

The Democratic Standard.

DEVOTED TO THE SUPPORT OF THE CONSTITUTION AND LAWS—THE DIFFUSION OF GENERAL INTELLIGENCE—AND THE REFORM OF ALL POLITICAL ABUSES.

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GOVERNOR'S MESSAGE. [Concluded.]

A United States' Bank, it is said, would derive a credit from its national name and character. This may be true; but such credit is unreal, unsubstantial, and delusive, and is calculated rather to deceive than to benefit the public. The credit of a bank, like that of an individual, should always rest on something real and substantial; not on a mere name that can be of no service to the creditor or the bank, in the hour of real difficulty. Such fictitious credit as is thrown around a bank by its national character, may give to its paper a wider range of circulation; but this is only calculated to lead to excessive banking and over issues, without furnishing any corresponding ability in the institution to meet the demands against it. Such was the case with the late bank of the United States. The history of the times prove, that at every period of excessive banking, from 1816, when it was created, down to 1833; when its charter expired, it was the first to expand, and the first to contract its circulation. It is a fact, proved from unquestionable data, that in every expansion that occurred during the whole time of its existence, it increased its circulation in a far greater ratio, than the increase of the currency by the other banks. At two different times, it was brought to the very brink of insolvency, as admitted by its own officers. During its existence we had no less than four ruinous expansions and corresponding contractions, with all their attendant evils. For a very considerable portion of its duration, the exchanges were in a more deranged state than they are now. The prostration of business and prices, from 1816, to 1823, are without any parallel in the history of this country. In this State, the bank was so universally considered as the principal agent in producing this mischief, that the legislature, by an almost unanimous vote, passed a law taxing the branch located here, with the sole view of expelling it from our borders. At this time, and upon this subject there was but one party and but one opinion in Ohio. Every one saw and acknowledged the mischievous and ruinous operations of the United States' Bank. So deep and intense was this feeling among the great body of the people, against the bank, that all united in the propriety of the State exercising her sovereign power, in ridding the country, as far as practicable, of the existing evil.

Its power to act as a regulator is nothing more, as is proved by experience, than a power to induce the local banks to expand as it expands, and to compel them to contract when it contracts. But the same experience proves that it stands full as much in need of a regulator as the local banks themselves. And why should it not? Its object is the same—to make large dividends for its stockholders. Its temptations are the same, and it is subject to the same laws of trade. It was organized on the same principles, and subject to the same impulses with like institutions created by the States. It is, therefore, unreasonable to expect, that in its administration there would be more safety than in similar state institutions; or, that it would be capable of regulating the local banks beneficially, when it has proved to be incapable of regulating itself.

The late Bank of the United States, on the expiration of its charter in 1836, received a new one from the State of Pennsylvania, conferring equal, if not greater powers and privileges, than the former. Its capital was the same; its stockholders the same, and its management continued in the hands of the same officers. It was said, by the President of the Bank, when the new charter was presented to the stockholders for their acceptance, that it was then in a safer, stronger, and in a more prosperous condition than it ever was; and that the connection which had previously existed between the Bank and the General Government was an unnatural one, beneficial neither to the Bank or the Government. The stockholders were pressed to accept of the new charter from the State, on the ground that it was in every respect more desirable than the old charter, granted by the General Government. Yet, notwithstanding all these boasted advantages under the new charter, so far from its being able to regulate the exchanges and the currency, and to keep the other banks in proper check, it is now universally admitted to have been one of the leading and most active agents in producing the difficulties under which the country has been laboring for the last eighteen months. So far from its regulating the other banks, it was the first, as under its former charter, to expand its circulation and engage in hazardous trade and speculation. It was among the first to suspend specie payments, and the last to resume. We have seen it, instead of exercising its power to restore to the country a sound currency, using all its influence to prevent the other banks from

redeeming their notes in specie. We see this institution now, after having been in operation between four and five years under its new, and, as was claimed, advantageous charter, utterly prostrated, in a state of suspension, and asking aid from surrounding institutions, in order to save it from bankruptcy. What reason have we to believe that the fate or judgment of this institution would have been different if it had received its corporate powers and privileges from the General Government instead of the State of Pennsylvania? As I before remarked, the source from which it derived its charter could neither take from or add to its means to meet its engagements, or have prevented it from pursuing that course of policy that has involved it in its present difficulties.

