I. "A petition of the Bank Commissioners of the State says that the plates of the bank, which, at the suggestion of the Commissioners, had been lodged in the American Bank, have been removed and are missing; that a large amount of bills have been put in circulation without a registry of the issue and without security therefor."

Bank of Mobile. "Genuine impressions of the 20's, 50's and 100's of this bank with forged signatures are in circulation."

**Other Confusion.**

There was a publication called Monroe's Descriptive List of Genuine Bank Notes. This contained 1323 separate descriptions of notes. Frequently the banks finding their notes successfully counterfeited would destroy the plates and get new ones engraved, with the result of having two and sometimes three

kinds of genuine notes in circulation at once, which of course added much to the confusion.

There was also a list of broken, closed and worthless banks. This was kept standing in all the Reporters. There were 40 such credited to New York City and 125 additional to the State.

**State Auditor's Redemptions.**

Rates of discount on all bank notes that were not at par in New York were a regular feature of all the Reporters. The Auditor of Illinois advertised November 9, 1861, that he would redeem the notes of the following banks at the rates here named:

| | |
|---|---|
| American Exchange Bank, Raleigh | 51 |
| Alisana Bank, Sullivan | 55¼ |
| Bank of Chester | 54½ |
| Bank of Elgin | 56 |
| Belvidere Bank | 52½ |
| Commercial Bank, Palestine | 56 |
| Farmer's and Trader's Bank, Charleston | 50 |
| Farmer's Bank, New Canton | 61½ |
| Hampden Bank, McLeansboro | 58 |
| Morgan Co. Bank, Jacksonville | 52 |
| Railroad Bank, Decatur | 55 |
| Rock Island Bank | 50 |

The notes of one hundred and seventeen other stock-secured banks of Illinois were quoted at the same time at rates varying from 40 to 90 cents to the dollar.

**Early Bank-Note Reporters.**

The publication of Bank-Note Reporters was no new trade. One was mentioned by Raguet twenty years earlier thus: "Bicknall's Counterfeit Detector and Bank-Note List of January 1, 1839, contains the names of 54 banks that had *failed* at different times; of 20 *fictitious banks*, the pretended notes of which are in circulation; of 43 banks besides, for the notes of which there is no sale; of 254 banks, the notes of which

have been counterfeited or altered; and 1395 descriptions of counterfeited or altered notes then supposed to be in circulation, from one dollar to five hundred."

The headquarters of uncurrent money in the fifties was at Chicago. This city, the principal emporium of the Northwest, was surrounded on all sides with wild-cat banks. The State of Michigan, as we have seen, had produced an extensive litter in 1837 and the succeeding years. Illinois had supplied two State banks of the worst kind, which were now in liquidation. The *Gem of the Prairie* newspaper in November, 1851, said that the local currency of Chicago consisted of the notes of the Wisconsin Marine & Fire Insurance Co. (George Smith's bank), the Chicago Bank of I. H. Burch & Co., the City Bank of Bradley & Curtiss, the Southwestern Plank Road Co., the Macomb County Bank of Michigan, the Oswego and State Line Plank Road Co., and the Illinois River Bank. In 1852, the Chicago banks tried to circulate their notes alongside of George Smith's, but they would not stay out. Being at par they were promptly returned for redemption, while Smith's were at one per cent discount in Chicago although at par at their place of issue in Milwaukee. Smith was the dominating power. He set the pace for all the other banks and so it came to pass that one per cent discount was the par of the Chicago money market. When the free banking law of Wisconsin was passed, which compelled Smith's bank to deposit securities for its issues he sold out to Alexander Mitchell and turned his attention to the State of Georgia as a place for the manufacture of currency for the Northwest. He bought two banks there, the Atlanta Bank and the International Bank of Griffin. With the notes of these institutions Chicago and the neighboring country were plentifully supplied. Smith had a bank of deposit and discount at Chicago

**Chicago Banks in the Fifties.**

**Georgia Notes in the Northwest.**

called the Bank of America, where he discounted commercial paper, paying his Georgia notes therefor, and where he sold exchange on New York at ¾ per cent premium. That is, he redeemed his Georgia issues at that rate. At first the other Chicago bankers frowned upon the new style of currency, but Smith's credit was so well established that people were glad to get anything that he was responsible for. The Chicago *Democrat* said:

"So long as bills of sound Georgia banks are convertible into New York exchange at ¾ per cent, and into gold at no higher rate than one per cent, they will be freely taken by all business men."

When Smith's rivals saw how things were going they rushed to Georgia also and bought banks whose notes they issued at Chicago. And so it came to pass that for several years the bulk of the circulating medium in Chicago and the country tributary thereto was manufactured in the State of Georgia. The toleration of a discount on bank notes at the very counter over which they were paid out at par was simply idiotic, yet it was a part of the common law of banking in the West at that time. The idea that no bank was obliged to pay gold for anything except its own notes was so general that it received the sanction of the Legislature of Illinois in 1851 by a provision of law that banks might pay out the notes of any specie-paying banks in the United States or Canada. The Georgia-Chicago banks, therefore, fulfilled all the requirements of law and public opinion. They were really better than the free banks of Illinois, because they had assets in their vaults while the latter only had securities in the hands of the State Auditor. None of the former failed nor did the discount on their notes ever exceed 1 per cent.

**A Legal Discount on Bank Notes.**

Disputes between payer and payee as to the goodness of bank notes were of frequent occurrence at that time, ranging

over the whole gamut — whether the issuing bank was sound or unsound, whether the note was genuine or counterfeit, and if sound and genuine whether the discount was within reasonable limits. All merchants kept Bank-Note Reporters for ready reference. If there was a bank in the town the cashier was appealed to constantly to pass upon the goodness of notes in circulation.

These manifold evils were chiefly due to want of uniformity and of public regulation. Want of uniformity opened the door to the 5400 counterfeit and spurious notes catalogued at one time. Want of public regulation paved the way to the bad banking which was liable to break out at any time and which made everybody suspicious of every bank note that he was not entirely familiar with. When the national banking law went into full effect, the Bank-Note Reporters ceased publication. There was no longer a demand for them because the evils which they were intended to guard against had for the most part disappeared. Counterfeiting was not wholly abolished, but was reduced to the lowest limits. Better still, the new system has trained us in ideas favorable to clean banking. Like ideas favorable to cleanliness of any kind, when they once take root they are not soon dislodged.

**The Root of the Trouble.**

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## CHAPTER XVI.

### THE NATIONAL BANKING SYSTEM.

To most people the National Banking system means little else than security for bank notes, deposited in the Treasury at Washington. This, as we have seen, was an old conception, tried in many States with varying results, and brought very near to perfection in New York after some serious mistakes and disappointments. This is not the most important

feature of the system. The note-issuing department is moribund. The most important feature is uniformity, or the bringing of the banking business of more than forty different States, and different bodies of law and practice and judicial decision, under one authority and within the grasp of one set of administrative officers. A bank is a credit establishment in which circulating notes are not usually the chief concern. Taking the country as a whole the deposits and the clearing-house transactions are enormously greater than the note issues are or ever can be. The value of the system is to be estimated on its large side rather than on its small one.

**Its Uniformity.**

It is not to be supposed that all the banking disorders of the first half-century of the republic would be possible now. Civilization, progress, experience, rapid intercommunication count for much in banking as in other things. Nor can we overlook the fact that the State systems were steadily improving before the war. Those of Massachusetts and of Louisiana left little to be desired, while in the matter of elasticity and in the method of redemption they were superior to the present National system. Nor is it assumed that there are no elements of disorder in the National system. Every bank failure is a disorder, and we have certainly not seen the last of these. Under *ante bellum* conditions heterogeneousness was itself a promoter of abuses; and rascals found their opportunity in it, as a fox finds refuge in a diversified country.

**Ante Bellum Conditions.**

It is true that State banks of deposit and discount exist everywhere side by side with national banks. But as the two Banks of the United States, by their example and rivalship, served as regulators of the State bank currency, so do the national banks set the pace for the State banks now. The latter must be as good as the former or they will "get left." Most of the State banks are small, having less capital

than $50,000, which is the smallest sum that is permitted under the National law. Thus they respond to a real want in the smaller towns.

Mr. John J. Knox has summarized the debates in Congress on the national banking acts of 1863 and 1864.[1] It was Secretary Chase's idea in the beginning merely to make a market for government bonds by requiring the State banks to secure their circulating notes with such bonds, imposing a tax on all notes not so secured. This proved to be not an easy task. So it was abandoned and a new project was brought forward by Messrs. Hooper and Spaulding, of the Committee of Ways and Means, in the summer of 1862. They took up the free banking laws of the several States, and especially those of New York, Ohio, and Michigan, selected and patched together the parts that they deemed advantageous, framed the machinery of administration and added a clause making the government absolutely responsible for the note issues, and requiring the Treasurer to redeem those of failed banks as presented, *i.e.*, without waiting to sell the security. When the bill came before the House, July 12, 1862, it was tabled. The same fate overtook it on its next presentation, in the following January. Then Mr. Sherman introduced a similar bill in the Senate and carried it through that body by a close vote, 23 to 21. The Senate bill passed the House without amendment and became a law February 25, 1863, and Hugh McCulloch of Indiana was appointed Comptroller of the Currency under it.

**First Patchwork, 1863.**

The act was extremely crude. The Comptroller recommended several important amendments. A new bill was accordingly framed the following year and after long debate in both houses was passed and became a law June 3, 1864. Among the amendments of importance was one forbidding

[1] Rhodes' *Journal of Banking*, June and July, 1892.

loans on landed security. The act of 1863 authorized the banks to make loans "on real and personal security." The words "real and" were now stricken out. This feature of banking law is first found on this side of the ocean, so far as I can discover, in the charter of the Bank of Montreal, dated March 17, 1821, where it stands in these words as one of the powers granted:

**Amendatory Act of 1864.**

"To take and hold mortgages and *hypothèques* on real property for debts contracted to it in the ordinary course of its dealings, *but on no account to lend on land, mortgage, or hypothèque*, nor to purchase them on any pretext except as here permitted."[1]

**Not to lend on Mortgage.**

The reason why lands and buildings ought not to form the basis of the loans of a commercial bank is that they are not quick assets. The liabilities of the bank being payable on demand the assets must be convertible into money within short periods. When real property is given as security for a debt both borrower and lender look to it, and not to the personal obligation, as the source of payment. *A fortiori* land ought not to form the basis of the bank itself.

Other amendatory acts have been passed from time to time. The principal features of the system are these:

**Comptroller.**

There is a bureau of the Treasury Department having charge of all matters relating to national banks, the chief officer of which is the Comptroller of the Currency.

**Organization.**

Any number of persons not less than five may form an association for banking purposes, to continue not more than twenty years, but renewable for twenty years with the approval of the Comptroller. After the association is formed it is within the discretion of the Comptroller to grant a certificate (which is the

[1] Breckenridge, p. 24.

equivalent of a charter), or not; if he withholds it, he is not obliged to give any reasons for doing so.

**Functions of Banks.**

The powers of the bank are limited to the discounting of promissory notes, drafts, bills of exchange, and other evidences of debt; receiving deposits, dealing in exchange, coin and bullion, loaning money on personal security, and issuing circulating notes. It cannot hold real estate except such as may be necessary for the transaction of its business, or such as may have been taken as security for debts previously contracted in good faith.

**Capital.**

There can be no national banks anywhere of less capital than $50,000, and these small ones are restricted to places of not more than 6,000 inhabitants. In cities of more than 6,000 and less than 50,000 inhabitants there can be no bank of less than $100,000 capital, and in cities of 50,000 inhabitants or more none of less than $200,000. One-half of the capital must be paid in before the bank can begin business, and the remainder must be paid in monthly installments of at least ten per cent each.

**Liability.**

Shareholders are liable for the debts of the bank to an amount equal to the par value of their shares, in addition to the amount invested therein.

**Public Money.**

Banks may be made depositaries of public money by the Secretary of the Treasury upon giving satisfactory security "by the deposit of United States bonds and otherwise." The words "and otherwise" are understood to mean the personal bonds of the officers of the bank.

Each bank having a capital exceeding $150,000 must deposit in the Treasury of the United States registered interest-bearing bonds to an amount not less than $50,000.

Those having a capital of $150,000 or less must deposit bonds equal to one-fourth of their capital stock. Each bank may receive circulating notes to the amount of 90 per cent of the market value of the bonds deposited by it, but not exceeding 90 per cent of the par value of the same, and not exceeding 90 per cent of the paid-in capital of the bank, but no bank is compelled to issue circulating notes. Bonds may be withdrawn by banks by retiring their circulating notes or depositing lawful money to an equal amount in the Treasury. Not more than $3,000,000 in the aggregate can be retired in one month, nor can the amount of bonds on deposit for circulation be reduced below the limitations above stated. No bank notes shall be issued smaller than $5. The notes are receivable at par for all dues to the United States except duties on imports, and are payable for all debts owing by the United States *within the United States*, except interest on the public debt and in redemption of the national currency. Every bank must receive the notes of every other bank at par in payment of any debt due to itself. No bank can issue post notes.

**Government Bonds.**

Every bank in certain designated cities, called reserve cities, must keep a reserve of lawful money equal to 25 per cent of its deposits. All other banks must keep a like reserve of 15 per cent, but three-fifths of the said 15 per cent may consist of balances on deposit in banks approved by the Comptroller in the reserve cities. Any bank in the reserve cities may keep one-half of its reserve as deposits in a "central reserve city," *i.e.*, New York, Chicago or St. Louis. Failure to keep the legal reserve is followed first by notice from the Comptroller to make good the reserve within thirty days. In case of failure to do so the Comptroller may, with the concurrence of the Secretary of the Treasury, put the bank in liquidation. This clause is rather for warning than for strict enforcement.

