

## A.

OFFICE OF COMPTROLLER OF THE CURRENCY,  
November 28, 1863.

In compliance with the requirements of 60th section of the act of Congress entitled an "Act to provide a national currency secured by a pledge of United States stocks, and to provide for the circulation and redemption thereof," I have the honor to submit the following report.

Up to the present time there have been organized under said act one hundred and thirty-four banks, which are located as follows:

In Maine.....	2	In District of Columbia.....	1
In New Hampshire.....	2	In Illinois.....	7
In Vermont.....	2	In Indiana.....	20
In Massachusetts.....	3	In Iowa.....	6
In Rhode Island.....	1	In Kentucky.....	1
In Connecticut.....	4	In Michigan.....	4
In New York.....	16	In Missouri.....	2
In New Jersey.....	1	In Ohio.....	38
In Pennsylvania.....	20	In Wisconsin.....	4

A statement of the condition of some of the banks, on the first of October last, accompanies this report. Most of those now organized had not at that time commenced business; hence the partial returns.

A statement of the names and compensation of the clerks employed by me, and of the expenses of the bureau up to the first of July, the commencement of the financial year, also accompanies this report.

The same section of the act makes it my duty "to suggest any amendment to the laws relative to banking by which the system may be improved, and the security of the billholders and depositors may be increased."

The national currency act, although admirable in its leading features, is not altogether symmetrical in its arrangement, nor clear, if it is even consistent in all of its provisions. I respectfully suggest, therefore, that the act be carefully revised; that those parts of it that refer to the same subject be placed in juxtaposition, and that it be relieved of certain obscurities and apparent inconsistencies that render some of its provisions of difficult construction. A law of so much importance as this, which is to be interpreted by so many people, and is to be the charter of so many banking institutions, should be methodical in its arrangement, clear in language, and comprehensive and consistent in its provisions. In these respects the national currency act is somewhat defective. Sections relating to the same subject are scattered throughout the act. Words of different significance are sometimes used as if they were convertible. Many passages are ambiguous in language, if they do not contain inconsistent provisions. For example, the law requires that articles of association should be entered into, and organization certificates executed, stating for what purpose the certificates shall be made, and indicating other and different things to be provided for in the articles of association, and yet in some instances these certificates and articles seem to be referred to as if they were one and the same instrument. Section 6 makes certified copies of organization certificates legal, and sufficient evidence of the existence of associations, while section 11 provides that the associations shall have succession, &c., by the name designated in their articles. The last mentioned section, which confers banking powers upon the banks, has also a provision which bankers find it difficult to interpret. After bestowing upon the banks general powers to discount bills, notes, and other evidences of debt, it authorizes the loan of money "on real and personal secu

ity, in the manner specified in the articles of association, and for the purposes authorized by the act." This is the only power conferred by this section, the exercise of which is made dependent upon the articles of association, and it has been found difficult to give a precise meaning to the language, and to form articles that should cover and secure the power intended to be conferred.

Section 13 authorizes associations to provide in their articles of association for an increase of capital, subject to the limitations of the act; but there is no limitation in the act of the capital stock of the associations, separately or in the aggregate. The same section seems to require that the Comptroller shall *certify to the banks* the amount of their increased stock, instead of giving him the power to authorize the banks to increase their capitals, and to approve of the increase, upon his being furnished with evidence that the additional capital has actually been paid in.

Section 15 provides that United States bonds to the amount of one-third of the paid-in capital of an association shall be deposited with the Treasurer, and a fair construction of the act has seemed to me to warrant the decision that the banks should not only deposit with the Treasurer, but that they should keep with him constantly, this proportion of bonds; while section 30 provides that the Comptroller may (shall) direct the return of any such bonds to the association that transferred the same, upon the surrender to him and the cancellation of a proportionable amount of its circulating notes, &c., &c. This provision, construed by itself, might, nullify the requirements of the 15th section, even if it did not defeat the most important object of the act.

Section 37, literally construed, might prevent the national banks from discounting on the security of the stocks of other corporations, many of which stocks are regarded by bankers as among the most desirable collaterals; while the object of the restrictions in this section undoubtedly was, merely to prevent banks from discounting upon the security of their own stocks, and from engaging in stock speculations. I have decided that under section 41, three-fifths of the twenty-five per cent. of lawful money required to be kept on hand by the national banks might be kept in similar associations in the cities named, *but in no others*. The ninth article of the 45th section is supposed, however, by many to indicate that no such restriction in regard to the character of the depositary was intended.

An absolutely strict construction of another part of section 41 would seem to deny to banks in the cities named the privileges granted to those in other places, but I have thought and decided that a more liberal construction should be given to it, because it was not reasonable to suppose it to have been the intention of Congress to withhold from banks in Chicago privileges granted to banks in Buffalo, nor from our banks in Providence privileges granted to banks in Hartford, New Haven, &c., &c.

These, and others like them, may be regarded as minor defects, and such as do not materially affect the proper working of the system, but they serve to embarrass the bankers, and may cause improper decisions on the part of the Comptroller. The law would be greatly improved if it were relieved of them.

I suggest, also, that section 47 be struck out entirely. While it is true that large loans to a single individual or firm should, as a general thing, be avoided, there may be, and frequently are, exceptional cases in which such loans are both necessary and judicious. I think, therefore, that this is a matter that should be left to the discretion of the managers of the banks, and that it can be safely intrusted to them.

I suggest, also, that section 39 be so amended that the affairs of the national banks may be managed by not more than thirteen directors instead of nine, and that only two-thirds of the directors be required to be residents of the State in which the banks are respectively located. I can conceive of no valid reason why the stockholders of a national bank should be prohibited from electing

more than nine directors. It is not likely that the stockholders of many banks will be inclined to do so; but some State banks have more than nine directors, and if they should be converted into national banks, and the stockholders thereof should desire to retain their present number, or if any new associations should prefer a larger number than nine, they should have the privilege of doing it.

The requirement that all the directors of a bank should be residents of the State in which it is located, may, in some instances, prevent stockholders from availing themselves of the services of men whom it may be desirable to have in the direction. Many persons carrying on business in our large cities reside in neighboring States. Should they, therefore, be disqualified from being directors of the city banks? The object for which this resolution was inserted in the act will doubtless be secured by requiring two-thirds of the board to be residents of the State in which an association is organized.

Instead of the liability of the stockholders, many of whom have little voice in the management of their banks, I would suggest that section 12 be so amended that the failure of a national bank be declared *prima facie* fraudulent, and that the officers and directors, under whose administration each insolvency shall occur, be made personally liable for the debts of the bank, and be punished criminally, unless it shall appear, upon investigation, that its affairs were honestly administered. The individual liability provision, if continued, will prevent, as it is now doing, many prudent men and men of wealth from becoming shareholders in national banks, and consequently hinder a proper and desirable distribution of their stock, and will not protect creditors to the same extent as would be done by the proposed liability of the managers.

I also suggest that section 24 be so amended that the publication by an association of its quarterly reports, where there is no newspaper in the place where the association is located, be made in the nearest paper thereto, instead of a paper published at the capital of the State.