Whether, therefore, we are guided by the light of experience, or by opinions drawn from a critical investigation of the natural tendencies of a United States' Bank; we are forced to believe that such an institution would but add to the derangement of the currency, and, by greatly increasing the paper circulation, without increasing in a corresponding ratio, the specie basis, tend to involve the whole paper system, sooner or later, in one common ruin. It is not, therefore, by the creation of a United States Bank, or by the multiplication of paper money, that the evils attendant on the present banking system, are to be remedied.

The danger to be apprehended from such an institution, in a political point of view, is not to be overlooked or disregarded. Its friends claim, that it would possess the power of regulating the time and amount of the currency, and, by the creation of fifty-four local banks, with their capital of three hundred and twenty-four millions. Admitting that it would possess this power, what would be the political consequences, if it should act in friendly alliance with the National Executive, and wield the vast money power for political purposes? It is claimed, that the patronage of the National Executive is already too great, and dangerous to public liberty. If we add to the already extended executive patronage, the entire money power of this country, controlled by one common head, it would indeed, constitute a mass of power, which would make the patriot tremble for the fate of our free institutions. It is in vain to suppose, that such an institution, after its creation had become a party question, would not be political. We but deceive ourselves, when we suppose it would be otherwise.

The most effectual means within the power of the general government, to provide against the abuses and evils above alluded to, are to be found in the provisions of the law establishing the Independent Treasury. This measure, by separating the funds of the government from the banks, and placing them in the custody of the agents of the people, who are prohibited from using them for private purposes, or speculation, under severe penalties, not only increases the security of the public funds, but withdraws that stimulus to overbanking, which they were calculated to create, while possessed and controlled by the banks. The evil most to be feared, being excessive banking, the remedy must be something that will restrain the banks. The Independent Treasury law, although it will have but a partial influence in restraining the banks, and consequently will not remedy the evil of the paper system, only to a limited extent, yet, its general influence on the whole currency of the country, in the course of time, must be beneficial. By requiring, at the end of four years, the revenues of the general government to be paid in gold and silver coin, a demand will thereby be created in this country, for the precious metals. As that demand increases they will flow in to satisfy it; for there is no fact better established, or the truth of which is more universally admitted than, that the precious metals will find their way to that point where they are in the greatest demand; and the reverse is consequently true, that they will leave the point where they are the least in demand.—This being the case, what is the effect on the currency, produced by the Independent Treasury law? By creating a demand for the precious metals, and extending the uses to which they are applied, they will flow in to this country to supply the demand. What is the effect produced by our paper system? Directly the reverse. By furnishing a currency composed almost entirely of paper money, based principally on credit, and not on specie, the uses in which the precious metals are applied, are greatly diminished, and consequently the demand for them is diminished in a corresponding ratio.—The Independent Treasury law, therefore, has a tendency to attract, while our paper system has a tendency to repel the precious metals.

The fears that some entertain, that by requiring the revenues of our general government to be paid in coin, the precious metals would accumulate in the

treasury to an injurious extent, are without foundation. It should not be the policy of the general government to collect more money than may be wanted to defray the expenses of an economical administration. In that case the public money would be received one day and paid out the next. It would not and could not accumulate to any considerable extent. It will be paid out not directly to public officers in the shape of salaries; (his constitutes but a small part of the amount disbursed by the general government;) it will be paid out to our seamen in the navy—to our soldiers in the army—to our laborers employed in erecting fortifications, improving our harbors, building ships, and in the various other public works in which the country may engage. It will be paid out to our farmers for their corn, beef, pork and other articles necessary to supply our army and navy. In this way the gold and silver received and paid out by the government will be diffused through the entire community, increasing every year, until, in the course of time, it will form an every day currency for the people, furnish a more extended specie basis for the banks, and enable the legislatures of the States, with more ease, to confine bank paper to its legitimate objects—heavy business transactions, and the commerce and exchange operations of the country—such important advantages to our currency should not be disregarded. For the purpose of ministering to the avarice and cupidity of banks. They have no right to the custody of the public money to speculate on and swell their profits.—They have no more right to complain of the government withdrawing its funds from them, and disposing with them as fiscal agents, than they have to complain of the merchant or farmer, who withdraws his deposits. The Independent Treasury law leaves them in the full enjoyment of all their rights and privileges, under their charters. And it is hoped, that a measure so well calculated to aid in restoring a sound constitutional currency, place the government beyond the control of irresponsible corporations, and secure the public moneys from embezzlement by public officers, will not be disapproved, either for the purpose of restoring the local banks as fiscal agents of the government, or the unconstitutional and still more objectionable measure—the creation of a United States Bank.