**Legal Reserve.**

No bank would be excused for stopping payment of its deposits when it still had 25 per cent of the same in cash. Whether severe measures should be taken, in case the reserve were below the legal limit, would depend upon the general course of the bank and the character of its assets. Banks when below their legal reserve are not allowed to increase their liabilities by making new loans or discounts otherwise than by purchasing bills of exchange payable at sight, or to make any dividend of profits until their reserve has been restored.

Each bank must keep on deposit in the Treasury of the United States lawful money equal to 5 per cent of its circulation as a fund for redeeming the same. This 5 per cent may be counted as part of its lawful reserve. This does not relieve banks from the duty of redeeming their notes at their own counters on demand.

**Redemption.**

Banks are allowed to charge such rates of interest on loans as are allowed by the law of the State in which they are situated, and no more, but in discounting bills of exchange on other places they may charge the current rate of exchange in addition.

**Usury.**

One-tenth of the net profits must be carried to the surplus fund until it is equal to 20 per cent of the capital.

A bank must not lend more than one-tenth of its capital to one person, corporation or firm, directly or indirectly, nor lend money on the security of its own shares, nor be the purchaser or holder of its own shares unless taken as security for a debt previously contracted in good faith, and if so taken they must be sold within six months under penalty of being put in liquidation.

**Restrictions.**

No bank can become indebted to an amount exceeding its unimpaired capital except for circulating notes, deposits,

drafts drawn against its own funds and dividends due to its own shareholders. No bank can hypothecate its own notes.

**And Prohibitions.**

No bank can permit any part of its capital to be withdrawn. If the capital is impared by bad debts or otherwise the deficiency must be made good within three months after receiving a requisition from the Comptroller, under penalty of being put in liquidation. No bank can certify a check for a customer for more money than he has on deposit at the time.

Each bank must make to the Comptroller not less than five reports each year, showing its condition at times to be designated by him, and he may call for special reports from any particular bank whenever he chooses to do so. Each bank must pay to the Treasurer of the United States a tax equal to one per cent per annum on the average amount of its notes in circulation. The shares are liable to taxation by the States in which they are situated, at the same rates as other moneyed capital owned by the citizens of such States. The notes of all banks other than national, and all of persons, towns, cities and municipal corporations, used for circulation, are liable to a tax of 10 per cent, to be collected by the Commissioner of Internal Revenue.

**Reports.**

The Comptroller has power to appoint examiners to make a thorough examination into all the affairs of every bank.

In case of default by any bank in the redemption of its circulating notes the Comptroller must declare the security bonds forfeited to the United States, and give notice to the holders of the notes to present them at the Treasury for payment, "and the same shall be paid as presented in the lawful money of the United States." Then the Comptroller may in his discretion cancel the bonds to an equivalent sum, or sell so much of them as may be necessary. In case of a deficiency in the proceeds of all the bonds to reimburse the government

**Government Redemption of Bank Notes.**

for the redemption of the notes, the United States shall have a paramount lien on all the assets of the bank (which includes the liability of shareholders), and the deficiency must be made good before any other debts are paid. When the notes are paid they must be canceled. Any gain arising from lost and destroyed notes inures to the benefit of the United States.

In the act of July 12, 1882, it was provided that silver certificates, when held by any bank, might be counted as part of its lawful reserve, and that no bank should be a member of any clearing house in which silver certificates were not received in the settlement of clearing-house balances. This was one of the numerous devices by which congressmen of a certain type showed their friendliness to silver and their enmity to banks. At the New York Clearing House silver certificates are not *paid* by the banks to each other, consequently no question can be raised as to receiving them.

**Siver Certificates.**

There is a feature of the National Banking system which is most wholesome and salutary in its effects and is entitled to the highest praise; it is generally lost sight of in discussing the act. It is its administration of the affairs of failed banks. The Comptroller has the absolute appointment of all receivers and fixes their compensation. All moneys realized from the assets are paid into the Treasury to the credit of the Comptroller, and all dividends are paid out by him. The result is that he is virtually a general receiver for all the failed banks of the system, carrying on the details through the receivers whom he appoints. The salaries paid to receivers are very small indeed. All questions of law are passed upon by the Department and are almost invariably accepted by all parties, few controversies arising except where questions of fact are involved. The result is a very small percentage of cost

**Receiverships.**

in the administration of these trusts and a very speedy realization upon the assets.

In the State of New York, and in most of the States, the expense of administrating the affairs of a failed bank is simply enormous. The New York code limits the compensation of receivers to five per cent of the amount they receive and disburse. This in the case of a million-dollar bank would be fifty thousand dollars, or about ten times the pay under the national system. The courts usually go to the limit. The man appointed as receiver usually employs some one else to do the work, and he draws his salary as an extra charge upon the trust.

It hardly needs to be said that a system which has served the people more than thirty years and is now conducting the great bulk of the country's exchanges, a system with which all bankers, merchants and lawyers are familiar, and which has received judicial interpretation and settlement in a thousand ways, ought to be preserved, and if not perfect should be made so.

Its chief defect on the note-issuing side is the want of elasticity. Here the element of credit, which is the vital principle of banking, is wanting, and what is substituted for it is not the best substitute. The system represents neither the currency principle nor the banking principle.[1] The currency principle, of which the Bank of England is the type, requires that all circulating notes over and above a fixed amount, which will be in people's pockets in every emergency, shall be gold certificates of deposit. It is to be said in favor of this system that all the paper in circulation over and above the fixed amount is absolutely good and absolutely self-regulating. Under our system there is no fixed amount, except the fiat money, of one sort and another, issued by the government. Any excess

**Defect as to Note Issues.**

[1] See page 331.

issued by banks must be bought by them from the government at the rate of $1.10 to $1.20 per dollar, and the machinery and red tape to be surmounted generally prevent the issue of it until the immediate occasion for it has passed. When obtained it is not money, as the corresponding Bank of England notes are, but government debt chopped in small bits. If our banks desired to issue notes against gold on the Bank of England plan they could not do so, because the law would not let them. Even if the fiat money of the government were out of the way, the National Banking system would bear no more resemblance to the Bank of England system than it does now. The lawful money reserve would then be gold, which would be a great gain in itself, but that would be the only change.

Every institution must stand or fall by its results. Tested in this way the national bank-note system is a failure. It reached high-water mark fourteen years ago. In 1881 the note issues were $325,000,000. Then a decline began and continued till 1890, when the amount outstanding was only $123,000,000 and would have been smaller, but for the provisions of law which prevent banks from withdrawing all of their bonds. The net shrinkage from January 14, 1875, to October 31, 1894, was $145,214,559.[1] It is said, by way of explanation, that the decline was due to the rapid payment of the national debt, the bonds being taken away from the banks in spite of them. This is not the whole truth, but, if it were, the answer would be that the payment of the national debt is one of the facts to be reckoned with and that a system that cannot square itself to this fact is doomed. The people will neither create nor prolong an interest-bearing debt merely to supply a basis for bank-note issues. Nor ought they to do so.

**Actual Results.**

[1] Comptroller's Report for 1894, p. 162.

On each $1000 of debt the government pays $40 per year. In 25 years it pays a sum equal to the principal, and still owes the principal. A government has no gainful occupations. If it is able to pay the $1000 and stop the interest, then the plan of prolonging the debt for banking purposes is like saying, "We will keep this bond alive and pay $40 per year forever, provided somebody will chop it into 100 pieces of $10 each. We will not pay the $40 to the owners of the pieces, but to the parties who have chopped it." It should be added that the only favor the bank does in the premises is to stand between the people and a better kind of money, to-wit gold, or gold certificates, of the Bank of England type, of which $100 might be had for the same cost as every $90 of the present notes.

It is sometimes said by the advocates of a permanent national debt that the money collected from the taxpayers is worth more to them than the rate of interest paid on the national debt, and hence that the payment of the debt is bad economy. This means that our interest-bearing debt ought to have been left at its maximum of $2,600,000,000 and that the paying of any of it has been injurious to the nation. The argument rests on the assumption that all the money collected from the taxpayers would otherwise be saved by them, converted into capital and used reproductively at better rates than the government pays, being neither consumed unprofitably nor lost in bad investments. There is no foundation for such belief, and it has been generally rejected by economists. J. S. Mill says:

**Debt-Paying Policy.**

"The desirableness, *per se*, of maintaining a surplus for this purpose (national debt-paying) does not, I think, admit of a doubt. We sometimes, indeed, hear it said that the amount should rather be left to 'fructify in the pockets of the people.' This is a good argument, as far as it goes, against

levying taxes unnecessarily for purposes of unproductive expenditure, but not against paying off a national debt. For, what is meant by the word 'fructify'? If it means anything, it means productive employment; and as an argument against taxation, we must understand it to assert, that if the amount were left with the people they would save it, and convert it into capital. It is probable, indeed, that they would save a part, but extremely improbable that they would save the whole: while if taken by taxation, and employed in paying off debt, the whole is saved, and made productive. To the fundholder who receives the payment it is already capital, not revenue, and he will make it 'fructify,' that it may continue to afford him an income. The objection, therefore, is not only groundless, but the real argument is on the other side: the amount is much more certain of fructifying if it is not 'left in the pockets of the people.'" [1]

The payment of the national debt has not been the only factor in causing the decline of the bank circulation. Another and perhaps more potent one has been the advance in the market price of the bonds, making it advantageous for the banks to sell their holdings and invest the proceeds in other ways. Banks have to compete with other investors in the purchase of these securities. The bidding of the government in the market in order to dispose of its surplus revenue, put up the price of the 4 per cents in the autumn of 1889 to 127½. The premium of $275 on each $1,000 had to be sunk in seventeen years, the time the bonds then had to run. The effect of this was to reduce the rate of interest which a purchaser could realize to about 2⅓ per cent per annum. Banks as a general rule could do better with their money, and for this reason sold their bonds. The competition has not been so severe in more recent years, the government being no longer

**Premium on Bonds.**

[1] Political Economy, V, vii, § 3.

a buyer, but to some extent a seller of bonds. The price of the 4 per cents has fallen to 113 so that the premium on a $1000 bond (which must be wiped out in twelve years) is $130, or about $11 per year. Under these conditions there has been an increase in the amount of national bank notes, which now stands at something over $208,000,000. The greater part of the recent increase, however, was due to the panic of 1893 which caused an abnormal demand for currency for a few weeks. The supply did not arrive, however, until October, when the demand had for the most part subsided.

Every principle of banking in the national law was in existence in State systems, or in Canada, before that law was enacted, except the government's responsibility for the notes and the requirement that every bank shall receive the notes of every other bank at par in payment of debts due to itself. The merit of the National system consisted in the very fact that the methods adopted had been tested, and had been proved good (or were supposed to be so), as the result of actual experience. If there be any other novelty in it, it lies in the discretion lodged with the Comptroller to grant or withhold charters, according as he may or may not be satisfied with the general appearance of the candidate.

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## CHAPTER XVII.

### THE QUANTITY THEORY.

**The Theory stated.**

THE quantity theory assumes that "the value of money (whatever that money may, in the place and at the time, consist of) depends, like the value of anything else, on the relations of demand and supply; that prices are determined in the amount of goods offered for money and the amount of money offered

for goods." General Francis A. Walker,[1] whose definition of the quantity theory is here quoted, adds that we must take account not alone of the number of money pieces, but also of the rapidity of their circulation.

He then casts out of the reckoning all goods consumed by the producers themselves. As these do not enter into the world's exchanges they do not affect prices. Next, he casts out all goods that are exchanged by barter without the use of money. As price is value expressed in terms of money, a transaction into which money does not enter is, of course, irrelevant. Inasmuch as clearing-house transactions are of this description they are likewise cast out. A clearing house is a machine of barter. For the same reason banking operations, aside from the issue of circulating notes, are cast out. A single bank by its system of checks and deposits operates exactly like a clearing house. It is a machine of barter on a smaller scale. Bills of exchange generally pass through banks, but not always and not necessarily. They are instruments of barter of the most express and typical kind. Therefore they must be cast out of the reckoning. If barter itself can have no effect upon prices, the bartering apparatus can have none, however extensive and varied it may be.

**Barter does not affect Prices,**

General Walker considers the case of goods which are sold on credit, but are to be paid for eventually with money. Such sales, he thinks, contribute to the demand for money just as truly as goods sold for cash do, but not just as much, because "it is not necessary to keep such large amounts of money in the shops or to carry them around on the person." Here we have an indeterminate factor, because we never can know what portion of the goods sold on credit to-day will be paid for eventually in money and what portion by offsets through banks.

[1] In *The Quarterly Journal of Economics*, October, 1893.

General Walker holds that bank notes operate upon prices in the same way as metallic money. He says:

"Bank notes are money. They are distinct and tangible things, which pass out from the bank and have their own separate life and course; which become the property of him in whose hands they are, just as truly as do coins of gold or silver. Like such coins they pass from hand to hand throughout the community, without reference to the character or the credit of the person offering them. Like such coins they are accepted in final discharge of debts and full payment for commodities, without necessary recourse to the issuing bank, except as they may individually become too much worn for further circulation, after performing, it may be a hundred, it may be a thousand, exchanges."

**But Bank Notes do.**

Since this is true also of government notes, which pass from hand to hand, these must operate on prices in the same way as bank notes, although General Walker does not specially mention them. If all this is conceded what does it lead up to? Merely that "the demand for money, whatever it may be, does, taken in connection with supply, determine prices. . . . The demand for money is found in the money work to be done, the amount of exchanging which needs to be effected by the use of money. The supply of money consists in the number of money pieces available for the work of exchange taken in connection with the facility with which they can be so used, the freedom or rapidity of circulation."