I suggest, also, that section 39 be so amended that stockholders of banks of large capital be eligible to the direction thereof, who may be the owners of less than one-half per cent. of the capital. As the law now stands, no stockholder can be a director in a bank of \$10,000,000 of capital, without owning at least \$50,000 of its stock. Such a provision is obviously unwise. The best brains and the highest integrity might thus be excluded from the management of banks. There is another objection to this section. According to its provisions, a stockholder who owns but \$1,500 of stock can be a director of a bank with \$300,000 capital, while one must own \$2,000 of stock to be a director of a bank with \$200,000 capital.

I suggest, also, that section 31 be repealed. Aside from the consideration that a depreciation of government securities should not be contemplated by Congress, it is hardly just to the banks to compel them to furnish these securities as a pledge for their circulation, at the rate of ninety per cent. on the dollar, and then subject them to the caprices of the New York stock exchange.

The act authorizes the organization of banks with a capital of \$50,000 each, and requires the payment of only thirty per cent. thereof on the commencement of business, so that a bank may commence the business of banking with a paid in capital of only fifteen thousand dollars.

I suggest that the act be so amended that no bank shall commence business with a less capital, actually paid in, than fifty thousand dollars. To say nothing of the facilities which the law affords to the banks, for building up a fictitious capital by the use of its circulating notes, when the stock is paid up by instalments, fifteen thousand dollars is altogether too insignificant a sum, even at the commencement, for the capital of a bank. It is very questionable whether a bank should be organized with a capital less than one hundred thousand dollars;

fifty thousand to be paid in at the commencement of business, and the balance in instalments of ten per cent. every sixty days thereafter.

There is, at present, no provision for the voluntary closing of the national banks. I suggest, therefore, that a provision be inserted in the act, requiring banks that may desire to close up their affairs to give notice of their intention to do so, to the Comptroller of the currency, and such notice to the public as he may prescribe, and authorizing the banks, at any time after two years from the publication of such notice, to withdraw from the Treasurer the bonds deposited with him for the security of their circulation, upon paying into the Treasury of the United States the amount of their outstanding notes in lawful money, which notes shall thenceforth be redeemable at the treasury, and the banks respectively, and the stockholders thereof be discharged from all liability therefor.

It would thus appear that the benefits resulting from the lost circulation are to inure to the government; and not to the banks; but it will be remembered, that the notes are furnished to the banks at the expense of the government, which will probably be no more than covered by what may be lost or destroyed; especially as the banks, being at no expense therefor, will be likely to keep their circulation clean and unutilated, by frequent exchanges of old notes for new ones.

I suggest, also, that the act be so amended that the rate of interest to be charged by the national banks be uniform in all the States; that the penalty for usury be a forfeiture of the interest, instead of a forfeiture of the debt, on which more than the legal rate is taken, and that the banks in the large commercial cities of the seaboard States be relieved in certain contingencies, from all penalties for usury, in order that they may prevent, as far as practicable, by raising the rate of interest, excessive importations of foreign merchandise and heavy exportations of the precious metals.

The expediency of making the rate of interest uniform throughout the country is manifest. The objection to national legislation upon this subject is, that the States are supposed to have the exclusive right to regulate the interest upon loans of money.

It is true that the power to regulate the rates of interest at which money shall be loaned has always been exercised (except in the case of the United States Bank) by the States, and it is also true that the laws upon this subject in the different States have been various and changeable. There are scarcely two States in the Union whose interest laws are exactly alike. Few things have been more embarrassing to the trade between the different sections of the country, and none have been more prolific of litigation and conflicting judicial decisions, than the different and frequently changing legislation of the States in fixing the value of the use of money.

Whatever opinions may have heretofore obtained upon the subject, there are now very few intelligent business men of the country, who have watched the effect upon trade and exchanges of the efforts of the States to establish by law the rates of interest, who are not agreed in the opinion, that the regulation of commerce between the States cannot be perfectly accomplished without the establishment of a uniform rate of interest throughout the Union. The commerce of the country ignores State boundaries, and Congress has the exclusive right of regulating it. Congress ought, therefore, to have the incidental power of preventing the States from embarrassing commercial intercourse between the people of the States, which is done to no little extent, by their fixing different rates of interest upon money. If such power exists in Congress it ought to be exercised. In my judgment, it is demanded both by considerations of public policy and public convenience.

But whatever opinions may be entertained in regard to the general authority of Congress to regulate the rate of interest upon loans of money, there can be but little question of its power to regulate the rate which shall be charged by

the banks through which a national circulation is to be issued, and which are organized under a national law. Unless it possesses this power, *the national government must divide with the States* the control of the affairs of banks created to carry out its rightful, acknowledged, and necessary functions.

As the law now stands, banks in New York and Michigan can charge seven per cent. on their loans, while those of New England and most other States are restricted to six; and State laws can be so framed as to attract capital to be invested in national banks too largely into particular States, or to prevent such an investment of it in such States altogether.

It is recommended, therefore, that the rate of interest to be charged by national banks be made uniform throughout the States, and that this rate be seven per cent. per annum.

The authority of Congress to so change the act has been settled, I think, by the Supreme Court. The Bank of the United States was authorized by its charter to loan money at the rate of six per cent. per annum. Suppose, that in a State in which a branch of that bank was located the legal rate of interest had been five per cent., would a contract made with the branch for six per cent. have been void as contravening a State law? The right to assess and collect taxes for the support of the State is a right indispensable to the existence of the State government. Nevertheless, the State of Maryland was prohibited from taxing the stock of the branch of the United States Bank in the city of Baltimore, and on the ground that States had no power by taxation or otherwise to impede, or in any manner control, laws enacted by Congress in the exercise of its legitimate powers. If, instead of attempting to tax the Baltimore branch bank, the State of Maryland had passed a law reducing the rate of interest to be charged by all corporations within its limits, not authorized by the State, to four per cent., (as it would have had an undoubted right to do if the power to regulate the rate of interest upon moneys loaned belongs absolutely and exclusively to the States,) would not the Supreme Court have declared such a law, in its application to a branch of the United States Bank, unauthorized and void? Is the power to regulate the rate of interest upon money any more clearly a power reserved by the States than the power to tax? If Congress had the constitutional authority to pass the national currency act, it has unquestionably the incidental right to regulate, irrespective of State legislation, the rate of interest which shall be charged by the banks organized under it, for, without this right, State laws might so control or impede the business of the banks as to render the act itself practically inoperative.