The banks of our own State, which constitute a part of the whole of which I have been speaking, are as unguarded and defective, and present as many opportunities to commit frauds on the public with impunity, as those of most other States in the Union. If we had less cause of complaint here than the people have had elsewhere, it is owing to the limited temptations to engage in hazardous speculations and unsafe banking—not to any superiority in the organic structure of our bank charters.

It does not infrequently happen, that when a bank fails, the stockholders, or those who manage its affairs, are largely the gainers. This fraud, with impunity, results from the principle contained in all our bank charters, of a limited liability. The banks, generally, are authorized to issue three dollars of their own notes for every one dollar of capital paid in; and the capital paid in is all that is liable for the payment of their debts. A bank that may be disposed to act fraudulently, can put out three dollars of its own paper for every one that is liable to be applied to the redemption of its notes in circulation. The banker by breaking, loses the one dollar of stock, but gains the three that were issued upon it. This may not often occur; but it is sufficient to know that it has occurred, and that it may again take place, to authorize the Legislature to guard against it. This limited liability of the stockholders, not only furnishes an opportunity to commit fraud with impunity, but holds out an inducement to engage in excessive banking. The banks are not restrained in their operations, because they know that if successful, they are the gainers; if unsuccessful, the greater part of the loss may be thrown on the public. The inducement should be the other way. The temptation to commit fraud, or to engage in excessive banking, should be taken from them. This can only be done by increasing the personal responsibility of the stockholders, and placing the banker on the same footing, as to his liability for the payment of his debts, with the farmer, merchant, manufacturer, or other citizen. Is there any reason why the whole community should be made liable for the payment of the debts, while the banker should alone be exempt? If an association should be formed for the purpose of erecting a manufacturing establishment, and after having exhausted all their means, become involved in debt, each member is liable for the whole of the debts of the association, although they may have lost their property by some great misfortune which no prudence could have guarded against. If a similar association obtain a charter,

and embark their capital in the business of banking and fail, fraudulently or otherwise, they are personally exempt from the payment of any of their debts. All that can be reached is the stock paid and the assets of the bank, and in some cases out of ten the creditors can neither find stock, or other assets. Is there any reason for this distinction? Is there any justice in it? The business of manufacturing is as honorable and useful, and as much entitled to legislative protection, (and much more so,) as that of banking. Why exempt the one from personal liability and not the other? It is said that if bankers were made personally responsible for their debts, as other citizens, they would not invest their money in bank stock. Why would they not? Is there any thing more hazardous in banking than in merchandizing, manufacturing, or other ordinary pursuits of life? So far from this being the case, capital is more secure when invested in legitimate banking than in almost any other business, and is equally, if not more productive. If those who own the banks, and have the control and management of them, are unwilling to trust each other, and are fearful of losing their capital, it would seem to be unreasonable that they should ask the public to take their notes, and trust them.—They ask the public to incur all the risk, or the greater portion of it, while they receive all the profits of the business. Such claims should not be tolerated. Bankers should be placed on the same footing with other individuals; made responsible for their debts like other citizens; and, being so responsible they would conduct their business with more prudence and regularity, and consequently with more safety to the public.

In my last annual message I took occasion to state, in detail, my views as to the restrictions, limitations, and additional guards, which in my opinion, should be imposed on the banks for the public security; to which I would beg leave to refer you.

Having ascertained the evils and imperfections of the present system of banking, it would be your duty to provide, as far as practicable, suitable remedies. In doing this, it must ever be born in mind, that the interests of the people is the paramount object to be secured.