Obviously the rapidity of circulation is another indeterminate factor. It depends upon the state of trade at any given time whether the money available shall circulate more or less rapidly. Therefore the proposition is that prices are determined by the demand for money, "whatever it may be," taken in connection with the number of money pieces and

the state of trade. So we have three indeterminate factors, viz.: (1) All goods sold on credit (quantity unknown); (2) "The amount of exchanging which needs to be effected by the use of money" (amount unknown); (3) The rapidity of the circulation, *alias* the state of trade. The only determinate factor is the number of money pieces available. These can usually be ascertained, but there is always room for dispute as to the amount of gold in the country and whether the gold and the paper currency in the Treasury should be counted or not, etc.

**A Barren Result.**

If we agree that General Walker's reasoning is sound (and I do not dispute it), it amounts to saying that prices are determined by four factors, three of which are indeterminable. A proposition more barren and inconsequential it would be hard to imagine.

The quantity theory, however, needs to be tested by statistics. As commonly hawked about, it implies that prices depend upon the quantity of money in circulation, *i.e.*, the supply. This involves the assumption either that the demand for money is constant, or that demand need not be considered. Miss Sarah McLean Hardy, of Wellesley College, has subjected this theory to the statistical test, in a very thorough manner.[1] She chooses for the field of investigation the United States during the thirty-one years 1861–1892, making special examinations of the civil war period and of the suspension of specie payments. The data of prices are found in the report of the Senate Committee on Finance (1893), as collated by Professor Falkner. The figures as to the volume of money in circulation each year are taken from the *Statistical Abstract of the United States* (1893).

**Miss Hardy's Investigations.**

[1] *The Journal of Political Economy* (Chicago), March, 1895.

The results are in marked contradiction to the quantity theory, as that is generally understood. The amount of money in circulation has *increased* 257 per cent since 1861, while average prices have *fallen* a little more than 8 per cent. If this were all that the tables told us, it might be said that the discrepancy was due to the increase of population and trade. But there was not much increase of population during the four years of war, from 1861 to 1865. During this period prices rose 115 per cent while the value of money increased only 59 per cent, or about one-half as much. Here the most important factor in making prices was the war itself, and the opinions which people formed from time to time as to its duration and result.

**Negative Results.**

After the close of the war and until 1878 the volume of the currency was substantially unchanged, but prices fell gradually to par, *i.e.*, to the level of 1861. They ran nearly parallel with the gold premium. In 1878 the silver-coinage act went into operation, adding upwards of $25,000,000 per year to the circulation. In 1880 and 1881 there was a very large importation of gold. The volume of money rose from $818,000,000 in 1879 to $1,243,000,000 in 1884; that is 50 per cent in five years, but prices showed very slight variation. Taking 1860 as the datum line (100), prices were at 96.6 in 1879 and at 99.4 in 1884. The increase of population during this period of five years was not more than 15 per cent.

From 1884 to 1891 the volume of money rose to $1,497,000,000 or 20 per cent. Probably the percentage of increase of population during this period was about the same. According to the quantity theory prices should have remained steady, but they fell seven per cent. "In summing up the results thus far indicated," says Miss Hardy, "so far as the history of prices in the United States throws any light upon the quantity theory, it appears: (1) That that dogma

in its general theoretical form is inapplicable as an explanation of this given set of actual conditions; (2) That, so far as it may be at all valid, its influence in determining the level of prices is of far less importance than is commonly supposed; (3) That prices from 1861 to 1891 were fixed in the main by other causes than the quantity of that kind of money which was in circulation during those years." These conclusions must be accepted unless it can be shown that Miss Hardy's figures are wrong, or that she has omitted some factor of importance from the reckoning.

**Her Conclusions.**

It was the common belief, in the first half of the present century, that excessive bank issues caused an advance of prices and thus fostered speculations and produced commercial crises. Mr. Amasa Walker attempted to prove this by figures and to represent it geometrically by diagrams.[1] He takes ten commodities as the standard of prices, viz., coffee, leather, molasses, mess pork, cheese, rice, salt, sugar, tobacco and wool. He omits cotton and flour "because their prices are more affected by the foreign market than by our own." Serious exception might be taken to the basis of calculation, as though the prices of coffee, sugar, tobacco, rice and mess pork were not particularly affected by foreign markets. But this may be overlooked. He then shows the per capita volume of the currency for each year from 1834 to 1859 and underneath it the average price of the ten articles named, after which he represents the results by a diagram, remarking upon it:

**Mr. Amasa Walker.**

"Several important facts appear in this figure. The first to be noticed is the remarkable correspondence between the first and second lines, rising and falling together, proving most conclusively by their agreement through so long a series

[1] The Science of Wealth, by Amasa Walker, p.p. 169–184.

of years that prices depend upon the quantity of currency in circulation."

The same figures might equally prove that the quantity of currency in circulation depends on prices, which I think more likely. Here is a coincidence indeed, but nothing that proves a causal influence on one side more than on the other. Both the rise of prices and the increase of currency may be produced by a third cause, as for example a sanguine state of mind on the part of the trading community, gradually extending to all classes, and producing a general eagerness to buy things with the expectation of selling them at a higher price.

**"Non constat."**

But his figures do not prove his thesis. In 1838 there was a fall in the per capita circulation from 17.61 to 12.44, without any change of prices. In the next year there was a slight rise in the circulation but a heavy fall of prices, from 28.35 to 22.21. In fourteen of the twenty-six years the course of prices and of the per capita circulation run parallel, and in twelve they run contrariwise to each other.

Upon the vexed question whether banks can, by their own volition, inflate the currency Professor Dunbar makes the following sound observations:

"The question whether really convertible notes *can* be issued in excess has been the subject of much wearisome and futile discussion, tending to secure for the notes far more than their proper share of attention. It has already been shown, however, that the question whether notes shall be issued or not, is one which in modern banking is not settled affirmatively by the bank, but is settled by the creditor, who determines for himself and with an eye to his own convenience, whether to hold his right, as against the bank, in the form of a note or of a deposit. If he and creditors generally prefer the latter, the bank cannot force its notes into circulation. The really

**Professor Dunbar's Views.**

serious question would be whether the bank can extend the use of its credit, by deposits as well as by notes, in excess. This is as much as to ask whether the bank can go too far in the purchase of securities, or in other words, can unduly stimulate borrowers, the making of loans being the purpose for which the bank extends its credit. But this question cannot be answered without qualification. If we observe any period of ten years, we shall find some years in which banks have found the public depressed and spiritless, to such a degree that, with every motive for increasing their business, it has been impossible to find sound commercial paper in sufficient amount. So far from being able to extend their credit in excess, banks have at such times often reduced their capital because employment for it could not be found. Other years we shall find in which the public spirit was buoyant and adventurous, and in which the banks have fostered and increased the general tendency to speculation, by the facility with which they have given the use of their credit. It is true, then, that banks cannot extend their liabilities of either sort except in response to a demand from the public; it is also true that in certain states of business this demand may be unduly stimulated by their action, and that issues made in response to an unhealthy demand are in excess of the proper needs of the community. In any such expansion of bank credit, however, bank notes must generally play the least important part." [1]

[1] Theory and History of Banking, pp. 62, 64.

## CHAPTER XVIII.

### THE MECHANISM OF EXCHANGE.

**Bank Statements.**

A "BANK STATEMENT" is an accounting, rendered by the bank's officers to its shareholders, which is published for general information. The officers are liable to the shareholders for the capital and for all profits, whether carried to the surplus fund or not. Thus there are two kinds of liabilities, but they are generally put under a single head. We will separate them for the sake of clearness, taking for illustration a recent statement of one of the largest New York banks:

RESOURCES.

| | |
|---|---|
| Loans and discounts . . . . . | $22,974,519.13 |
| Overdrafts, secured and unsecured . . | 1,585.29 |
| U. S. bonds to secure circulation . . . | 50,000.00 |
| U. S. bonds on hand . . . . . | 800,000.00 |
| Premium on U. S. bonds . . . . . | 35,956.93 |
| Stocks, securities, etc. . . . . | 797,176.35 |
| Banking-house, furniture and fixtures . | 1,064,250.00 |
| Other real estate and mortgages owned . | 100.00 |
| Due from national banks . . . . . | 1,523,193.29 |
| Due from state banks and bankers . . | 182,206.70 |
| Checks and other cash items . . . . | 13,322.50 |
| Exchanges for clearing house . . . . | 1,701,098.55 |
| Notes of other national banks . . . . | 17,018.00 |
| Fractional paper currency, nickels and cents . . . . . | 1,551.10 |
| Lawful money reserve in bank, viz.: | |
| Specie . . . . . | 3,102,208.70 |
| Legal-tender notes . . . . . | 4,750,589.00 |
| *Amount carried forward* | $37,004,875.54 |

| | |
|---|---|
| *Amount brought forward* | $37,004,875.54 |
| U. S. certif's of deposit for legal tenders | 1,300,000.00 |
| Redemption fund with U. S. Treasurer (5 per cent of circulation) | 2,250.00 |
| Due from U. S. Treasurer, other than 5 per cent redemption fund | 30,000.00 |
| Total | $38,347,025.54 |

LIABILITIES.

To the Public.

| | |
|---|---|
| Deposits | $17,855,883.87 |
| Due to other banks | 14,912,630.35 |
| Demand certificates of deposit | 46,013.59 |
| Certified checks | 290,923.59 |
| Cashier's checks outstanding | 17,608.95 |
| Circulation | 44,520.00 |
| Miscellaneous | 30,441.87 |
| | $33,198,022.22 |

To Shareholders.

| | |
|---|---|
| Capital stock | 2,000,000.00 |
| Surplus fund | 2,500,000.00 |
| Undivided profits | 647,988.32 |
| Dividends unpaid | 1,015.00 |
| Total | $38,347,025.54 |

It would be a gain to clearness if all bank statements were published in this form. Evidently this is one of the banks in which country banks are allowed to keep three-fifths of their legal reserve, the amount due to other banks being much larger than it would be in the ordinary course of business. For these deposits a low rate of interest is allowed, usually 2 per cent, but sometimes less. The question is frequently asked whether it is safe banking to pay interest on such deposits. This can only be answered by experience. That it

**Interest on Deposits.**

is done from year to year, and from generation to generation, would seem to warrant an answer in the affirmative. The clearing house banks do not pay interest to ordinary depositors, but trust companies and private bankers do so whenever they can lend the money so as to make an additional profit for themselves — which is not always the case. The rate of interest on deposits is subject to change at any time.

**Drafts and Bills of Exchange.**

A draft is an order in writing for money, drawn upon the custodian of funds belonging to the drawer, or subject to his order. It may be payable at sight or any number of days after date or after sight. It does not presuppose any other commercial transaction. A bill of exchange is a similar instrument based usually on a sale or purchase of goods. In this country the word draft is commonly applied to all instruments of this sort that are payable within the United States, and the term bill of exchange to those payable in foreign countries.

**Acceptances.**

Bills of exchange are usually made payable to the order of a third person. A bill, if not payable at sight, must be presented as soon as possible to the drawee. If he owes the money according to the tenor of the bill, he should write the word "accepted" on it and sign his name under it. The bill then becomes an acceptance, and two persons are responsible for it. If the holder gets it discounted at his bank, he must endorse it, and thus he also becomes responsible for it. It may go through several hands, each holder endorsing it before he parts with it. It acquires strength with each transfer, since all the persons who have endorsed it are successively responsible for its payment. These are the most important circulating instruments of modern commerce, since nearly all the wholesale transactions of the world are effected by them, and since they range over the whole world and are not limited, like bank notes, to their parent country. Two

or more bills of exchange may be in existence at one time touching one lot of goods, — since it is the transfer and not the creation of them that gives rise to the bills.

A letter of credit is an instrument of writing issued by a bank authorizing the holder of it to draw upon the issuing bank, or upon some affiliated institution, at sight or otherwise, not exceeding in the aggregate a certain sum. It is stipulated in the body of the instrument that the amount of all drafts negotiated under it shall be endorsed upon it so that it shall always show how much of the credit remains unexhausted. The names of the banks or persons in various parts of the world (correspondents of the issuing bank) who will cash the drafts so drawn are printed on it. A large part of the foreign purchases made by merchants is effected through letters of credit. Such drafts are usually termed bills of exchange also, because they appertain to the external trade of the country.

**Letters of Credit.**

If John Doe on this side of the water owes $100 to Richard Roe on the other side, he will look about for some neighbor who has $100 coming to him from some neighbor of Richard Roe. If he finds such a person, he will buy the claim and send it to Richard, who will collect it; and that will square the international trades not only of John and Richard, but also of two other persons. The bits of paper that pass are bills of exchange. The intervention of bankers is a mere accessory, not altering the nature of the transaction. Bankers furnish a convenient meeting-place for buyers and sellers of bills of exchange, and they charge a small commission for the facilities which they offer. It is evident that John Doe will not take the trouble to draw gold from his bank and pack it up and send it to Richard Roe, paying freight and insurance charges, if anybody can be found who will sell him a claim on some-

**Gold Shipments.**

body abroad. Not until all other means have been exhausted will he resort to this method of payment. The bankers do not like to take this trouble any more than John Doe likes it. They prefer to handle bits of paper, *i.e.*, to buy and sell claims on foreigners. They can generally make more money for themselves in that way, because they can sell their credit to better advantage.

The chief business of banks is to discount bills of exchange so that the maker or holder may have the present value of them in cash. Bills of exchange are sometimes accompanied by bills of lading, warehouse receipts, stocks or bonds, which are specific titles to property, the bank having a lien on the property until the bill is paid. These are simply a superior kind of bills. They command a lower rate of interest because of their higher security, and in a stringent money market they will command money when other bills are refused. All other discounted bills are loans on personal security.