Few questions have been more frequently and thoroughly discussed, or in relation to which there has been a greater difference of opinion among intelligent men, than the question of usury. Much of this difference of opinion has arisen from the fact that men have viewed it from different stand-points. The opinion of one who has lived in Germany or England, where capital is abundant, and no usury laws have existed for years, will, of course, be very different from that of one who has lived in Minnesota or California, and noticed the evils which have resulted from the high rates which money has commanded in those States. Notwithstanding the fact that money is the standard of value, it is not free from the operations of the great regulating law of supply and demand. Where money is abundant it is cheap, where scarce it is dear; and no legislation has been able to control the effect of this general law. There is no necessity for usury laws in most of the States at the present time, because money is abundant and lenders are plenty, and borrowers are scarce. When the war is over, and business goes back again to its accustomed channels, and the disbursements of the government are largely curtailed, borrowers will be plenty and lenders scarce. Because usury laws are not needed now, it does not follow that they will not be required at no very distant day, nor does it follow, because legislation has not been able absolutely to regulate the value of the use of money,

and because all usury laws are frequently evaded, that, therefore, these laws are inefficacious and unwise. Usury laws, no matter how much they have been evaded, have had the effect of preventing, to some extent, excessive charges on loans of money. There is scarcely a banker or money-lender in the country who has not often been restrained in his charges, for the money he has loaned, by the usury laws which have been in force. In all countries, in which there is not a superabundance of capital, usury laws have been found necessary to protect those whose interest it is to borrow money, against excessive charges for it by those who have it to lend, and the experience of the nations is not to be disregarded. Money, whether it be in the form of the precious metals or of bank notes, is created by law. Gold and silver are not money until coined and made such by the authority of the government. It is not like merchandise or other personal property, the result of man's industry, but a creation of the government, and government, which fixes the value that shall be placed upon it, has the right to say, and it is its duty to say, what shall be charged for the use of it. Of course solvent bank notes, whether issued by national or State authority, depend for their value as money upon the value of the coin of the United States. The only question, then, which it is necessary to consider in this connexion is, what penalty shall be attached to violations of usury laws. On this point, I am of the opinion that while the penalty should be such as will protect the borrower from oppression, it should not be of such a character as to tempt too strongly his honor, or to compel, both the lender and borrower to resort to shifts for its evasion, which make money dearer to the latter than it otherwise would be. The laws of those States that make void all usurious contracts, even in the hands of innocent parties, and punish usury as a crime, are impolitic and unwise; those laws that make valid, contracts for any rates of interest which may be agreed upon are scarcely less so. I think it will be found that those laws which make the penalty for usury the forfeiture of interest, leaving the lender the right to collect only the principal of the loan, are more equitable in their operations, and more effective in inducing fair dealing between man and man, than the more stringent laws of some States and the less stringent ones of others. I feel it to be my duty, therefore, to recommend that the 46th section of the national currency act be further amended, so that the penalty for taking or reserving by the national banks of a greater rate of interest than seven per cent. be a forfeiture of the interest, instead of the forfeiture of the debt on which more than the legal rate shall have been taken or reserved. And inasmuch as the history of all commercial nations has shown it to be occasionally necessary, for the regulation of trade between them and other nations, that the rate of interest should be under the control of an authority less arbitrary than statutes, I further recommend that the Secretary of the Treasury, or a commission to be created by Congress, be authorized temporarily to relieve the national banks in the cities of Philadelphia, New York, Boston, &c., from all penalties for usury, whenever it shall be thought that the public interests will be promoted thereby.

The judicious use of the power possessed by the Bank of England of checking, by an advance of the rate of interest, excessive speculation, and the creation of a foreign debt, to be liquidated by shipments of coin, has frequently prevented financial crises in Great Britain. The same power, prudently and resolutely wielded by the banks of New York as a unit, would, in years past, have saved millions to the United States. It may be many years before the national banks will possess the power now held by the State banks in that city, but they may have it in due time; and when this is the fact, no statutory restrictions should prevent them from using it for the benefit of the country.

If it should be thought inadvisable, as I trust will not be the case, to make the suggested amendments in regard to interest and usury, I would, in that event,

recommend, as the national banks are to be subject to State laws in regard to the interest that shall be charged upon discounts, that they be also subject to the penalties for usury which the State laws may impose. If the exclusive right to regulate the rate of interest is to be left to the States, they should also fix the penalty for usury. The power to regulate, by law, the charge that shall be made for the use of money, and the power to punish for the violation of the law, should be in the same hands. Under the present provisions of the act, Congress must adopt State legislation, whatever it may be, upon the subject of interest, whether it be three per cent. or twenty, while it inflicts a penalty for a violation of State laws which the State laws do not themselves impose.

I suggest also that section 45 be repealed, and that instead thereof a section be inserted authorizing the banks to make semi-annual dividends of profits, but requiring them, before dividends are declared, to carry to the "surplus" one-sixth part of their net profits, until their surplus funds shall amount to thirty per cent. of their respective capitals. The advantages of the creation, by a bank, of a large surplus fund to cover losses that no prudence can prevent, and, as a preparation for commercial crises, are so well understood as to need no illustration. The rest of this section refers to semi-annual reports. By section 24 the banks are required to make full quarterly reports of the condition of their affairs, in view of which the semi-annual report would seem to be unnecessary.

I recommend also that sections 62, 63, and 64 be repealed.

The national currency system contemplates the organization of national banks, which, by becoming its financial agents, may aid the government in the safe-keeping and transmission of its revenues, and the transaction of its business, and through the instrumentality of which a safe and uniform circulation may be furnished to the people.

The sixty-second section makes it the duty of the Comptroller to furnish the national currency to any banks or banking institutions authorized by a State law to engage in the business of banking, upon their delivering to the Treasurer the required securities. No matter what may be the restrictions of the State law upon the issues of State banks, or the character of the banks, if they *claim* to be the owners and are the holders of United States bonds to the amount of fifty per cent. of their capitals, they can deposit *any part* of these bonds, and obtain circulation therefor. It is difficult to conceive of a measure better calculated to bring the national currency system into conflict with the States, and into disrepute with the people, than this. Under it we should have banks receiving government notes without being in any measure subject to the supervision of the government—deriving all their corporate powers from the States, and yet issuing notes not authorized by State laws. We should have banks that may have borrowed the government securities attempting to bolster up a doubtful reputation by the credit which an issue of national circulation would give them, and casting reproach upon the system by their inability to redeem it.

If States have the right to create banks of issue, they must have the sole right to control them. Congress can neither increase nor diminish the powers of institutions brought into existence by State laws if their powers do not encroach upon the authority of the general government.

But if enabling acts should be passed by State legislatures, authorizing State banks to avail themselves of the privileges of the 62d section, the objection to the delivery of notes to State banks would be only partially removed. The government should have no connexion with institutions not created by its own laws. If the two systems of national and State banking are to co-exist, let it be as separate and independent systems. Let there be no non-descripts which are part State and part national, issuing two kinds of circulation, created by different authorities and based upon different securities.

In every aspect in which I have been able to view this part of the act, I have

found it to be objectionable. It is an encroachment upon State authority. It contemplates the mixing of two systems that ought to be independent. It would destroy the symmetry of the national currency and afford no advantages to *solvent* State banks, which they could not obtain, to a greater extent, by a transfer of their capitals into national organizations.

I suggest also that it be made the duty of the national banks, if required by the Secretary of the Treasury, to act as financial agents of the government, and to receive on deposit moneys for account of the United States, or any disbursing agent thereof, and to give satisfactory security for the faithful performance of the duties required of them.