As the subject of a State bank is again agitated in the public mind, you may be called upon to consider of this measure. I cannot think that such an institution would be calculated to promote the interest of the public. It would have no advantages over the local banks, unless the State would become a stockholder to the amount of the capital stock, or a considerable portion of it. In order to do this, the State debt would have to be increased to the amount of the stock subscribed by the State. When we shall have finished our public works, now under contract, the State debt, on interest, will exceed sixteen millions. The interest on this will be yearly over nine hundred thousand dollars.—This sum will have to be raised annually, from the tolls on our public works, and by direct taxation. When paid, the greater portion of it will go direct to England, where the larger portion of our State stock is held. Our State will thus be annually drained of at least half a million of coin to pay the holders of our stock in England. This enormous State debt, which has been accumulating for years, has already become burdensome, and its increase should be arrested. The taxes of the people are already oppressive, and instead of being increased should be diminished. Would it, therefore, be wise policy to swell the State debt eight or ten millions in order to engage in the banking business? and thus increase our State stock in the hands of English stockholders, and, consequently, increase the drain of specie out of the State? Such a policy, in my judgment, is deadly hostile to our true interests. It is true, it may be said that the profits of the bank would pay the interest on the money borrowed. This would depend on the skill and prudence with which the institution would be managed and whether the times were propitious, or otherwise, for banking. It is not probable that a State institution would be as profitable as like institutions owned and controlled by private individuals.

A State bank, in which the State would own but a nominal amount of stock, would be but lending the name of the State to give credit to the notes of individuals, which is an unsubstantial and delusive credit, only calculated to deceive and inflame the public. In times of high excitement, such an institution would be drawn into the party conflicts of the day. Whatever political influence it might wield would not be favorable to public liberty or the rights of the majority. The influence of money, when brought to bear, either directly or indirectly, in a political contest, is always a corrupt influence and fatal to democratic institutions.

The causes which have produced the extraordinary scarcity of money for the

last fifteen months, and the consequent low price of produce and labor, are worthy of your investigation. That the price of produce, labor and every description of property is materially affected by the amount of the circulating medium, is a fact admitted by all. If wheat will command two dollars a bushel when the currency is ten millions, it will command but one dollar when the currency is reduced to five millions. The power of creating money, or that which is called money, (bank notes) has been legislatively lodged in the banking corporations of the State. We have conferred on these institutions one of the delicate attributes of sovereign power, that of furnishing a currency or standard of value for the whole country; the power of saying whether the currency shall be great or small; the power of fixing, at their arbitrary will, the price of every man's labor and property in the community. Whether this extraordinary power has been exercised for the good of the public, or otherwise, cannot fail to enlist your attentive consideration, when investigating the subject of banking and the currency.

Within the last two years there has been a great and extraordinary curtailment of the banks throughout the Union. This has been forced upon them, to a great extent, by their previous enormous, imprudent and ruinous expansion. "It is the return of the paper flood to the fountain from which it had issued." Although each State, in its political existence, is sovereign and independent, yet in a commercial point of view, the States are all one, and operated on alike by the same general cause. The consequence is, that the reduction of the circulation by the banks, for instance, in the State of New York, where a great portion of our produce is shipped for market, has as sensible an influence on the price of our wheat and other staple productions, as a similar reduction by our banks. And so it may be said, with some modification, of the reduction of the circulation in the other States.

In New York the banks reduced their circulation in one year, ending the first of January, 1840, near nine millions; and in the same time they reduced their discounts between fifteen and sixteen millions. A like reduction took place to a greater or less extent, in all the other States, thus diminishing suddenly, the circulating medium of the country to an extent unprecedented. In our own State a like reduction has been going on. On the 30th of April, 1839, the circulation of the banks of this State was \$3,157,873. On the 30th of September last it was but \$3,697,094. Thus showing a reduction in the circulating medium of this State of \$3,480,775, within the short space of about seven months. This extraordinary curtailment of the circulation of our own, and every other State in the Union, together with the usual abundance of bread stuffs for the last two years, will sufficiently account for the low price of wheat, which has been the cause of so much complaint. Are not the causes to which I have alluded abundantly sufficient to account for all the reduction that has taken place in the price of every thing, without seeking for others?

Having shown that the scarcity of money is the main cause of the low price of produce and labor, and that the banks are the cause of the scarcity of money, the conclusion follows, that they have been the principal agents in bringing about a reduction of prices.