**Bills of Lading.**

Accommodation paper is a promissory note, which the maker offers for discount in order that he may have the means necessary for a business undertaking. Bankers are justly suspicious of accommodation paper, yet the difference between such paper and other unsecured bills is not so great as it seems. Both are loans on personal security; for although bills of exchange arise from goods in existence, the banker (without a bill of lading) has no claim on any particular goods. Upon this point Mr. Macleod's argument is entirely sound. He says:

**Accommodation Paper.**

"The essential distinction between real and accommodation bills is that one represents *past* and the other *future* transactions. In a real bill goods *have been* purchased which are to meet the bill; in an accommodation bill goods *are to be* purchased which are to meet the bill. But this is no ground for preference of one over the other. A transaction

which *has been done* may be just as wild, foolish and absurd as one that *has to be* done. The intention of engaging in any mercantile transaction is that the result should repay the outlay with profit. There is no other test of its propriety but this, in a mercantile sense. The true objections to accommodation paper are of a different nature. As real bills arise out of the transfers of property, the number of them must be limited in the very nature of things. However bad and worthless they may be individually, they cannot be multiplied beyond a certain extent. There is therefore a limit to the calamities they cause. But accommodation bills are means devised to extract funds from bankers to speculate with, and consequently these speculations may be continued as long as these funds can be extracted." [1]

**The Scotch Banks.**

The "cash credits" of the Scotch banks consist of accommodation paper entirely. They are authorizations granted to persons to draw a maximum amount within a certain time, paying interest only for the time and amount drawn. There are ten banks in Scotland, with some 900 branches, which are within reach of every hamlet in the country. Cash credits are loans on personal security, never less than two names being required, generally three or more. "These credits are granted to all classes of society, to the poor as freely as to the rich. Everything depends upon character. Young men in the humblest walks of life begin by making a trifle for themselves. This inspires their friends with confidence in their steadiness and judgment and they become sureties for them on a cash credit." [2]

A very large percentage of the cash credits of the Scotch banks are made to farmers, but they are invariably on per-

[1] Macleod, i, 308, 309.

[2] Ibid. i, 346. See also The Scotch Banks and System of Issue, by Robert Somers, p. 87.

sonal, not mortgage, security, and they are not allowed to stagnate. The cash credits appear among the deposits on one side of the bank's ledger, and among "bills discounted, cash accounts and other advances" on the other side. One peculiarity is that the deposits are always paid in the circulating notes of the bank, which are redeemable in gold at the head office. Therefore it is not necessary to keep gold at any other place than the head office, but in practice, if anybody wants gold at a branch bank he can get it. The condition in this respect is very much as it was in New England under the Suffolk system, when all country bank notes were redeemed at par in Boston. Although the country banks were not relieved of the necessity of redeeming their notes at their own counters, it was found that about as much gold was deposited in those banks from day to day as was called for by depositors or noteholders.

**"Cash Credits."**

Mr. Somers is quite justified in saying, in his preface: "The Banking System of Scotland is probably the greatest and most original work which the practical genius of the Scotch people has produced in the sphere of Political and Social Economics." He might properly have said, any people. There is no deposited security for Scotch bank notes, but since 1845 when the "currency principle" was adopted for the note issues of the Bank of England, the same principle was forced upon the Scotch banks also. That is, they were allowed as many uncovered notes as they had in circulation at that time, the aggregate amount being £2,676,350; but for any larger sum they are required to have at the head office an equal amount of gold. The commissioners of Stamps and Taxes have power to examine banks to ascertain the amount of their gold, but the power is never exercised.[1]

**Note Issues.**

[1] Our Scotch Banks, their Position and their Policy, by William Mitchell, p. 17.

The gold reserves of the Scotch banks are only 5 per cent of their deposits. Their returns for 1883 showed : Capital paid in £9,052,000, deposits £82,650,535, notes £5,841,090, gold £4,194,312.[1] There have been only three bank failures in Scotland of any importance, those of the Ayr Bank in 1772, the Western Bank in 1857 and the City of Glasgow Bank in 1878.

The discount of commercial paper has been defined by Mr. A. B. Hepburn, ex-Comptroller of the Currency, as "the swapping of well known credit for less known credit." This is an apt and concise description. The bank first establishes its own credit. Then it is the banker's business to find out what persons in the community are worthy of its credit. Credit enables those who have it to obtain the use of capital which they could not otherwise acquire. Capital may be anything which aids man to produce wealth and is not gratuitously bestowed, such as tools, materials, food, etc. We are not now dealing in nice definitions, but merely seeking to show the place that banking takes in the work of production. The banker, if he understands his trade, enables the most deserving persons in the community to get possession of the tools and materials of industry without the use of money. The most deserving persons, in the commercial sense, are those who can make the most profitable use of tools and materials, and who are believed to be honest. By swapping its well known credit for their less known credit the bank performs a service, which they are willing to pay for, and it performs a service to society by economizing tools and materials. Anything which puts these things into the right hands and keeps them out of the wrong hands is a gain to the world. The continued existence of a bank is conclusive and incontestable proof that it is doing this thing, for if it were not, its own losses and expenses would soon eat it up.

**How Banks aid in the Work of Production.**

[1] Macleod, ii, 242.

It has been shown that it is immaterial whether the bank's credit takes the form of deposits or of circulating notes and that the banker cannot decide which form it shall take. The bank's customers alone can decide this question and it is desirable that no impediment should be placed in the way of their deciding it, since they will infallibly decide it rightly if they are allowed to. They will draw just as much in the form of notes as is wanted by trade and industry at particular times, and no more. When the crops are to be moved they will draw more, and after they have been moved they will put the excess back in the banks. This is what happens in Canada now. The Canadian banks cannot issue notes in excess of their paid up unimpaired capital, but within this limit they can issue them without first buying them from the government. Consequently they can meet any demand at once when it comes; and when the demand ceases and the notes return as deposits, it costs the bank nothing to lock them up. They are not idle capital in its vaults, because they have cost nothing. Under our system each dollar of notes costs at least $1.23 (at the present price of bonds maturing in 1907), and it is always a question whether the banker can get as large a return out of $1.23 thus invested as he could out of the same money used in other ways. The answer to a similar question in Canada after fifteen years' experience, as we have seen, was in the negative.[1]

**Canadian Note Issues Elastic.**

It has been said that note issues are the small side of banking. The amount of cash that passes over bank counters in New York City is only two per cent of the whole amount of payments that are made, ninety-eight per cent being made by checks and drafts. Taking all the national banks of

**Percentage of Cash to Credit in Cities.**

[1] Pp. 360, 361. See also The Currency and Banking Law of the Dominion of Canada, by W. C. Cornwell, pp. 18, 19.

the United States together, the proportion of cash transactions is about nine per cent against ninety-one per cent of credit transactions.[1] It must be borne in mind, however, that this percentage represents only the business done in or by banks. It does not include the hand-to-hand business of communities where no banks exist, which are almost always made with money.

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## CHAPTER XIX.

### CONCLUSION.

ALTHOUGH note issues are the small side of banking operations they are nevertheless important and in the rural districts the most important. If the note-issuing side of the national banking system is moribund, or if it is sluggish and inelastic as almost everybody admits, it ought to be amended. Various plans to this end have been proposed. One of these is called the Baltimore plan because it was recommended by the American Bankers' Association at its meeting in Balti-

**The Baltimore Plan.**

[1] A "census" was recently taken at the First National Bank of Chicago to ascertain the proportion of cash transactions to credit transactions. The following things passed over the counter in a single day:

| | |
|---|---|
| Gold coin | $9,885 |
| Silver coin | 15,826 |
| Gold certificates | 4,045 |
| Silver certificates | 98,129 |
| Greenbacks | 82,172 |
| Treasury notes | 25,496 |
| National Bank notes | 32,263 |
| Total cash | $269,816 |
| Checks, drafts, bills of exchange | $5,398,945 |
| Percentage of cash to total credits | 5 per cent. |

more in October, 1894. The full text is printed in Appendix E. It dispenses with bond security for bank notes and substitutes therefor a guarantee fund equal to 5 per cent of all bank notes outstanding, on the same general plan as the New York Safety Fund and the Canadian "Bank Circulation Redemption Fund." It restricts note issues to 50 per cent of the bank's capital except in emergencies, when it may be increased to 75 per cent, and the government remains responsible as now for the notes and redeems them as now, having the guarantee fund and also a first lien on the assets of failed banks and on the shareholders' liability, and also the five per cent redemption fund required by the existing law and the power to tax all circulating notes at the rate of ½ per cent per annum.

The Baltimore plan does not propose to make the banks responsible for each other's notes beyond the tax of ½ per cent per annum. After the 5 per cent fund is accumulated the tax is to be collected only as it is needed for the purpose of reimbursing the government for the redemption of failed bank notes. At the Baltimore meeting ex-Comptroller Hepburn presented the following statement prepared for him by his successor in office, Mr. Eckels:

**Past Experience.**

| | | |
|---|---|---|
| Average annual circulation of national banks, 1864 to 1894 | | $282,801,252 |
| Outstanding circulation of failed national banks | | 17,819,541 |
| Cost to the general government on account of national banks as shown by the books of this office | $7,610,169 | |
| Additional estimated cost | 7,732,914 | |
| | | 15,343,083 |
| Tax of ¼ of 1 per cent for 31 years | | 21,917,093 |
| Tax of ⅕ of 1 per cent for 31 years | | 17,533,674 |

Commenting upon this Mr. Eckels said: "These figures verify your conclusions to the effect that a tax on outstanding circulation of one-fifth of one per cent would have repaid the cost of the National banks to the general government, and also that a tax of one-fourth of one per cent would have redeemed the notes of all failed national banks, — in fact, a tax of two-fifths of one per cent would have been ample to meet both the cost of that system and the redemption of the notes of failed national banks."

Another letter from Mr. Eckels was read by Mr. Hepburn, viz.: "In further answer to your letter of September 13, you are respectfully advised that the loss to the general government on account of circulation of failed national banks, up to January 1, 1894, *had there been no bond deposit*, would have been $1,139,253. Of this amount $958,247 represents the loss by banks whose trusts are still open and may pay further dividends, thus reducing the amount last named. The tables showing the full amount of dividends paid by all failed national banks are not yet completed, but an examination of the accounts of each trust develops the fact that there would have been no loss on circulation other than above indicated. This statement applies to all failures down to January 1, 1894."

It is said, however, that the experience of the past is not applicable to a different state of facts; for example, to a case where facilities are offered for the starting of banks expressly to swindle the government or the public. That is true, and it raises the question whether the Baltimore plan would furnish such facilities to a dangerous extent.

**Objections to the Plan.**

It is generally assumed that any five persons can start a bank and it is feared that a great many such groups would be organized in remote and inaccessible places for the purpose of issuing notes, getting value for them and then

absconding. But this is a misconception. The five persons must have at least $100,000 to begin with, unless their bank is in a town of less than 6000 inhabitants, in which case they must have at least $50,000, and must have the approval of the Secretary of the Treasury in addition to that of the Comptroller of the Currency. In other words, the starting of a bank with as small a capital as $50,000 is considered a suspicious circumstance in itself, calling for extra caution on the part of the government.

As to all the banks, large and small, 50 per cent of the capital must be paid in at once, and 10 per cent each month thereafter — that is, it must all be paid in within five months. If the Comptroller permits it the bank may commence business when 50 per cent is paid in, but in any case he must "examine into the condition of such association, ascertain especially the amount of money paid in on account of its capital, the name and place of residence of each of its directors, and the amount of capital stock of which each is the owner in good faith, and generally whether such association has complied with all the provisions required to entitle it to engage in the business of banking; and cause to be made and attested by the oaths of a majority of the directors and by the president or cashier of the association a statement of all the facts necessary to enable the Comptroller to determine whether the association is lawfully entitled to commence the business of banking."

**Conditions of starting New Banks.**

All of these things the Comptroller *must* do, but there are other things that he *may* do. He may appoint a special commission to inquire into the character and antecedents of the intending bankers, and even if the report is favorable he is not obliged to grant them a certificate, for the law says: "The Comptroller may withhold from an association his certificate authorizing the commencement of business when-

ever he has reason to suppose that the shareholders have formed the same for any other than the legitimate objects contemplated by this title."

How does this compare with the reckless way in which bank charters were granted during the life of the Suffolk system in New England? Ninety bank charters were granted in New England between 1831 and 1833. Forty-five were granted in Massachusetts alone, and thirty-three more in 1836. Yet in the worst lot of bank failures that ever took place in Massachusetts (those of 1837) all the notes would have been redeemed by a first lien on the assets plus a safety fund of 5 per cent on all bank circulation.

**Under the Suffolk System.**

The framers of the Baltimore plan have not claimed perfection for it. Probably it would be a wise amendment to provide that no bank shall issue circulating notes until it has been in operation two years, and not then if the Comptroller is not satisfied with its character and management.

The Canadian bank-note system has the same general features as the Baltimore plan, but there are some differences. For example, in Canada no bank is allowed to start with a less subscribed capital than $500,000, or a less paid-up capital than $250,000. As the double liability of shareholders exists there as here, it results that $1,000,000 is pledged in every case before a bank can issue a note. Under our system, as already said, banks may be started as small as $50,000. Now it is a fact that failures are not more frequent among the small banks than among the large ones. The whole number of national banks of less capital than $100,000 is 1489, out of a total of 3756 — a little less than two-fifths. The whole number of failures of such banks to the close of the year 1893 was 116, out of a total of 246 — again a little less than two-fifths. Nevertheless, the Canadian system has

**Canadian System.**

a foothold which a similar system here would only slowly gain. For this reason the Baltimore plan contemplates that the government shall be responsible for the notes of failed banks.

**National Branch Banks.**

At the meeting of New York Bankers at Saratoga, July 10, 1895, Mr. B. E. Walker, President of the Canadian Bankers' Association, made the following among other suggestions for the improvement of our national system:

"Any bank with a paid-up capital of $1,000,000 or over to be allowed to issue notes, say, to the amount of 75 per cent of the paid-up capital, secured only by being a prior lien on the assets of the bank, including the double liability of stockholders, and by an insurance fund of, say, 5 per cent, and to be free from the 10 per cent tax, such banks to be allowed to establish branches within the state in which the head office is situated. Any bank with a capital of, say, $5,000,000 or over to have the same privileges as to note issues, and to be allowed to establish branches throughout the United States."