I further suggest that the national banks shall be required to prevent their notes from being depreciated in the commercial cities of the country, and that the national banks in those cities be required to keep their reserve of lawful money in their own vaults. The national currency—secured as it is to be by the entire resources of the government, receivable for all public dues except duties upon imports, and for all obligations of the government, except the interest on the public debt, and in case of the failure of the banks to be promptly redeemed at the treasury of the United States, can never be much depreciated, no matter what may be the location of the banks by which it is issued. If, in addition to all this, the national currency is, in the commercial cities of the Union, kept absolutely and always at par, it will attain a perfection never yet reached by a bank note circulation. That this may be done without prejudice to the banks, but rather to their advantage, I have not a particle of doubt.

The redemption of their notes at the commercial cities by the interior banks would tend to increase largely the deposits of the banks in these cities; hence the necessity that the latter should keep constantly on hand a large reserve—a reserve which might and perhaps ought to be increased beyond the present requirements of the act.

The rapidity with which national banks are being organized in the western States, and the high character of most of the stockholders thereof, indicate the popularity of the system in that part of the Union. In the eastern States it will be observed that comparatively few banks have been organized; but even in these States the opinion is rapidly gaining ground that the national system will there, at no remote period, supersede the State system of banking. It is desirable that this should be done by a transfer of capital from the latter to the former without any serious interruption of business. Some of the older States have capital enough already invested in banking, and the bank-note circulation of these States should be curtailed rather than increased. I know that bank notes, notwithstanding the preference that is given to legal tenders by the people, are in great demand, and that currency is reported to be scarce throughout the country; but no one can be ignorant of the fact that this scarcity is in a measure attributable to the high prices which bank issues have contributed to bring about. It is frequently the case that money is apparently the most plenty when there is the least of it in circulation, and the scarcest when it has attained the highest point, before a financial crisis. An increase of the circulating medium inflates prices. High prices require an increased circulation, and so they act and react upon each other, and there appears to be no redundancy of currency, no matter how vast the volume may be, until a collapse takes place, and what was supposed to be real prosperity is shown to be without a substantial foundation.

The national currency system was not designed to add to the evils of excessive paper issues, but rather to check them by the substitution of a circulation protected by adequate securities, and restricted in amount by being based upon actual values, for the too frequently unsecured and unrestricted issues of the States. It was certainly not created to increase the banking capital of the seaboard States in which there is enough of such capital already, but to super-

cede the systems of banking in those States by attracting to it the capital of existing banks. It promises to do this by a transfer of capital from one to the other, and without any collision between them. Where there are no enabling acts of State legislatures, the conversion takes place by the organization of national banks by the stockholders of State banks, and the transfer to the former of the assets and capital of the latter. This has already been done in several instances without even an interruption of business, and certainly without injury to the stockholders. The idea that the national banks cannot supersede the State banks without breaking them down and ruining their stockholders is an erroneous one, and can only be honestly entertained by those who have not carefully considered the subject or noticed the process of conversion, which has changed some banks in the west, and is changing others in the east, from one system to the other. No war is being waged, or is intended to be waged, by the national system upon State institutions. So far from it, it opens the way by which the interests of stockholders can be protected, at the same time that the character of their organizations is changed.

The war in which the country is engaged, although a great calamity in itself, will not be an unmixed evil financially even, if one result of it is the establishment of a system of banking by which, without an interference with the rights of the States, and without detriment to their solvent institutions, a bank note circulation shall be furnished to the people, as solvent as the nation itself, and uniform in value, as a substitute for that now supplied by the States, which is neither uniform in value nor, as a general thing, properly secured. The amount of losses which the people have sustained by insolvent State banks, and by the high rate of exchanges—the result of a depreciated currency—can hardly be estimated. That some of the new States have prospered, notwithstanding the vicious and ruinous banking systems with which they have been scourged, is evidence of the greatness of their resources and the energy of their people. The idea has at last become quite general among the people that the whole system of State banking, as far as circulation is regarded, is unfitted for a commercial country like ours. The United States is a nation as well as a union of States. Its vast railroad system extends from Maine to Kansas, and will soon be extended to the Pacific ocean. Its immense trade is not circumscribed by State lines, nor subject to State laws. Its internal commerce is national, and so should be its currency. At present some fifteen hundred State banks furnish the people with a bank-note circulation. This circulation is not confined to the States by which it is authorized, but is carried by trade or is forced by the banks all over the Union. People receive it and pay it out, scarcely knowing from whence it comes or in what manner it is secured. Banks have been organized in some States with a view to lending their circulation to the people of others. Probably not one quarter of the circulation of the New England banks is needed or used in New England—the balance being practically loaned to other States. The national currency system is intended to change this state of things, not by a war upon the State banks, but by providing a means by which the circulation which is intended for national use shall be based upon national securities through associations organized under a national law. The United States notes, the issue of which was rendered necessary by the exigencies of the government, and which it is presumed will be withdrawn whenever this exigency ceases, have taught the people the superiority of a national circulation over that to which they have been accustomed. In many sections the produce of the country cannot be purchased with bank notes, and people find it difficult travelling from State to State without legal tenders. Everywhere the opinion is prevailing that the circulation of local banks has about had its day, and must yield to the demands of the people for a circulation of which the government is the guarantor.

By the national currency act the principle is for the first time recognized and

established, that the redemption of bank notes should be guaranteed by the government authorizing their issue. The national currency will be as solvent as the nation of which it represents the unity. The country has at last secured to it a permanent paper circulating medium of a uniform value, without the aid of a national bank. This national system confers no monopoly of banking, but opens its advantages equally to all. It interferes with no State rights. It meets both the necessities of the government and the wants of the people. It needs modifications, and may require others than those which are suggested in this report; but it is right in principle, and of its success there can, I think, be no reasonable doubt.

The work of preparing the national circulation has been attended with unlooked for delays, but it is confidently expected, after the banks already organized are supplied, which will probably be accomplished within the next two months, that all associations will be furnished with notes within thirty days from the time bonds are deposited with the Treasurer. Contracts have been made with the Continental and American Bank Note Companies for engraving the plates for the five, ten, twenty, fifty, and one hundred dollar notes, and the printing of the fives and tens has been commenced. The delivery will soon follow, and the banks, and through the banks the people, will soon be put in possession of the much-desired currency.

With the suggested amendments of the act, it is not supposed that the national banking system will be an absolutely perfect one, but it is supposed that it will afford to the people a better bank note circulation than any heretofore devised. There may be under this law imprudent banking, and perhaps banking on fictitious capital, which no law can absolutely prevent. It should, however, be the aim of those who have the supervision of the system to guard it by every means in their power against such perversions. Men without capital, and adventurous speculators, should have no connexion with banking institutions. If such men do obtain control of national banks, the restrictions of the law should be so enforced as to render that control a temporary one. Encouragement should be given to honorable, straightforward, legitimate banking, and to no other.

But whatever mismanagement of the affairs of any particular national bank may exist, the holders of its notes will not be prejudiced by it. If the banks fail, and the bonds of the government are depressed in the market, the notes of the national banks must still be redeemed in full at the treasury of the United States. The holder has not only the public securities, but the faith of the nation pledged for their redemption.

If, in addition to this, the national currency, when distributed among the people, shall tend to give steadiness to trade by preventing bank note panics, and to facilitate a return to specie payments, and shall aid in regulating the exchanges of the country, at the same time that it meets the necessities of the government in the collection of its internal revenues, and binds the people by the strong ties of pecuniary interest to the governments it will prove that the war, calamitous as it may be, is not without its compensations, and a national debt is not without its advantages.