It is said that the banks have been compelled to curtail their circulation by reason of the acts of the administration of the General Government. If so, what acts can be pointed to as having placed them under such necessity? Not the Independent Treasury bill, as that act did not pass into law until the fourth of July last, and produce had fallen to its lowest point, and the principal curtailment of the banks had taken place previous to that time. What other act will be pointed to? Surely no other of this administration. It cannot be seriously claimed that the acts of the late administration—the veto of the United States Bank, the removal of the deposits, and the specie circular—have suddenly, in 1833-40, many years after they occurred, tended so as to compel them to curtail their circulation. They had no such effect or influence at the time they took place. The banks, long after these acts of the late administration, continued to increase in number, and extend their circulation, until, in 1833, when the tide of paper money became so great that it began to roll back upon them.

The charge that those who have been intrusted with the administration of the General Government, have made war on the banks, and that therefore they have been compelled to curtail their circulation, is not warranted by the facts. Almost the first act that Congress did after the present administration came into power, was the repeal of the specie circular, which the banks complained of as injuri-

ous to their interest. In May, 1837, when the banks closed their vaults, with many millions of the public money, which they were unable to pay, Congress, in accordance with the views of the Executive, allowed them a liberal time to make payment, although the government was forced to issue treasury notes to supply the deficiency. So far, therefore, from the government making war on the banks, or taking any harsh measures towards them, a lenient course was adopted, with the view of aiding them to extricate themselves from difficulties into which they had become involved, by their mismanagement. There has been nothing, therefore, in the action of the late or present administration, to justify the banks in the extraordinary curtailment of their circulation.

The charge that the scarcity of money, and consequently the low price of produce, has been caused by the legislative action of the two last sessions of our General Assembly, is equally unfounded. It would be a sufficient answer to this charge, to refer to the diminution of the currency, and the fall in the price of produce, in every other State in the Union. What has caused the scarcity of money and low price of produce in the States of New York, Pennsylvania, Kentucky, Indiana, and, I might add, every other State? It has been, undoubtedly, owing to a general cause, which has acted alike on all, and produced the same effects and consequences every where. I speak in general terms. I am aware that many of the banks, actuated by motives which we are left to conjecture, have curtailed their circulation to a much greater extent than was imposed on them by any actual necessity.

What are the acts of which the banks complain, and which they may call on you to repeal? The first is the act to prohibit the banks from issuing, or putting in circulation, notes under the denomination of five dollars. Is there any necessity for repealing this law? Has it come to this, that the banks are unable to do business, profitably, unless they are permitted to issue small notes? I admit that small notes are the most profitable issues a bank can make. By putting them in circulation at a distant point, many of them are worn out or destroyed, and never return to the bank for redemption. This is so much clear profit to the bank, and is estimated by experienced brokers to be worth fifteen per cent. But what the bank makes in this way is so much of a dead loss to the public. On a small note circulation of two millions, the banks would make, by the loss and destruction of their notes, fifteen per cent, or three hundred thousand dollars. This would be taken from the community without any consideration, and would be unjust and inequitable; and when the issuing of small notes is resorted to with the view of obtaining this profit, it is a gross fraud on the public. The very reason, therefore, that may make it desirable for the banks to exercise this power, ought to be a conclusive one for not permitting them to do so. There is no necessity for permitting the banks to put in circulation their small bills, and thus drive out of circulation every thing in the shape of coin, leaving the public nothing but a paper currency.

The second act complained of is the one that prohibits the establishment, within this State, of any branch, office, or agency of the United States Bank of Pennsylvania, or any other bank or corporation, incorporated by the laws of any other State or of the United States. This act was obviously proper, and demanded by public policy. It certainly cannot be claimed, that because the Legislature has prohibited foreign banks from locating branches here, such prohibition has been injurious to the banks of this State. So far from this being the case, it was intended to protect them from the injurious competition of doubtful institutions, over which the legislature had no control, and the people from a spurious and worthless currency.

The third act objected to, prohibits the banks from issuing bank paper made payable at any other place than where issued, or payable at a future day, or at any other time than on demand, or which is made payable in bank notes, or any thing other than gold or silver; and it makes all notes which on their face are made payable at a future day, payable on demand. Is there any thing in this act which imposes on the banks improper restrictions? Is it not right and proper, in order to preserve a sound currency, to prohibit the banks from flooding the country with their post notes, payable at a distant day, or notes payable at some obscure place, or in a worthless currency?

The fourth act, and the one of which the banks have complained the most, is generally known as the bank commission law. These four acts comprise all the principal legislation of the two last sessions, with the view of reforming the banks and the currency. The last named act provides, among other things, for the

(Conclusion on 4th page.)