Mr. Walker explained the advantages of the branch system, saying: "In Canada with its banks with forty and fifty branches, we see the deposits of the saving communities applied directly to the country's new enterprises in a manner nearly perfect. The bank of Montreal borrows money from depositors at Halifax and many points in the Maritime Provinces where savings largely exceed the new enterprises, and it lends money in Vancouver or in the Northwest, where the new enterprises far exceed the people's savings." No valid objection to branch banks on this side of the boundary is perceived. In this way the needs of the smaller towns for banks of less than $50,000 capital might be met under the national system.

It was the opinion of most of the bankers who were examined by the Banking committee of the House at

Washington in December, 1894, that a 5 per cent safety fund would be superabundant. Nevertheless, we have to satisfy not merely experienced bankers but the people of the United States, who have been accustomed during thirty-one years to look upon the bank note as a government note. Having been dispensed for a whole generation from the need of taking any thought as to the goodness of bank notes, it is a question what might be the effect of a change of system which would introduce an element of doubt in the common mind. If we had been running, like Canada, for a generation without bond security or government guarantee, the case would be different. It is because of the possible effect on the public mind of the proposed change that it is desirable to continue the government guarantee, at least during the transition period, the government having power to recoup itself by the tax of ½ per cent per annum on all bank circulation, in addition to its first lien on the assets of failed banks.

Those who cannot assent to this plan are bound to offer a better one, since the present system of note issues is doomed to extinction with the extinction of the national debt, if not sooner. In the South a majority of the people desire a repeal of the 10 per cent tax on State bank notes. They think that their interests would be promoted by a return to *ante bellum* conditions. They are not to be blamed for holding this view. Their bitter cry is a demand that credit be allowed its proper and pristine place in bank note issues. Their banks immediately before the war were generally sound, and they supplied a credit currency which was elastic and suited to the needs of the community. If the 10 per cent tax were now proposed for the first time it would be rejected. Even when it was enacted, as a war measure, early in 1865, it was carried by a majority of only one vote in the House and two in the Senate, after a stiff

**The Tax on State Bank Notes.**

fight. But the tax has brought about a new state of things, so that the question presented to us is whether we ought to allow heterogeneousness of bank notes again. The reasons against doing so have already been stated. It is evident, too, that if the Baltimore plan or any other plan were adopted to secure a real credit currency, State bank notes could do nothing for the people of the rural communities which national bank notes could not do better — better, because under the plan proposed the notes would be guaranteed by the national government and would accordingly enjoy the highest possible credit. This would be as much for the advantage of the people as of the banks themselves. It cannot be too often repeated, that *credit* is of the essence of *banking* and that the element of credit is eliminated from national bank notes. The evil is not felt in the large towns and cities, because there bank checks take the place of bank notes, and there is no limit to the use of checks.

The success of clearing house certificates in quelling panics has suggested an extension of that system to the purposes of ordinary bank note issues. The basic principle of the loan certificates is the "pooling" of bank reserves, which is of course voluntary, and is resorted to only on rare occasions, and then only in order to avoid a common catastrophe. Would all the banks of a particular clearing house district put their reserves in permanent pledge in this way? Probably not. Many of them, in the larger cities, care nothing about circulating notes any way, and would not issue them if they could do so freely. Of course there would be no inducement for them to pledge their reserves for other banks. Moreover, as Professor Dunbar says, "what is effective by way of relief is not necessarily salutary as a regular system. The relief in this case comes from the fact that under the arrangement for combined reserves every

**Proposed Clearing House Currency.**

bank is completely discharged from any real sense of responsibility for cautious action. Slight as its share of responsibility may be under ordinary circumstances, under this arrangement it is free to expand or to neglect ordinary precautions at pleasure; the arrangement is entered into for the precise object of thus setting it free, and it is in the public knowledge of this fact that the virtue of the arrangement consists. But under ordinary circumstances it is not by any diminished sense of responsibility that the way to sound banking and to the ultimate good of the community is to be found."[1]

**Audi Alteram Partem.**

It must be admitted, however, that good authorities are to be found in opposition to any note issues that are not secured by the pledge of equal or greater value in the hands of public officers. It is not the purpose of this book to decide the question dogmatically, but to stimulate thought among those who must decide it.

[1] Theory and History of Banking, p. 81.

# APPENDIXES.

# APPENDIX A.

## RECENT BIMETALLIST MOVEMENTS IN GERMANY.

THE recent outbreak of bimetallism in Germany has its seat and foundation in the low price of grain. In the beginning of 1894 the government submitted to the Reichstag a treaty of commerce with Russia admitting cereals at a low rate of duty. The Agrarian or land-owning party was violently opposed to this measure, but Chancellor Caprivi considered it indispensable as a means of conciliating Russia. In order to appease the Agrarians the Chancellor, in reply to an address in favor of bimetallism presented to him by an aristocratic society of landowners in East Prussia, condescended to say that the money question might be reëxamined from certain points of view. This concession was reënforced by the Prussian Minister of Agriculture, Herr von Heyden, who had no decided opinion on the monetary question, but was inclined to make some concessions to the Agrarians. The result was the appointment of a commission in the spring of 1894 to consider the question whether means could be found for raising the price of silver and making it more stable, it being assumed that low and fluctuating prices of commodities were an injury to Germany.

**The Agrarian Party.**

The commission was appointed by the Imperial Government. It consisted of sixteen members. Eight of them were decided supporters of the gold standard, six were equally decided bimetallists, and the other two inclined to the opinion that something ought to be done for silver if it could be done without

**Monetary Commission of 1894.**

upsetting the gold standard. The gold standard men were reduced to seven by the absence of the member from Hamburg, who attended only one meeting.

The president of the commission was Count Posadowsky-Wehner, Secretary of State for the Imperial Treasury, a member of the Prussian landed aristocracy, with a small income, and not specially fitted by study or experience to consider such a question. He was selected for the place by the personal favor of the Emperor. His integrity was beyond question and he did his best to fit himself for the duties of his new position, which he discharged with strict impartiality. In so far as he had any bias it was against bimetallism.

**Count Posadowsky.**

The commission took up the original programme — the question of raising the price and ensuring the stability of silver. The two moderate bimetallists, Prof. Lexis[1] and Mr. Koenigs, made a proposition looking to a larger use of silver by augmenting the weight of the silver coins in actual use to a ratio corresponding to 1 to 21 or 1 to 24, such change to be based upon a convention with other governments, especially that of Great Britain, which should engage to reopen the Indian mints. This proposition was rejected by all the other members on both sides. Another proposition looking to restrictions on silver mining by governmental action was negatived so decidedly that the mover withdrew it.

**Prof. Lexis.**

A motion was then made for an international conference to promote the free coinage of both metals at an agreed ratio. Those who favored this project did not express any decided opinion as to the numerical ratio to be adopted, nor as to the adhesion of England, but it was evident that they favored the ratio of 15½

**Conference Rejected.**

[1] Professor Lexis has since taken a decided stand against bimetallism.

and that they thought that the adhesion of England might be dispensed with. Six members favored this policy; the other nine were entirely opposed to it.

Finally Dr. Otto Arendt, the leading bimetallist in Germany, offered what he called a temporary measure, substantially a plan proposed by Mr. Pierson, formerly Finance Minister of the Netherlands. According to this plan the several governments would agree upon a system of international exchange of silver and gold through the intervention of their state banks, which should be obliged to buy and sell the two metals at certain prices to be fixed periodically. This plan was so objectionable to the other bimetallists that they refused to follow their leader. So it was dropped without further discussion.

**Dr. Arendt.**

A special feature of the proceedings consisted in an examination of geological experts, which was undertaken at the instance of the bimetallists, who desired to bring before the commission their great authority, Professor Suess of Vienna, who began, twenty years ago, predicting the early exhaustion of the gold mines of the universe and who still persists in that belief. Professor Suess was accordingly invited, but the other side insisted upon summoning other geological authorities. The result was a prolonged disputation in which the weight of testimony was against Professor Suess and his theories.

**Prof. Suess.**

After twenty-one sessions the president closed the proceedings with the single remark that these protracted debates might be useful as showing how difficult it was to find something which would evidently be desirable if it were attainable. Thus the commission left things just where it found them, which was a practical defeat for the bimetallists.

**Adjournment.**

From this time to the dismissal of Chancellor Caprivi there was a lull, but directly after that event the bimetallists started

up afresh, and in high spirits. The fall of Caprivi was followed by that of the Prussian Minister of Agriculture, Herr von Heyden, who though not a partisan of the gold standard and rather favorable to the fads of the Agrarians, is a man of sound temper and fully aware of the dangers of headlong adventures on the money question. His successor, Herr von Hammerstein, was a thorough Agrarian and had been, before his nomination, president of the Agrarian League (*Bund der Landwirthe*). Still, he was not altogether impressed with the virtues of bimetallism, but rather inclined to drift with the tide. More important than this change was the general derangement caused by the downfall of Caprivi, which was a great victory for the extreme Agrarian party over the sound and moderate ideas of the Chancellor. His successor, Prince von Hohenlohe, is by no means a reckless person, but he is so old and infirm that his personal weight is of little significance and he is unable to offer serious resistance to the demands of the landed aristocracy, who are the daily companions of the Emperor and who besiege him with complaints that the whole agriculture of Germany is going to the dogs if it is not helped by radical measures, of which they affirm that bimetallism is one of the most effective.

**The Downfall of Caprivi.**

In this state of things the Agrarian leaders in the Reichstag prepared a motion asking the government to take the *initiative* for assembling a new international monetary conference. The motion was immediately signed by the two Conservative parties and by nearly the whole Catholic party. But the greatest amazement was produced when the paper was found to bear also the signatures of nearly all the National Liberals including their old leader, Herr von Bennigsen. This party had heretofore been the stanch defender of the gold standard, and its new attitude was interpreted as a very significant

**Vote in the Reichstag.**

change in the situation and especially as implying that the government had encouraged the movement. This was much more than the government had ever before condescended to do, *i.e.*, to make advances to other nations looking to a monetary treaty. Now Chancellor Hohenlohe declared that they were inclined to submit such a proposition to the Federal Council, keeping open a line of retreat, however, by adding the words "without prejudice to the Imperial standard." After him Count Posadowsky made still further advances to the bimetallists and the result was that the motion that the government issue, as soon as possible, an invitation for a monetary conference, to the end of an international solution of the standard question, was adopted by a very large majority. The minority was composed of the Progressists, the Southern Democrats, the Socialists and five or six National Liberals.

**The National Liberals.**

The National Liberals attempted to justify their change of policy by saying that they did not mean to vote for bimetallism, but merely for a conference that possibly might find some measure for a better state of things. But this was not the true explanation. They acted merely under Agrarian pressure that had invaded their party and their constituencies. The peasants are mad with the silver craze, especially in the North of Germany, and the fear of being denounced to their constituents as enemies of silver drove them to vote for something which they did not believe in. Privately they hope that all these measures will prove impracticable and that the new conference, if there is one, will end miserably like all the others.

The government has proceeded slowly. It first submitted the question to the Staatsrath, which being composed chiefly of the Agrarian element, agreed to the conference. Only twelve members were of the contrary opinion and the debate was very animated. The Staatsrath, a kind of Privy Council,

has no real power, and only gives advice to the Prussian Monarch. The Emperor is said to be for the gold standard, but not disposed to take an active part in deciding the question. Notwithstanding the presence of some active bimetallists in the government councils it is evident that the majority would be glad to meet some insurmountable obstacle to the calling of a conference, first, because they have a secret feeling that it is all labor lost; and second, because they do not possess sufficient knowledge of the special subject to feel entirely sure of their footing.

**Later Movements.**

Meanwhile a contrary movement has sprung up among the commercial classes. The Handelstag, the body which represents all the chambers of commerce in Germany, at once uttered a most energetic protest against the government's yielding to the bimetallists and against a new conference. This was followed by a series of great meetings in the large commercial cities at which resolutions were passed protesting solemnly against any tampering with the monetary standard. A league for the preservation of the gold standard (*Verein zum Schutz der deutschen Goldwährung*) has been formed and is now prosecuting a vigorous campaign of education.

**The Commercial Classes.**

What the outcome may be it is impossible to predict. Late telegraphic advices are to the effect that a majority of the Federal Council has voted against calling a conference. It is certain that Bavaria and Würtemberg have pronounced against it strongly and that even the Prussian Diet has voted that nothing should be done in the line of bimetallism without the coöperation of England.

**Result still Uncertain.**

# APPENDIX B.

## MR. SHAW'S HISTORY OF CURRENCY.

SINCE the first half of this book was stereotyped a volume of some 400 pages, entitled "The History of Currency, 1252 to 1894," by W. A. Shaw, has been published in London. Mr. Shaw has done for the currencies of the civilized world what Lord Liverpool did for that of England in his classical work, "On the Coins of the Realm." Mr. Shaw's work, like that of Lord Liverpool, possesses a permanent historical interest far transcending the present battle of the standards. The efforts of the human race to extricate itself from the coil of the double standard of silver and gold are sketched for a period of more than six centuries. Society was at dreadful strife with itself, and did not know what was the cause of its misery. But it found out at last, and delivered itself from its torment, and now some people propose that it shall put on the shirt of Nessus once more, as an act of volition. Mr. Shaw rightly says in his preface:

"The modern theory of bimetallism is almost the only instance of a theory growing not out of practice, resting not on data verified, but on data falsified and censure-marked. No words can be too strong of condemnation for the theorizing of the bimetallist who by sheer imaginings tries to justify theoretically what has failed in five centuries of history, and to expound theoretically what has proved itself incapable of solution save by cutting and casting away."