Hon. S. P. CHASE,  
*Secretary of the Treasury.*

HUGH McCULLOCH, *Comptroller.*

## A.

## OFFICE OF COMPTROLLER OF THE CURRENCY,

November 25, 1864.

In compliance with the requirements of the 61st section of the national currency act, I have the honor of making through you to the Congress of the United States the following report:

Since my last annual report two hundred and eighty-two new banks have been organized, and one hundred and sixty-eight State banks have been changed into national ones. Of the one hundred banks last organized, sixty-seven have been conversions of State banks, and nearly all the papers now being filed are for the change of State banks into national associations.

There are now in existence, under the national currency act, five hundred and eighty-four associations, which are located in the following States:

In Maine .....	18
In New Hampshire.....	9
In Vermont .....	10
In Massachusetts .....	67
In Rhode Island.....	2
In Connecticut.....	20
In New York.....	100
In New Jersey.....	16
In Pennsylvania .....	109
In Delaware .....	1
In Maryland .....	3
In District of Columbia.....	2
In Virginia .....	1
In West Virginia .....	2
In Ohio .....	84
In Michigan .....	15
In Indiana .....	34
In Illinois .....	38
In Wisconsin .....	15
In Minnesota .....	4
In Iowa .....	20
In Missouri .....	7
In Kansas .....	1
In Nebraska Territory.....	1
In Kentucky .....	1
In Tennessee .....	3
In Louisiana .....	1

The paid-in capital of the banks in the respective States and Territories, the currency delivered to them, (a considerable portion of which has not been put into circulation,) and the bonds deposited with the Treasurer to secure their notes, are as follows:

## REPORT ON THE FINANCES.

State.	Capital stock paid in.	Circulation.	Bonds.
Maine.....	\$2,749,800 00	\$1,887,880	\$2,244,500
New Hampshire.....	1,120,000 00	552,700	944,000
Vermont.....	1,490,000 00	1,311,800	1,636,000
Rhode Island.....	700,000 00	414,000	560,000
Massachusetts.....	25,909,040 00	12,536,850	16,888,650
Connecticut.....	5,176,638 00	4,084,050	4,525,500
New York.....	20,599,175 03	12,584,950	14,064,600
Pennsylvania.....	21,120,148 88	10,193,830	14,964,100
New Jersey.....	2,141,249 00	1,756,170	2,011,000
Delaware.....	300,000 00	200,000	250,000
Maryland.....	1,560,000 00	1,245,000	1,400,000
District of Columbia.....	600,000 00	477,000	534,000
Virginia.....	95,025 00	95,000	112,000
West Virginia.....	206,950 00	140,000	230,000
Ohio.....	10,035,165 86	7,505,880	8,749,850
Kentucky.....	200,000 00	162,000	184,000
Indiana.....	4,201,671 26	3,148,400	3,924,100
Illinois.....	4,147,837 25	3,396,560	3,794,600
Michigan.....	1,165,090 00	797,800	943,500
Wisconsin.....	1,040,277 00	774,500	903,050
Minnesota.....	590,000 00	442,000	603,000
Iowa.....	1,215,000 00	945,900	1,092,000
Nebraska Territory.....	40,000 00	27,000	30,000
Kansas.....	100,000 00	49,000	55,000
Missouri.....	1,621,530 00	722,000	865,000
Tennessee.....	340,000 00	234,380	263,000
Louisiana.....	500,000 00	180,000	200,000
Total.....	108,964,597 28	65,864,650	81,961,450

A detailed statement of the affairs of each bank on the first Monday of October last, with an abstract of the condition of all of them in the aggregate on that day, is herewith submitted, together with the names and compensation of the clerks, and the total expenses of the bureau for the fiscal year.

A large proportion of the circulating notes which have been furnished by the Comptroller was intended to take the place and is taking the place of the circulation of such State banks as have been converted into national ones, or of those whose notes have been voluntarily retired, or have been returned from those parts of the country in which the notes of the United States and of the national banks are alone current; so that the currency delivered to the national banks is not and will not be altogether an addition to the paper money of the country, but rather, to a considerable extent, the substitution of it for that of the State banks.

It is perhaps to be regretted that so many new banks have been organized in States where, before the passage of the act, there was no deficiency of banking capital. There would have been less cause for apprehension that banking capital in any of the States was being too rapidly increased, if, by suitable legislation of the States, State banks had been sooner authorized to avail themselves of the benefits of the national currency act, and the managers of banks, where the necessary legislation had been obtained, had more promptly discerned the inevitable tendency of the public sentiment, and co-operated with the government in its efforts to nationalize the bank note circulation of the country. It was not the intention of the originators and friends of the system, nor has it been the policy of the Comptroller, to swell, through the instrumentality of the national banks, the volume of paper money. On the contrary, the system was

designed to check overissues by requiring ample security for every dollar which should be put into circulation, and it has been the aim of the Comptroller so to administer the law as to prevent, instead of encouraging, an unhealthy and dangerous expansion of credits.

I am happy in being able to say that my apprehensions of a too rapid increase of national banks have been much lessened by the recent action of many State banks. The legislature of Pennsylvania, following the example of the legislatures of Massachusetts, Connecticut, &c., has recently authorized the banks of that State to reorganize under the national system, and the stockholders of so many of them are availing themselves of this authority, as to render it quite certain that at an early day there will be in this great central State, without a dangerous increase of its banking capital, but one system of banking. In fact, the indications are now unmistakable that the time is not far distant when the people of the United States will be everywhere relieved of a bank note circulation of limited credit and uncertain value, and supplied with one of uniform credit and as solvent as the nation. It has been the earnest wish of the Comptroller that this desirable result should be brought about through the agency of existing banks, rather than by the organization of new ones, so that the national circulation might be introduced with as little increase of banking capital as possible. A national bank note currency will be one of the compensations for the heavy debt which has been incurred in the terrible contest in which the nation has been involved. If it can be everywhere introduced, as now seems probable, without creating a dangerous bank note inflation, it will prove to be a compensation which more than anything else will reconcile the people to the burdens which the war must necessarily impose upon them. It will be so by its tendency to regulate domestic exchanges, by the stability it will give to trade, in preventing unsecured issues and bank note panics, by saving the people from losses in the use of paper money, and by its influence in securing and perpetuating that national unity which is the ark of our safety.

It is an interesting fact, that this great change is taking place—this great financial revolution, if I may so call it, is being accomplished, without disturbing the business of the country. State banks, whose conversions are facilitated by enabling acts, are being daily reorganized without a curtailment of discounts, or even a temporary derangement of their affairs. Nearly all the banking capital of Philadelphia has been recently nationalized, with scarcely an interruption of the business of the banks for a single day. In States where no enabling legislation has been obtained, the change from the State to the national system is attended with more difficulty. But even in these States, by the organization of national banks by the stockholders of State banks, and the transfer of the assets of the latter to the former, the change has been already, in many instances, effected without loss to the owners, and with very little practical inconvenience to the managers.