To enumerate all the changes of ratio between silver and gold in all the countries of Europe during the period covered by Mr. Shaw's researches would be like counting the stars in the Milky Way. For example, in France the ratio "was changed in a single century more than a hundred and fifty times," and these changes were not, as is commonly supposed, mere arbitrary acts of the sovereign to fill the royal treasury. They were due to variations in the market value of the two metals after the legal ratio had been fixed. In almost every instance the initial steps for a change in the legal ratio were taken by the trading community. What took place in France was the common experience of Germany, England, the Netherlands, and Italy. And so they went on weltering in ratio changes till the nineteenth century, when they found out what was the matter and applied the remedy. And now they are asked to plunge in again and welter a while longer.

The bimetallist contention that the action of France in fixing the legal ratio of 15½ to 1 kept the market ratio of the two metals steady from 1803 to 1873 has been in a staggering way for some time. Mr. Shaw gives it the *coup de grâce*. "At no point of time," he says, "during the present century has the actual market ratio, dependent on the commercial value of silver, corresponded with the French ratio of 15½, and at no point of time has France been free from the disastrous influence of that want of correspondence between the legal and commercial ratios. The opposite notion, which prevails and finds expression in the ephemeral bimetallic literature of to-day, is simply due to ignorance."

It is perhaps well to explain why the great gold discoveries of California and Australia in the fifties did not produce a greater divergence. The answer is easy. Modern commerce took a great start in the fifties. It absorbed the new gold with avidity. Gold was exactly suited to the new state of

things, because it possessed much value in little bulk and weight. So the mystery of the comparative steadiness of the market ratio during the great outpouring of gold in the fifties is explained by natural causes, and without reference to the French bimetallic law.

# APPENDIX C.

## AVERAGE MARKET RATIO OF SILVER TO GOLD BY YEARS.

From 1793 (when our mint was established) to 1895.

*From the reports of the Director of the mint.*

[NOTE. — From 1793 to 1832 the ratios are taken from the tables of Dr. A. Soetbeer; from 1833 to 1878 from Pixley and Abell's tables; and from 1878 to 1895 from daily cablegrams from London to the Bureau of the Mint.]

| Year. | Ratio. | Year. | Ratio. | Year. | Ratio. | Year. | Ratio. |
|---|---|---|---|---|---|---|---|
| 1793 | 15.00 | 1819 | 15.33 | 1845 | 15.92 | 1871 | 15.57 |
| 1794 | 15.37 | 1820 | 15.62 | 1846 | 15.90 | 1872 | 15.63 |
| 1795 | 15.55 | 1821 | 15.95 | 1847 | 15.80 | 1873 | 15.92 |
| 1796 | 15.65 | 1822 | 15.80 | 1848 | 15.85 | 1874 | 16.17 |
| 1797 | 15.41 | 1823 | 15.84 | 1849 | 15.78 | 1875 | 16.59 |
| 1798 | 15.59 | 1824 | 15.82 | 1850 | 15.70 | 1876 | 17.88 |
| 1799 | 15.74 | 1825 | 15.70 | 1851 | 15.46 | 1877 | 17.22 |
| 1800 | 15.68 | 1826 | 15.76 | 1852 | 15.59 | 1878 | 17.94 |
| 1801 | 15.46 | 1827 | 15.74 | 1853 | 15.33 | 1879 | 18.40 |
| 1802 | 15.26 | 1828 | 15.78 | 1854 | 15.33 | 1880 | 18.05 |
| 1803 | 15.41 | 1829 | 15.78 | 1855 | 15.38 | 1881 | 18.16 |
| 1804 | 15.41 | 1830 | 15.82 | 1856 | 15.38 | 1882 | 18.19 |
| 1805 | 15.79 | 1831 | 15.72 | 1857 | 15.27 | 1883 | 18.64 |
| 1806 | 15.52 | 1832 | 15.73 | 1858 | 15.38 | 1884 | 18.57 |
| 1807 | 15.43 | 1833 | 15.93 | 1859 | 15.19 | 1885 | 19.41 |
| 1808 | 16.08 | 1834 | 15.73 | 1860 | 15.29 | 1886 | 20.78 |
| 1809 | 15.96 | 1835 | 15.80 | 1861 | 15.50 | 1887 | 21.13 |
| 1810 | 15.77 | 1836 | 15.72 | 1862 | 15.35 | 1888 | 21.99 |
| 1811 | 15.53 | 1837 | 15.83 | 1863 | 15.37 | 1889 | 22.09 |
| 1812 | 16.11 | 1838 | 15.85 | 1864 | 15.37 | 1890 | 19.76 |
| 1813 | 16.25 | 1839 | 15.62 | 1865 | 15.44 | 1891 | 20.92 |
| 1814 | 15.04 | 1840 | 15.62 | 1866 | 15.43 | 1892 | 23.72 |
| 1815 | 15.26 | 1841 | 15.70 | 1867 | 15.57 | 1893 | 26.49 |
| 1816 | 15.28 | 1842 | 15.87 | 1868 | 15.59 | 1894 | 32.56 |
| 1817 | 15.11 | 1843 | 15.93 | 1869 | 15.60 | 1895[1] | 30.73 |
| 1818 | 15.35 | 1844 | 15.85 | 1870 | 15.57 | | |

[1] July 1.

# APPENDIX D.

## SILVER COINAGE OF THE UNITED STATES.

Our silver coinage properly falls under three heads: (1) from 1793 to 1853, during which time silver was coined for private persons without limit, and all such coins were full legal tender; (2) from 1853 to 1873, during which time the *dollars* only were coined for private persons and were full legal tender, all smaller denominations being coined on government account and being only limited legal tender; (3) 1873 to 1894, when no silver (except trade dollars) was coined for private persons, but all on government account. The figures are these:

*1793 to 1853.*

| Dollars. | All Other. |
|---|---|
| $2,407,590 | $76,708,309.40 |

*1853 to 1873.*

| | |
|---|---|
| 5,638,248 | 60,361,246.70 |

*1873 to 1894.*

| | |
|---|---|
| 419,333,208 | 78,416,152.05 |

# APPENDIX E.

## THE BALTIMORE PLAN.

At the annual meeting of the American Bankers' Association, held at Baltimore, October 10, 11, 1894, Mr. Chas. C. Homer, President of the Second National Bank of that city, in behalf of the Baltimore Clearing House Association, presented the following outline of a plan for amendments of the National Banking law. After debate it was adopted by the Association, some members who voted for it saying they desired some additions to be made to it hereafter. This is now known as the Baltimore Plan. It is understood that all parts of the National Banking law are to remain in force except as here modified:

Sec. I. — The provision of the National Bank act, requiring the deposit of bonds to secure circulating notes hereafter issued, shall be repealed.

Sec. II. — Allow the banks to issue circulating notes to the amount of fifty per centum of their paid-up, unimpaired capital, subject to a tax of *one-half of one per centum* per annum, upon the average amount of circulation outstanding for the year; and an additional circulation of twenty-five per centum of their paid-up, unimpaired capital, subject both to the tax of *one-half of one per centum* per annum and to an *additional* heavy tax per annum upon the average amount of such circulation outstanding for the year; said additional twenty-five per centum to be known as "Emergency Circulation."

Sec. III. — The present tax of *one per centum* per annum upon the average amount of circulation outstanding shall be paid to the Treasurer of the United States as a means of revenue, out of which the expenses of the office of the Comptroller of the Currency, the printing of circulating notes, etc., shall be defrayed.

The *excess* over one-half of one per centum of the tax imposed upon the "Emergency Circulation" shall be paid into the "Guarantee Fund," referred to in Sec. VI.

Sec. IV. — The banks issuing circulation shall deposit and maintain with the Treasurer of the United States a "Redemption Fund" equal to five per centum of their average outstanding circulation, as provided for under the existing law.

Sec. V. — The redemption of the notes of all banks, solvent or insolvent, to be made, as provided for by the existing law.

Sec. VI. — Create a "Guarantee Fund" through the deposit by each bank of *two per centum* upon the amount of circulation received the first year. Thereafter impose a tax of *one-half of one per centum* upon the average amount of outstanding circulation, the same to be paid into this fund until it shall equal *five per centum* of the entire circulation outstanding, when the collection of such tax shall be suspended, to be resumed, whenever the Comptroller of the Currency shall deem it necessary.

The notes of insolvent banks shall be redeemed by the Treasurer of the United States, out of the "Guarantee Fund," if it shall be sufficient, and if not sufficient, then out of any money in the Treasury, the same to be reimbursed to the Treasury, out of the "Guarantee Fund," when replenished either from the assets of the failed banks or from the tax aforesaid.

National banking associations, organized after this plan shall have gone into operation, may receive circulation from the Comptroller of the Currency, upon paying into the "Guarantee Fund" a sum bearing the ratio to the circulation

applied for and allowed, that the "Guarantee Fund" bears to the total circulation outstanding, and to be subject to the tax of one-half of one per centum per annum, as called for by the Treasurer of the United States for the creation and maintenance of this fund.

No association or individual shall have any claim upon any part of the money in said "Guarantee Fund," except for the redemption of the circulating notes of any insolvent national banking association. Any surplus or residue of said "Guarantee Fund" which may be hereafter ascertained or determined by law, shall inure to the benefit of the United States.

Sec. VII. — The government shall have a prior lien upon the assets of each failed bank and upon the liability of shareholders, for the purpose of restoring the amount withdrawn from the "Guarantee Fund" for the redemption of its circulation, not to exceed, however, the amount of the failed bank's outstanding circulation after deducting the sum to its credit in the "Redemption Fund"(Sec. IV), already in the hands of the Treasurer of the United States.

Sec. VIII. — Circulation can be retired by a bank at any time upon depositing with the Treasurer of the United States lawful money in amount equal to the sum desired to be withdrawn, and, immediately upon such deposit, the tax indicated in Sections II, III, and VI shall cease upon the circulation so retired.

Sec. IX. — In the event of the winding up of the business of a bank by reason of insolvency, or otherwise, the Treasurer of the United States, with the concurrence of the Comptroller of the Currency, may, on the application of the directors, or of the liquidator, receiver, assignee, or other official, and upon being satisfied that proper arrangements have been made for the payment of the notes of the bank and any tax due thereon, pay over to such directors, liquidator, receiver, assignee, or other proper official, the amount at the credit of the bank in the "Redemption Fund," indicated in Sec. IV.

# APPENDIX F.

## SECRETARY CARLISLE'S PLAN.

THE following plan for amendments of the National Banking law was proposed by Hon. J. G. Carlisle, Secretary of the Treasury, in his annual report for 1894:

I.

Repeal all laws requiring, or authorizing, the deposit of United States bonds as security for circulation.

II.

Permit national banks to issue notes to an amount not exceeding seventy-five per centum of their paid-up and unimpaired capital, but require each bank before receiving notes to deposit a guarantee fund, consisting of United States legal-tender notes, including Treasury notes of 1890, to the amount of thirty per centum upon the circulating notes applied for. This percentage of deposits upon the circulating notes outstanding to be maintained at all times, and whenever a bank retires its circulation, in whole or in part, its guarantee fund to be returned to it in proportion to the amount of notes retired.

III.

Retain the provision of the law making stockholders individually liable, and provide that the circulating notes shall constitute a first lien upon all the assets of the bank.

IV.

Impose a tax of one-half of one per centum per annum, payable semi-annually, upon the average amount of notes in circulation, to defray the expenses of printing notes, official supervision, cancellation, etc.

V.

No national bank note to be of less denomination than ten dollars, and all notes of the same denomination to be uniform in design ; but banks desiring to redeem their notes in gold may have them made payable in that coin. The Secretary of the Treasury to have authority to prepare and keep on hand ready for issue upon application a reserve of blank national bank notes for each banking association having circulation.

VI.

Require each national banking association to redeem its notes at its own office, or at its own office and at agencies to be designated by it.

VII.

To provide a safety fund for the immediate redemption of the circulating notes of failed banks, impose a tax of per centum per annum upon the average circulation of each bank until the fund amounts to five per centum of the total circulation outstanding. Require each new bank, and each bank taking out additional circulation, to deposit its proper proportion of this fund before receiving notes. When a bank fails, its guarantee fund held on deposit to be paid into the safety fund and used in the redemption of its notes, and if this fund shall be impaired by the redemption of the notes of failed national banks, and the immediately available cash assets of such banks are insufficient to reëstablish the

fund, it shall at once be made good by pro rata assessments upon the other banks, according to the amounts of their outstanding circulation; but there shall be a first lien upon all the assets of failed bank, or banks, to reimburse the contributing banks. The safety fund may be invested in outstanding United States bonds having the longest time to run, the bonds and the interest upon them to be held as part of the fund and sold when necessary to redeem notes of failed banks.

VIII.

Repeal the provisions of the reorganization and extension act of July 12, 1882, imposing limitations upon the reduction and increase of national-bank circulation.

IX.

Repeal all provisions of the law requiring banks to keep a reserve on account of deposits.

X.

The Secretary of the Treasury may, in his discretion, use any surplus revenue of the United States in the redemption and retirement of United States legal-tender notes, but such redemptions shall not in the aggregate exceed an amount equal to seventy per cent of the additional circulation taken out by national and State banks under the system herein proposed.

XI.

Circulating notes issued by a banking corporation, duly organized under the laws of any State, and which transacts no other than a banking business, shall be exempt from taxation under the laws of the United States, when it is

shown to the satisfaction of the Secretary of the Treasury and the Comptroller of the Currency —

(1) That such bank has at no time had outstanding its circulating notes in excess of seventy-five per centum of its paid-up and unimpaired capital.

(2) That its stockholders are individually liable for the redemption of its circulating notes to the full extent of their ownership of stock.

(3) That the circulating notes constitute by law a first lien upon all the assets of the bank.

(4) That the bank has at all times kept a guarantee fund in United States legal-tender notes, including Treasury notes of 1890, equal to thirty per centum of its outstanding circulating notes; and

(5) That it has promptly redeemed its notes on demand at its principal office, or at one or more of its branch offices, if it has branches.