It is also an interesting fact, that the stock of State banks which have been changed into national associations has not been depreciated by the change; on the contrary, the shares of most of them have been appreciated, and I know of no instance in which their real or market value has been injuriously affected by it. This fact sufficiently refutes the charge, sometimes urged against the system, that it was being forced upon the country to the prejudice of the stockholders of State institutions.

It may be proper for me to state another fact in this connexion of interest to the public, which is, that the national banks are, without any known exceptions, in safe, although some of them are in inexperienced hands, and that the fears that the national banking system would be the means of filling the country with banks of fictitious capitals, and be a reproduction, on a large scale, of the stock banking systems of States in which they had proved to be a failure, if not a fraud, are, from present indications, without a real foundation.

The fact that such apprehensions were entertained or were professed to be entertained by the bankers of a State, in which a system similar in some of its main features was in practical operation, intimidated, for a while, the capitalists of other States, and retarded the reorganization of State banks, but worked no permanent injury to the national system. On the contrary, the expression of these fears has led to a thorough examination of the act, and a careful observation of its administration, and the result has been favorable to both. It has been discovered that in many important particulars the national system differs from, and is an improvement upon, the State system, which it the most closely resembles; that it restricts circulation to ninety per cent. of the bonds on deposit with the Treasurer, and prohibits the banks from issuing notes to an amount exceeding their bona fide paid up capitals, sworn to by their officers; that every interior national bank, in addition to redeeming its notes at its own counter, is compelled to redeem at par, at some commercial centre, thereby tending to prevent high rates of exchange between the different sections of the country, and that, in case of the failure of a bank to redeem its notes according to the provisions of the act, these notes, instead of being depreciated, would be at once redeemable in lawful money, at the treasury of the United States. It has been also ascertained that the Comptroller is requiring the most satisfactory references or credentials in regard to the standing and responsibility of the persons proposing to organize national banks, and is instituting a system of examinations which will do much to expose and check improper practices on the part of the bankers, and violations of the wholesome provisions of the law.

This examination of the act, and the observation of the manner in which it is being administered, have resulted in the entering up of a popular judgment in favor of the national banking system; a judgment, not that the system is a perfect one, nor free from danger of abuse, but that it is a safer system, better adapted to the nature of our political institutions, and to our commercial necessities, giving more strength to the government, with less risk of its being used by the government against the just rights of the States, or the rights of the people, than any system which has yet been devised, and that by such amendments of the act as experience may show to be needful, it may be made as little objectionable, and as beneficial to the government and the people, as any paper money banking system that wisdom and experience are likely to invent. It promises to give to the people that long existing "desideratum," a national currency without a national bank, a bank note circulation of uniform value without the creation of a moneyed power in a few hands over the politics and business of the country.

Of course this system depends for its success upon the maintenance of the faith and credit of the nation, which, in their turn, depend upon the preservation of the national integrity. If these fail, the national banking system will fail; but it will go down with all other important interests, and will be but a part of the general wreck. That such a calamity is not in store for us is the confident hope and belief of all true men of the loyal States. The anxieties and apprehensions which have existed heretofore on this point are rapidly disappearing as the loyal mind of the United States has hardened to the inexorable resolution that the Union shall be preserved, and the public credit shall be maintained, no matter what sacrifices and burdens the execution of this resolution may involve.

It is a common objection to the national banking system, on the part of some who favor a national currency, that it will deprive the government of the privilege it might safely use, and the field it might profitably occupy, by the continued circulation of its own notes. Why, it is asked, should not the government drive out of circulation all bank notes, and continue to issue, as it has done since the commencement of the war, its own notes, and thus save the interest which otherwise will go to the banks? In answer, I would remark:

The banking interest in the United States is an important one; it has grown with the business of the country, and has been largely instrumental in developing the national resources and in increasing the national wealth. Banks of issue, badly and dishonestly as many of them have been managed, and disastrous as have been the failures which bad management and dishonesty have produced, have still been of unquestionable advantage to the people. The capital of the country has been largely, and in good faith, invested in them, and thousands of stockholders depend upon the dividends upon their bank stock for support. It is an interest which has stood by the government in its struggles with a gigantic rebellion; and now, when it is indispensable that the government should control the issues of paper money, there has been created a national banking system, not to destroy the State banks but to absorb them, and that, too, without prejudice to their stockholders.

Governments should not be bankers. None has existed which could be safely trusted with the privilege of permanently issuing its own notes as money. Circulating notes have been issued under peculiar circumstances by other governments, as it is now being done by that of the United States, but the judgment of the world is against it as a permanent policy, and nothing but an overpowering public exigency will at any time justify it. Under popular institutions like ours no more dangerous, no more corrupting power could be lodged in the hands of the party in possession of the government; none more perilous to official probity, and free elections. Give to a party dominant in the legislative and executive branches of the government the authority of issuing paper money for the purpose of furnishing the country with its currency, subject as it would be to no restraint but its own pleasure, and what guaranty would there be that this authority would be honestly and judiciously used? If there were no risk in the preparation of the notes, and checks were provided to make fraudulent issues an impossibility, the power of issuing government promises as a circulating medium is too dangerous a one to be conferred upon any party, except under extraordinary circumstances.

The present issue of United States notes as lawful money, and the decisions of the courts sustaining the constitutionality of the issue, have been justified by the consideration that under a great public necessity, when the nation's life is in peril, policies must be framed and laws must be interpreted with a view to the preservation of the government. This is the paramount consideration to which all others must bend. Whatever opinions may have been, in times past, entertained in regard to the propriety of the issue of United States notes, and the expediency as well as the constitutionality of the law making them a legal tender, there are now, I apprehend, very few intelligent persons who are not persuaded that without these notes, and the character of lawful money given to them by Congress and confirmed by the courts, the credit of the nation would have given way at the very outbreak of the rebellion. When the war has been concluded, and the exigency which made the issue of government notes a necessity has ceased to exist, there will be very few to advocate the continued use of them on the ground of economy.

If, however, there were no objections of the kind alluded to, there are other objections to the permanent issue of circulating notes by the government, which must be apparent to all who have considered the object and uses of a paper currency.

Paper money has been found to be useful, or rather an absolute necessity in all commercial countries for the convenient transaction of business, and as a circulating representative of values too large to be represented by coin. Although the fruitful cause of great evils, by reason of its unregulated use, and of its uncertain and frequently deceptive character, the general utility of it can hardly be questioned. Now, what is needed in a paper circulating medium, is, that it should be convertible into coin; that it should be sufficient in amount to answer

the purposes of legitimate business; that it should not, on the one hand, by being overissued, encourage extravagance and speculation and give an artificial and unreliable value to property; nor, on the other hand, by being reduced below the proper standard, interrupt business and unsettle values. It should be supplied to just the extent of the demands of a healthy trade. It should be increased as the regular business of the country may require its increase, and be diminished as the proper demand for it is diminished.

It is not pretended that banks of issue have furnished this kind of circulation. Bank notes, with few exceptions, have been convertible into coin when there was no demand for coin, and inconvertible when there was. They have, too generally, been issued for the exclusive benefit of the bankers, and not for the convenience of the public, and they have encouraged speculation, when their true mission was to facilitate trade. It has been the bane of a bank note circulation, that it has been expanded by the avarice of the bankers, and contracted by the distrust that overissues have created.

Now, this objection to a bank note circulation applies with much greater force to government issues. There is always inducement enough for banks to keep up a full circulation, and against excessive issues there are the restrictions of law and the liability to redeem. Government notes, in the issue thereof, would be regulated only by the necessities of the government or the interests of the party in power. At one time they might be increased altogether beyond the needs of commerce and trade, thereby enhancing prices and inducing speculation; at another, they might be so reduced as to embarrass business and precipitate financial disasters. They would be incomparably worse in this respect than a bank note currency, because the power that should control circulation would be the power that furnishes it. Supplied by an authority not in sympathy with trade, they would not be accommodated to the requirements of trade. They might be the fullest in volume when there was the least demand for a full circulation, and the most contracted when there was a healthy demand for an increase. They would eventually become an undesirable circulation, because there would be no way in which the redemption of them could be enforced: they would be a dangerous circulation, because they would be under the control of political parties; an unreliable circulation, because, having no connexion with trade and commerce, they would not be regulated by their necessities.

There are objections to all kinds of paper money; but, in some form, it is a commercial necessity, and no form has yet been contrived so little objectionable, as that which is authorized by the national currency act. Under this act the government performs its proper functions by exercising one of its constitutional powers for the regulation of commerce, by fixing the maximum of bank note circulation, securing its solvency, and giving to it nationality of character and uniformity of value. It takes the promises, which are to go among the people through the national banks, put its seal upon them, and guarantees *their* redemption, as it takes the precious ore from the mines—the property of individuals—coins it into money of the United States and fixes the value thereof. It thus performs the proper offices of government. In doing so it interferes with no State rights, meddles with no man's lawful pursuits. It stands between the bankers and the people, and while it protects the latter from imposition in the use of a bank note currency, it trespasses upon no privileges of the former. Without becoming a banker, and without, as in the case of the charter of the United States Bank, conferring peculiar if not dangerous privileges upon a single corporation, it provides a national circulation, indispensable for its own use and safety in the collection of its internal revenues, and suited to the circumstances of the country.

But while the national currency act is restrictive in its general provisions, and is expected, when generally adopted to prevent expansions, there is still danger that too much capital will be invested under it during the suspension of

specie payments, and in the existing unsettled condition of our political and financial affairs. When money is plenty, and fortunes are being rapidly acquired, the country is always in a feverish and unhealthy state. This is especially true at the present time. The enormous expenditures of the government, and the great advances in prices since the commencement of the war, have made many persons suddenly rich, and, upon fortunes suddenly acquired, have followed reckless expenditures, extravagance, waste. Speculation is taking the place of sober and persevering industry, and thousands are deluded with the notion that the wealth of the nation is being increased by the increase of its indebtedness. The inauguration of a new system of banking, under such circumstances, is peculiarly hazardous, and I have been, from the time of my appointment, more apprehensive that too many banks would be organized, than that the system would not be sufficiently attractive to induce capitalists to become connected with it. The government is the great borrower. Its obligations compose a large portion of the discount line of the banks, which are making large profits on government securities at little apparent risk, and the danger is, that the national banking system, with all its restrictions, may, during the suspension of specie payments, and the continuance of the war, add to the plethora of paper money; and that, when the war is over, the banks, deprived of the existing means of investment in government obligations, and finding no legitimate use for their capitals, may be tempted to use them in encouraging operations that will eventually prove to be as unprofitable to themselves, as they will be injurious to the country. For the double purpose, therefore, of keeping down the national circulation as far as it has seemed possible to do it, consistently with the establishment of the system throughout the country, and preventing an increase of banking capital, that might hereafter be instrumental in keeping up the inflation, and retarding the resumption of specie payments, or prove unprofitable to its owners, I have felt it to be my duty to discourage, in many instances, the organization of new banks, and in more instances to refuse my sanction to the increase of the capital of those already organized. In doing so, I may seem to have exercised a power not warranted by the act; but if not sustained by its letter, I have been by its spirit, and I am willing to let the future decide as to the correctness or incorrectness of my course.

But while I entertain the opinion that the currency of the country is already too much expanded, and that it would be a calamity if the national banking system should be the means of materially increasing it, I must not be understood as sanctioning the notion, so generally prevalent, that the high price of coin is to be altogether or chiefly attributed to it, or that gold and silver are, at the present time, the standard of value in the United States. When gold sold in Wall street, on the 1st of July last, at 185 premium, many of the best stocks, as well as productive real estate, were no higher than they have been upon a coin basis.

By referring to the gold market in New York during the three past years it will be perceived that its value has been regulated by other causes than the inflation of the currency.

In January, 1862, gold in New York was at a premium of  $1\frac{1}{2}$  per cent. It soon fell to 1, from which it rose on the 10th of October to 37, and closed on the 31st of December at 34. On the 24th of February, 1863, it had advanced to 72 $\frac{1}{2}$ , but on the 26th of March (favorable news having been received from the southwest) it went down to 40 $\frac{1}{2}$ , but in twelve days, on the receipt of less favorable intelligence from that quarter, it went up to 59 $\frac{1}{2}$ . A few days after, upon the report of the iron-clad attack upon Fort Sumter, it fell to 46, and on receipt of the intelligence of the surrender of Fort Hudson to 23 $\frac{1}{2}$ . On the 15th of October it rose to 54, but reached no higher point during that year.

On the 1st of January, 1864, it opened at 52, went up to 88 on the 14th of April, and fell to 67 on the 19th of the same month. On the passage of the

gold bill, June 22, it rose to 130, and fell the next day to 115. On the 1st of July it was forced up to 185, but on the day following (the gold bill having been repealed) it fell to 130. On the 11th of the same month it went up again to 184; on the 15th it fell to 144, and after various fluctuations dropped on the 26th of September to 87—thus rising between the 1st of January and the 1st of July, 1864, from 52 to 185, and falling between the 1st of July and the 26th of September from 185 to 87. None of these fluctuations were brought about by an increase or decrease of the currency; on the contrary, gold rose the most rapidly when there was no considerable increase of the currency, and fell in the face of large additions to it. Nothing can be more conclusive of the incorrectness of the opinion that gold is always the standard of value, and that the high price it has commanded in the United States during the progress of the war is the result of an inflated currency, than this brief statement of its variations in the New York stock market.

Hostility to the government has been as decidedly manifested in the effort that has been made in the commercial metropolis of the nation to depreciate the currency as it has been by the enemy in the field; and unfortunately the effort of sympathizers with the rebellion, and of the agents of the rebellious States, to prostrate the national credit has been strengthened and sustained by thousands in the loyal States, whose political fidelity it might be ungenerous to question. Immense interests have been at work all over the country, and concentrated in New York, to raise the price of coin, and splendid fortunes have been apparently made by their success. The loyal importer and manufacturer of the east and the produce and provision merchant of the west have locked hands with the enemies of the republic in a common effort, although for a different object, and sometimes have produced results which have created serious apprehensions that the Union might be lost for want of means to prosecute the war, or rather on account of the excessive and unnecessary costliness of the war. The government in its struggles with a gigantic rebellion has not only been contending with armed rebels in the field, but with unarmed rebels in the loyal States, backed by an immense interest in the hands of loyal citizens.