XII.

The Secretary of the Treasury may, under proper rules and regulations to be established by him, permit State banks to procure and use, in the preparation of their notes, the distinctive paper used in printing United States securities; but no State bank shall print or engrave its notes in similitude of a United States note or certificate or national bank note.

# APPENDIX G.

## GOLD VALUE OF GREENBACKS DURING THE SUSPENSION OF SPECIE PAYMENTS.

Highest and Lowest Prices each year, 1862 to 1878.

(*Fractions omitted.*)

| | Highest. | Lowest. |
|---|---|---|
| 1862 | 98 | 76 |
| 1863 | 79 | 62 |
| 1864 | 65 | 35 |
| 1865 | 76 | 43 |
| 1866 | 78 | 65 |
| 1867 | 76 | 69 |
| 1868 | 76 | 69 |
| 1869 | 84 | 61 [1] |
| 1870 | 90 | 81 |
| 1871 | 92 | 87 |
| 1872 | 92 | 87 |
| 1873 | 92 | 84 |
| 1874 | 91 | 87 |
| 1875 | 89 | 85 |
| 1876 | 93 | 87 |
| 1877 | 97 | 92 |
| 1878 | 100 | 97 |

[1] Black Friday.

# APPENDIX H.

## THE GRESHAM LAW.

THE fact that when two kinds of money, differing in value, are equally current, the worse drives the better out of circulation, must have been known by experience from the earliest times. It was certainly known to Nicole Oresme, Bishop of Lisieux, France (1364), and to Copernicus (1526), both of whom wrote treatises on money in which they pointed out the reason. These treatises were rescued from oblivion in the year 1864 by the French economist Wolowski. Oresme was one of the counselors of Charles V. of France. At the King's request he wrote a treatise on the coinage, in which he laid down the following principles, among others equally sound:

"That if the fixed legal ratio of the coins differs from the natural or market value of the metals, the coin which is underrated entirely disappears from circulation, and the coin which is overrated alone remains current.

"That if degraded and debased coin is allowed to circulate along with good and full-weighted coin, all the good coin disappears from circulation, and the base coin alone remains current to the ruin of commerce."

The treatise of Copernicus was written at the instance of Sigismund I., king of Poland. He said:

"That it is impossible for good full-weighted coin and base and degraded coin to circulate together; that all the good coin is hoarded, melted down or exported; and the degraded and debased coin alone remains in circulation.

"That the coins of gold and silver must bear the same ratio to each other as the metals do in the market."

It had been supposed, prior to 1864, that Sir Thomas Gresham, who explained this law to Queen Elizabeth, was its first expounder. His exposition was pointed out by Mr. H. D. Macleod in 1858, and hence it became known as the "Gresham Law." It is found in an old pamphlet in these words :

"When two sorts of coin are current in the same nation, of like value by denomination but not intrinsically, that which has the least value will be current and the other as much as possible will be hoarded."

Upon this general principle Professor Jevons makes the following observations :[1]

"Though the public generally do not discriminate between coins and coins, provided there is an apparent similarity, a small class of money-changers, bullion-dealers, bankers or goldsmiths make it their business to be acquainted with such differences, and know how to derive a profit from them. These are the people who frequently *uncoin* money, either by melting it, or by exporting it to countries where it is sooner or later melted. Some coins are sunk in the sea or lost, and some are carried abroad by emigrants and travelers who do not look closely to the metallic value of the money. But by far the greatest part of the standard coinage is removed from circulation by people who know that they shall gain by choosing for this purpose the new heavy coins most recently issued from the mint. Hence arises the practice, extensively carried on in the present day in England, of *picking and culling*, or, as another technical expression is, *garbling* the coinage, devoting the good new coins to the melting-pot, and passing the old worn coins into circulation again on every suitable opportunity.

[1] Money and the Mechanism of Exchange, p. 80.

"From these considerations we readily learn the truth and importance of a general law or principle concerning the circulation of money, which Mr. Macleod has very appropriately named the Law or Theorem of Gresham, after Sir Thomas Gresham, who clearly perceived its truth three centuries ago. This law, briefly expressed, is that *bad money drives out good money*, but that *good money cannot drive out bad money*. At first sight there may seem to be something paradoxical in the fact, that when beautiful new coins of full weight are issued from the mint, the people still continue to circulate, in preference, the old depreciated ones. Many well-intentioned efforts to reform a currency have thus been frustrated, to the great cost of states, and the perplexity of statesmen who had not studied the principles of monetary science.

"In all other matters everybody is led by self-interest to choose the better and reject the worse; but in the case of money, it would seem as if they paradoxically retain the worse and get rid of the better. The explanation is very simple. The people, as a general rule, do not reject the better, but pass from hand to hand indifferently the heavy and the light coins, because their only use for the coin is as a medium of exchange. It is those who are going to melt, export, hoard, or dissolve the coins of the realm, or convert them into jewelry and gold leaf, who carefully select for their purposes the new heavy coins. . . . .

"Gresham's remarks concerning the inability of good money to drive out bad money, only referred to moneys of one kind of metal, but the same principle applies to the relations of all kinds of money, in the same circulation. Gold compared with silver, or silver with copper, or paper compared with gold, are subject to the same law that the relatively cheaper medium of exchange will be retained in circulation and the relatively dearer will disappear."

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# INDEX.


## A.

Acceptances, 429.
Accommodation Paper, 431.
Adams, John Quincy, 296.
Adams, Samuel, Sr., 254.
Aldrich, Nelson, W., 206.
Alisana Bank, 403.
Allard, M., 78, 83, 84, 101, 103.
Allison, Wm. B., 78, 85, 88, 94, 97, 102, 105, 200, 206.
Alvensleben, Count, 80, 105.
American Exchange Bank (Illinois), 403.
Andrews, E. Benjamin, 90.
Anne, Proclamation of, 16.
Anti-Bubble Act, 255, 257.
Aristotle, 24, 25.
Assistant Treasurer of the U. S., 239, 242.
Atkinson, Edward, 106.
Atlanta Bank, 404.
Austria-Hungary, Monetary Legislation of, 68, 69.
Ayr Bank, 434.

## B.

Baltimore Plan, 436–440, 443.
Bamberger, Dr. Ludwig, 58, 59.
Bancroft, George, 125, 148, 234.
Bank, of North America, 238, 396, 397; of Massachusetts, 238, 313; of New York, 238, 334–336; of South Royalston, Vt., 330; of Mutual Redemption, 333; of the United States, First, 258–270; of the United States, Second, 271–313; of England, 258, 415, 416, 433; of the Manhattan Company, 336; of America, 338,405; of Tonawanda, 350; of Eau Claire, 359; of Cape Fear, 366; of Newbern, 366; of Darien, 367; of Kensington, 371; of Lapeer, 371; of Sandstone, 372; of the State of South Carolina, 374–379; of the State of Indiana, 385; of Delaware, 398; of Kentucky, 399; of Mobile, 402; of Chester, 403; of Elgin, 403; of Montreal, 409, 441.
Banks, Functions of, 235–238; Circulating Notes of, 237, 238, 421; Not "Bills of Credit," 378; Checks, 237, 238; Reserves, 244,

332, 411; Reports, 413; Statements, 427, 428; How Banks aid in the work of Production, 434; Branches, 441.
Banking, Science of, 244; Colonial, 248–258; Eccentricities of, 361–374; In the Fifties, 397–406.
"Banking Principle," 331.
Bank *vs.* Supervisors, Decision of the Supreme Court, 194.
Baring, House of, 299.
Barbour, Sir D., 72.
Bayard, Thos. F., 198.
Beaver Skins, 13.
Beck, James B., 194.
Belcher, Jonathan, 254–256.
Bellomont, Earl of, 15.
Belvidere Bank, 403.
Bengesco, M., 101.
Benton, Thos. H., 51, 296, 308, 309.
Béranger, M., 61,
Bicknall's Counterfeit Detector, 403.
Biddle, Nicholas, 287, 292–295.
Bills of Credit, Colonial, 120–134; Private, 251.
Bills of Exchange, 429, 430.
Bills of Lading, 431.
Binney, Horace, 307.
"Black Friday," 185, 186.
Bland Bill, 200, 201.
Boissevain, M., 93.
Bond Syndicate, 211, 212, 229.
Boston Bank, 317, 318.
Boutwell, Geo. S., 53, 217.
Bowen, Prof. Francis, 63.
Briscoe *vs.* the Bank of the Commonwealth of Kentucky, Decision of the Supreme Court, 378.
Bronson, Dr. Henry, 14, 126, 128.
Bronson *vs.* Rodes, Decision of the Supreme Court, 231.
Brownsville Bank and Land Company, 402.
Brussels Monetary Conference, 76–105.
Bryant, Wm. C., 347.
Bullion Report, 120.
Burglary Legalized, 137.
Burr, Aaron, 336.
Butler, B. F., 193.
Butler *vs.* Horwitz, Decision of the Supreme Court, 231.

## C.

Cadwalader, General, 299.
California, Early Money of, 22; Gold Standard of, during the War, 187–190.
Calhoun, John C., 277, 278, 308.
Calonne, M., 61.
Canadian Banks, 345, 360, 435, 440–442.
Cannon, Henry W., 87, 97.
"Cape Marchant," 4.
Carlisle, John G., 207.
Charles I., 46.
Chase, Salmon P., 149, 151, 154–157, 160–165, 192, 232, 233, 408.
Chemical Bank, 338, 385.
Chemung Canal Bank, 400.
Chevalier, Michel, 63, 65.
Cheves, Langdon, 276, 281.
Chicago, 404; Bank, 404; *Democrat*, 355, 405.
Circulating Notes, 237, 238, 378, 421.

City Bank, 404.
City of Glasgow Bank, 434.
Clearing House, System, 239–248; Loan Certificates, 244–248; Currency, 443.
Clay, Henry, 268, 269, 293, 294, 298, 307, 308.
Clayton, A. S., 296.
Cleveland, Grover, 208, 212, 223.
Clinton Bank, 400.
Clinton, George, 269.
Coe, Geo. S., 152.
Coinage, 29–37; Act of 1873, 54, 213–223.
Coin Purchase Act, 156.
Colden, Cadwalader, 130.
Collamer, Jacob, 154.
Colonial Paper Money, 120–134; Banking, 248–258.
Columbian Bank, 317.
Commercial Bank, 403.
Compound Interest Notes, 158.
Comptroller of the Currency, 409, 439.
Conference, International Monetary, 76–105.
Confederate Currency, 166–174; Cotton Loan, 169.
Connecticut, Bills of Credit, 126, 129; Law against withholding, 137.
Continental Currency, 134–148.
Conway Bank, 402.
Copernicus, 466.
Cost of the War, 162; of Silver Legislation, 204, note.
Counterfeiting, Bills of Credit, 127, 128; Continental Currency, 142; Bank Notes, 397–399.
Courtney, L. H., 73.
Cramer-Frey, M., 89.
Crawford, W. H., 267.
Currie, B. W., 73, 84, 104.
" Currency Principle," 331, 433.

## D.

Dallas, G. M., 272, 273, 277, 293-295.
Debtor Class, 29, 108, 124, 283.
Debt-paying Policy, National, 417.
Delbrück, Herr, 57.
Deposits, 236; Public, 279; Removal of, 301–307; Interest on, 428.
Depreciation, of Colonial Bills of Credit, 129, 132; of Continental Currency, 135, 141, 144; of Greenbacks, 157; of Confederate Currency, 168, 173; of Silver, 204, note.
Desha, Joseph, 265.
Dickins, Asbury, 298.
Discounts, 236.
Dollar, Spanish, 14, 16, 41; "Lyon," 21; Silver, 198–212; Trade, 223.
Douglass, Dr. Wm., 124, 128, 256.
Drafts and Bills of Exchange, 429.
Duane, Wm., 262.
Duane, Wm. J., 296, 301–306, 365.
Dudley, Paul, 250.
Dunbar, Prof. Chas. F., 258, 425, 426, 443, 444.

E.

Eccentricities of Banking, 361–374.
Eckels, James H., 437, 438.
England, Gold Standard of, 45–50; Bank of, 258, 415, 416, 433.
Erlanger & Co., 168, 169.
Exchange, Mechanism of, 427–436; Bills of, 429, 430.
Exchange Bank, 371.
Expunging Resolution, 308–310.

F.

Fall of Prices, 108.
Falkner, Prof. R. P., 163, 421.
Farmer's Bank, 571, 399, 401, 403.
Farmer's and Mechanic's Bank, 400.
Farmer's and Trader's Bank, 403.
Farnam, Prof. H. W., 111.
Farrer, Lord, 73.
Felch, Alpheus, 371, 372.
Felt, Joseph B., 121, 122.
Fessenden, W. P., 160, 163.
Fiat Money, 117, 224, 225.
Fillmore, Millard, 344.
First National Bank of Chicago, 436, note.
Five-Franc Pieces, 36.
Flagg, Azariah C., 351.
Forcing Laws, 127.
Foreign Coins Legal Tender in the United States, 37.
Forman, Joshua, 339–341.
Forssell, M., 93, 94, 99–101.
Foville, M. de, 103.
France, Monetary Legislation of, 61–67; Bank of, 96.
Franklin, Benjamin, 134, 145, 147;
Franklin Bank, 317.
Free Bank System, 348–361.
Fremantle, Sir Charles, 82, 87.
French Draft, 300, 303.

G.

Gallatin, Albert, 149, 261, 262–266, 269, 270.
Gallatin, James, 150, 153.
General Banking Law of Massachusetts, 321–324.
Georgia, Anti-Bank War in, 285, 286; Bank Notes of, in the Northwest, 404.
Germany, Monetary Legislation of, 55–61; Recent Bimetallist Movements in, 447.
Gibbes, James C., 169.
Giffen, Robert, 63.
Gold, in the Homeric Period, 24; not free from Variations, 28; Gold Standard, 44; Physical Reason for, 105; Beneficial to Mankind, 109; Bill of 1834, 51, 52; Alleged Scramble for, 112; Recent Production of, 113; Anti-Gold Law of 1864, 160; Repealed, 162; Gold Room in New York, 174–186; Gold Exchange Bank, 175; Exports, 205, 207, 430; $100,000,000 Reserve, 206.

Gore Bank, 383.
Gouge, Wm. M., 361–365.
Gould, Jay, 184.
Government as a Bank, 226.
Grafton, Duke of, 256.
Gray, Horace, 234.
Gray, Wm., 318.
Grant, U. S., 195.
Greenbacks, 148–165, 197, 198.
Gresham, Law of, 325, 466.
Grosvenor, Thos. P., 271.
Guinea, in English Coinage, 47.

## H.

Hall, Bolling, 149, 276.
Hamilton, Alexander, 40, 144, 259, 334–336.
Hammond, Jabez D., 334, 338, 339, 341, 347.
Hamerton, Philip Gilbert, 191.
Hampden Bank, 403.
Hardy, Miss S. McLean, 422, 423.
Hartung, Herr, 78.
Hepburn, A. B., 204, note, 434, 437, 438.
Hepburn *vs.* Griswold, Decision of the Supreme Court, 165, 231.
Herschell, Lord, 73.
Hill, Isaac, 288–291.
Hoar, Geo. F., 221.
Holland, Monetary Legislation of, 67, 68.
Homeric Poems, 24.
Hong Merchants, 340.
Hooper, Samuel, 152, 214, 220, 408.
Hottinguer & Co., 300.
Houldsworth, Sir W., 86.
Hutchinson, Thomas, 125, 250, 251, 255, 256.

## I.

Illinois, Free Banks of, 354–357, 403; State Banks of, 404; River Bank, 404.
Impressments, 143, 144.
India, Monetary Legislation of, 69–75, 208.
Indiana, Free Banks of, 357, 358; State Bank of, 379–386.
Ingalls, John J., 206.
Ingersoll, C. J., 287, 293, 295, 312.
Ingham, S. D., 291–293.
International Bank, 404.

## J.

Jackson, Andrew, 281, 282, 287, 292–313.
Jackson County Bank, 372.
James I., 5, 46.
Jay, John, 337.
Jefferson, Thomas, 41, 261, 262, 265.
Jevons, Prof. W. Stanley, 25, 467.
Jones, John P., 101.
Jordan, C. N., 207.
Journalistic Fury, 266.
Juillard *vs.* Greenman, Decision of the Supreme Court, 233.

## K.

Kelley, Wm. D., 216, 222.
Kendall, Amos, 290, 297, 301–303, 305, 306.
Kentucky Relief, 283.
Khevenhüller-Metsch, Count, 80.
King, Wm. R., 309.
"Kitchen Cabinet," 291, 292, 296, 301, 302, 312.
Knox, John J., 53, 311, 342, 379, 408.
Knower, Benjamin, 341.
Koshkonong Bank, 359.

## L.

Land Bank, of 1714, 248; of 1741, 252–258.
Lane County *vs.* Oregon, Decision of the Supreme Court, 231.
Latin Monetary Union, 65.
Laughlin, Prof. J. L., 216.
Legal Tender, of Tobacco, 6, 9; of Foreign Coins, 37; in General, 38–43; Roman Law of, 38; Colonial, 38; Present Varieties of, 39; first under the Constitution, 40; Change in 1834 and 1837, 41; adds nothing to the Value of Gold, 42; Decision of Law Officers in 1769, 130; of Continental Currency, 134; Bill of 1862, 152; Passed, 154; Interest-bearing Notes, 158; Act not necessary, 161; Decisions of the Supreme Court on, 165, 231–234.
Legal Reserve, 411.
Leggett, Wm., 347.
Leib, Michael, 262.
Letters of Credit, 430.
Levasseur, Prof., 65.
Levi, Montefiore, 78.
Levy, Moritz, 78.
Liability of Shareholders, 383, 410.
Lincoln, Levi, 319.
Linderman, Dr. H. S., 53.
Livingston, Edward, 293.
Lloyd, James, 268.
Loan Bills of Colonial Legislatures, 125, 131.
Locke, John, 32, 49.
Locofocos, The, 346–348, 352.
Lords of Trade, Orders against Colonial Paper Money, 121, 127.
Lotz, Prof., 55, 58, 59.
Louisiana, Bank Act of 1842, 394, 396.

## M.

McCulloch, Hugh, 160, 357, 381–385, 395, 408.
McCreary, James B., 85.
McDuffie, George, 292, 296, 307.
McLane, Louis, 293, 299, 300.
Macleod, H. D., 235, 236, 431, 432.
McMaster, Prof. J. B., 284.
McVickar, Prof. John, 348.
Macomb County Bank, 401, 404.
Madison, James, 262, 271, 276, 279.
Mann, Abijah, 349.
Manufacturers' Bank, 401.
Market Bank, 400.
Martha's Vineyard Bank, 400.

Mason, Jeremiah, 288, 289, 291.
Massachusetts Commodity Money, 12; Mint, 14; Bills of Credit, 120, 123, 128, 129; Banking Development, 313–324.
Massasoit Bank, 399.
Maverick Bank, 401.
Memminger, C. G., 166–172.
Merchants' Bank, 337.
Merrill, Samuel, 383.
Merrimac Bank, 316.
Michigan Wild Cats, 370–373.
Mier y Celis, M., 81.
Mirabeau, Count, 32.
Mitchell, Alexander, 360, 388, 390, 404.
Mob Law, 130, 137, 404.
Moffat & Co., 23.
Molesworth, Sir G., 88.
Money of Account, 14.
Monroe Bank, 399.
Monroe's Descriptive List, 402.
Morrison, James, 383.
Morgan County Bank, 403.
Mortgage Security, 354, 409.
Moses, Prof. Bernard, 187, 189.
Mutiny against Continental Money, 141.

**N.**

National Banking System, 406–419.
National Bank, 400.
Newcomb, Prof. Simon, 193.
New England Bank, 317, 321, 322, 325.
New Hampshire, Bills of Credit, 122.
New Jersey, Bills of Credit, 122.
Newmarch, Wm., 314.
New Orleans Banks, 395, 396.
New York, Early Money of, 17; First Double Standard, 18; Bills of Credit, 127, 129; Clearing House, 239; Banking Development, 333–339.
Nicholas, Bank Note Reporter of, 398–402.
Nicolls, Colonel, 19.
North Bank, 400.
North Carolina, Bills of Credit, 129; Banks, 366–368.

**O.**

Ohio, Frenzy, 284; Life and Trust Co., 385; State Bank of, 386, 387.
Olcott, Thos. W., 341.
Oneida County Bank, 400.
Orange Bank, 399.
Oresme, Nicole, 466.
Origin of Money, 25.
Oriental Bank, 400.
Osma, M. de, 102.
Oswego and State Line Plank Road Company, 404.
Ourousoff, Prince, 80.

**P.**

Paine, Thomas, 125.
Panic of 1893, 207; of 1895, 211, 212, 228; of 1873, 247; of 1837, 330; of 1857, 356, 385; of 1861, 356.
Parieu, M. de, 66.

Parity Clause of the Sherman Act, 203, 225.
Parliament, enacts Law against Bills of Credit in New England, 122; in other Colonies, 123; extends Anti-Bubble Act to the Colonies, 255.
Party Rage, 265.
Pendleton, Geo. H., 193, 194.
Penn, Wm., 15.
Pennsylvania Banks in 1820, 363, 366.
People's Bank, 399.
Per Capita System, 227.
Pieces-of-Eight, 14, 15; Pillar, 16; Mexico, 16.
Pine Tree Shilling, 14, 21.
Planter's Bank, 287, 400.
Politics in Bank Charters, 318, 333, 346.
Pollard, E. A., 173.
Pollock, James, 53.
Portland Bank, 317.
Post Notes, 368.
Potter, Clarkson N., 216.
Price Conventions, 136, 137, 140.
Private Coins, 23, 43.
Proclamation, Money, 16; Act, 129.

Q.

Qualities of Good Money, 26.
Quantity Theory, 419–426.

R.

Raffalovich, M., 88, 89.
Raguet, Condy, 32, 50, 362–365, 369.
Railroad Bank, 400, 403.
Ramsay, Dr. David, 148.
Randolph, John, 278.
Receiverships of Insolvent Banks, 414, 415.
Redemption of National Bank Notes, 412, 413.
Representative Government, First in America, 4, note.
Representative Money, 117.
Reserves of Banks, 244, 332, 411.
Rhode Island, Bills of Credit, 123–125, 128, 129; Repudiation in, 131.
Ricardo, David, 30.
Rice Currency in South Carolina, 22.
Richardson, Wm. A., 195, note.
Riots, 9, 255, 360, 361.
Rock Island Bank, 403.
Root, L. Carroll, 342–344, 352, 353.
Roscher, Prof., 23.
Rothschild, Alfred de, 79, 86; House of, 196.

S.

Sackett's Harbor Bank, 401.
Safety Fund System, 339–348.
Sainctelette, M., 86, 87, 93, 95.
Say, Léon, 66.
Schlick, Count of, 30.
Schurz, Carl, 195.
Scotch Banks, 432–434.
Scrope, G. Poulett, 348.
Seigniorage, 201.
Senate censures President Jackson, 308.
Seton, Wm., 336.

Seyd, Ernest, 220, 221.
Sherman, John, 196, 408.
Sherman Act, 202, 204, 205; Repealed, 208.
Shinplasters, 369.
Shirley, Governor, 256.
Silver, 20; Demonetized by England, 48; by the United States, 53; by Germany, 57; by France and the Latin Union, 66; by Holland, 68; by Austria-Hungary, 68; by British India, 75; Legislation in the United States, 198–212.
Simonelli, M., 93.
Smith, Adam, 33.
Smith, George, 387–394, 404, 405.
Soetbeer, Adolf, 56, 78.
South Carolina, Early Money of, 21; Bills of Credit, 121, 125, 129; Bank of the State of, 374–379.
Southern Bank, 402.
Southwestern Bank, 401.
Southwestern Plank Road Company, 404.
Spaulding, Elbridge G., 152–163, 408.
Specie, 3; Payments Suspended, 150, 272; Resumption Act, 196.
Specific Contract Law in the Colony of New York, 19; in California, 190.
Specific Supplies, 142, 143.
Spencer, Ambrose, 337.
State Bank, of Boston, 317–321, 383; of North Carolina, 366, 368; of Indiana, 379–386; of Ohio, 386, 387.
Stewart, W. M., 222.
Stevens, Thaddeus, 152, 155, 156.
Story, Joseph, 147, 378.
Stoughton, W. L., 214, 215.
Strong, Wm. M., 232, 233.
Strachey, Lieut. Gen. R., 73, 83, 104.
Stuyvesant, Peter, 19.
Subsidiary Coinage, 35.
Suffolk Bank System, 324–333, 440,
Sumner, Prof. W. G., 135, 136, 144.
Supreme Court, Decisions of, 165, 194, 231, 233, 300, 378.

## T.

Talleyrand, Ch. Maurice de, 336.
Tammany Hall, 185, 346.
Taney, Roger B., 293, 306, 307.
Taussig, Prof. F. W., 59, 163, 164.
Tax on Notes of State Banks, 442, 443.
Tenor, Old, Middle, New, of Bills of Credit, 128; of Continental Currency, 141; of Confederate Currency, 170, 171.
Thalers, 30, 36, 58.
Thames Bank, 402.
Three per Cents (in the Bank War), 298, 303.
Thompson, John, 355.
Thompson's Bank Note Reporter, 37, 399.
Tietgen, M., 102.
Tioga County Bank, 401.
Tirard, M., 79, 94–98.
Tobacco, Money in Virginia, 4–10; High Price in 1619, 5; Legal Tender of, 6; Rapid Decline, 7; Primitive Transportation, 7,

note; Great Depreciation, 8; Planting Stopped One Year, 9; Riots, 9; Paper Currency, 10; Ruinous Fluctuations, 10; in Maryland, 11.
Tompkins, Daniel D., 335, 336.
Trade Dollar, 223.
Treasury Notes of 1890, 202; of 1815, 368.
Treasury Deficit, 209, 227.

U.

Union Bank, 315, 400.
United States, First Bank of, 258–270; Second Bank of, 271–313.

V.

Van Buren, Martin, 339.
Van den Berg, M., 81, 86, 89.
Veazie Bank of Bangor, 328.
Village Bank, 400.
Virginia, Tobacco Money in, 4–10.

W.

Wages and Prices During the War, 163, 164.
Walker, Amasa, 424.
Walker, B. E., 441.
Walker, Francis A., 111, 420–422.
Wampum, 13.
Warwick Bank, 402.
Washington, George, 138, 139, 141, 261.
Wayne County Bank, 371.
Webster, Daniel, 273–276, 297, 307–309.
Webster, Pelatiah, 135, 138, 139.
Weber, M., 91, 92.
Weight Coins, 30.
Welby, Sir R. E., 73.
Wells, David A., 110.
Wentworth, John, 356.
Western Bank of Scotland, 434.
White, Campbell P., 51, 52.
Whitney, D. R., 328–330.
Whitney, Reuben M., 296, 302, 303.
Wilson, Sir Rivers, 85, 98.
Wild Cat Banks, 370.
Wisconsin, Free Banks of, 359, 360; Marine and Fire Insurance Company, 360, 388–393, 404.
Woodbury, Levi, 291, 293.
Wright, Carroll D., 163.
Wright, Silas, 308.

Y.

Yeardley, Governor, 4, 5.
York Shilling, 15.

Z.

Zeppa, M., 91.

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