Gold has been a favorite article to gamble in. It has been forced up and down by those tricks and devices that are so well understood at the stock board. The reverses of our arms have been used by the operators for an "advance" to send it up, and our military successes have been turned to the advantage of those who were interested in a "decline." When the banks and the government suspended specie payments, and a new standard of value was created in the legal tenders, gold and silver, whose legal value had been fixed by the same authority, became an article of traffic, subject to the influences that have control of the market, and yet unfortunately everything necessary for use or consumption was made to follow their upward tendency, as if they were still the proper and only regulator of prices.

The effect of all this has been, not to break down the credit of the government, but to increase enormously the cost of the war and the expense of living; for however small may have been the connexion between the price of coin and our domestic products, every rise of gold, no matter by what means effected, has been used as a pretext by holders and speculators for an advance of prices, to the great injury of the government and the sorrow of a large portion of the people. It is unquestionably true that the abundance of money has facilitated the operations against the credit of the government, and that a more stringent market would have tended to check and restrain them, but it is a mistaken notion that the high price of coin is an evidence of an overissue of currency or of its depreciation. If it were generally believed that the war would be ended by the 1st of January, gold would fall before that time to 25 per cent. premium, if not lower, although the paper money in circulation might in the mean time be largely increased.

The expenditures of the government have created a great expansion of currency and of prices. There would have undoubtedly been an expansion, in a less degree it is true, but still an expansion, if the war had been carried on upon a specie basis. Prices of all the necessaries of life as well as luxuries, and of everything which the government must purchase in the prosecution of the war, are enormously high, and the penalty is yet to be paid, for the inflation, in increased taxation, and the ruin which must overwhelm the thousands who believe, and act upon the belief, that the apparent prosperity of the country is real, and is not to be interrupted. Fortunate will the country be if the war can be closed and prices reduced to former standards without a collapse, which will as greatly excel in the extent of its disaster that which occurred at the close of the last war with England as the present war excels that in costliness and magnitude.

As long as there was any uncertainty in regard to the success of the national banking system, or the popular verdict upon its merits and security, I did not feel at liberty to recommend discriminating legislation against the State banks. It is for Congress to determine if there is any longer a reasonable uncertainty on these points, and if the time has not arrived when all these institutions should be compelled to retire their circulation. It is indispensable for the financial success of the treasury that the currency of the country should be under the control of the government. This cannot be the case as long as State institutions have the right to flood the country with their issues. As a system has been devised under which State banks, or at least as many of them as are needed, can be reorganized, so that the government can assume a rightful control over bank note circulation, it could hardly be considered oppressive if Congress should prohibit the further issue of bank notes not authorized by itself, and compel, by taxation, (which should be sufficient to effect the object without being oppressive,) the withdrawal of those which have been already issued. My own opinion is, that this should be done, and that the sooner it is done the better it will be for the banks themselves and for the public. As long as the two systems are contending for the field, (although the result of the contest can be no longer doubtful,) the government cannot restrain the issue of paper money; and as the preference which is everywhere given to a national currency over the notes of the State banks indicates what is the popular judgment in regard to the merits of the two systems, there seems to be no good reason why Congress should hesitate to relieve the treasury of a serious embarrassment, and the people of an unsatisfactory circulation.

Some important amendments are required to the act in order that it should be fully accommodated to the wants and business of the country.

The provisions in regard to the lawful money reserve and the distribution of the assets of insolvent banks require modification.

I am still of the opinion that the rates of interest to be charged by the national banks should be fixed by Congress, and not by the States.

There are too many points at which the banks may redeem their notes. All, with the exception of those in Philadelphia and Boston, should redeem in New-York. The banks ought to be compelled by law to retain a part, if not all the coin received by them, for interest on their gold-bearing bonds, in order that they may be prepared to lend their influence in favor of a return to specie payments, and some provisions should be introduced by which, when specie payments are resumed, excessive importation of goods may be checked and dangerous exportations of coin may be prevented.

It is of the greatest importance that the national currency system should be independent of politics and freed from political influences. To effect this, and to facilitate the business of the banks with the Comptroller, I am clearly of the opinion that the bureau should be made an independent department, and removed from Washington to Philadelphia or New York.

I do not, however, recommend that any amendments be made by the present Congress. The act will do well enough as it is for another year. When the next Congress assembles, the defects in it will be better understood, by the practical working of the system, than they can be at the present time. The act can then be taken up, and, with the light which the experience of another year has thrown upon it, judiciously amended.

In reporting the names and compensations of the clerks employed in this bureau, I should neglect a duty to them and to the system if I did not respectfully suggest that a general increase of their salaries should be made, and that the increase of the salaries of those who occupy positions of high trust and responsibility should be liberal. This bureau is already an important one, and is not unlikely to be one of the most important in the department. There is not a desk in it which should not be filled by a man of intelligence, character, and good business qualifications. Without such men the affairs of the bureau cannot be safely or properly administered, and expensive as living now is in Washington, it is questionable if the services required can be secured without an increase of salaries. If there were no doubt, however, on this point, it is not right that honorable and competent men should be faithfully serving the government for such compensations as leave them, with rigid economy, in no better circumstances at the close of a year than they were at its commencement. There are undoubtedly, in the different departments at Washington, a great many drones and incompetent clerks who do not earn the salaries that are paid them, whose "attendance" should be dispensed with; but my observation, since I have been in Washington, has satisfied me that there are in all the departments a body of clerks who, for intelligence, ability, and hearty devotion to their duties have no superiors anywhere.

To them is the country indebted for the accuracy with which an immense business—a business which has increased ten-fold since the commencement of the war—is transacted. The expenses of the departments would be largely reduced if only such were employed, and they were paid respectable salaries. Cheap clerks are a costly article to the government—it is a poor economy that drives away or starves competent ones.

The Deputy Comptroller of this bureau holds an important and responsible position. In the absence of the Comptroller he possesses the power and performs the duties attached to the office of the Comptroller. The gentleman who has charge of the vaults and the currency holds also a place of great responsibility; and two or three other clerks are performing duties requiring rare qualifications. I am under great obligations to them, and so is the country, for the prompt and able manner in which they are doing their work, and the valuable services they have rendered in the organization of the bureau and systematizing its business. Important duties are devolved upon them, while they receive but a small portion of the credit which the proper performance of their duties secures to the bureau. In my judgment, the salaries they are receiving are wholly inadequate to the services they are rendering.

I respectfully recommend, therefore, in addition to a general increase of the salaries of the clerks, that the Deputy Comptroller be paid a salary of thirty-five hundred dollars per annum, and that the comptroller be authorized, with the approval of the Secretary of the Treasury, to employ three other clerks as heads of divisions, at salaries not exceeding twenty-five hundred dollars, respectively.

All which is respectfully submitted.

HUGH McCULLOCH, *Comptroller.*

Hon. W. P. FESSENDEN,  
*Secretary of the Treasury.*