REPORT

OF

THE SECRETARY OF THE TREASURY,

IN OBEDIENCE TO A RESOLUTION OF THE HOUSE OF REPRESENTATIVES OF 1ST MARCH, 1819,

TRANSMITTING STATEMENTS

IN RELATION TO THE CONDITION OF THE

BANK OF THE UNITED STATES

AND ITS OFFICES;

ALSO STATEMENTS IN RELATION TO THE SITUATION OF THE DIFFERENT

CHARTERED BANKS

IN THE DIFFERENT STATES, AND THE DISTRICT OF COLUMBIA, &c.

NOW FIRST PRINTED IN THIS COUNTRY.

LONDON:

1820.
A

REPORT,
&c. &c.

TREASURY DEPARTMENT,
12th February, 1820.

SIR: In obedience to a resolution of the House of Representatives, passed on the 1st of March, 1819, directing "the Secretary of the Treasury to transmit to Congress at an early period in the next session, a general statement of the condition of the Bank of the United States and its offices, similar to the return made to him by the Bank; and a statement exhibiting as nearly as may be practicable, the amount of capital invested in the different chartered banks in the several states and the district of Columbia, the amount of notes issued by those banks and in circulation, the public and private deposits in them, the amount of loans and discounts made by them, and remaining unpaid, and the total quantity of specie they possess; and also to report such measures as, in his opinion, may be expedient to procure and retain a sufficient quantity of gold and silver coin in the United States, or to supply a circulating medium in place of specie, adapted to the exigencies of the country, and within the power of the government;" I have the honor to submit the subjoined report and statements.

Statement A exhibits the condition of the Bank of the United States and its offices, on the 30th of September, 1819.

Statement B exhibits the amount of bank capital authorised by law, during the years 1814, 1815, 1816, and 1817. As this
statement is founded upon the applications made to the Treasury under the acts imposing stamp duties, it is believed to be substantially correct. The average dividends upon which the stamp duty was paid, during those years, amounted to about 7\(\frac{1}{2}\) per cent. upon the nominal amount of capital; it is, however, a matter of general notoriety, that the dividends upon bank capital, actually paid, exceeded that rate. If it is assumed, that the dividends declared and upon which the duty was paid, amounted, during those years, to 10 per cent., then the capital actually paid in the year 1817, instead of being more than 125,000,000 dollars, as it is exhibited in statement B, will be found to be about 94,000,000 dollars; but, when it is recollected that after the first payment required by the charters of the different banks, they have generally gone into operation, it is probable that a considerable proportion of the remaining payments have added nothing to their active capital. This fact being assumed, and a deduction being made of the amount of permanent accommodation enjoyed by the stockholders, in their respective banks, the active bank capital of the United States may be fairly estimated at a sum not exceeding 75,000,000 dollars. That these deductions ought to be made, in an attempt to ascertain the real amount of bank capital, cannot, it is presumed, be contested. If a stockholder to the amount of 10,000 dollars has a permanent accommodation in the bank of 8,000 dollars, he has, in fact, but 2,000 of capital in the bank. This is equally true when a portion of his subscription has been paid with his own note, however well indorsed: so long as the note remains unpaid, it adds nothing to the real capital of the bank.

Such, it is believed, has been the process by which the capital of most of the banks has been formed, which have been incorporated since the commencement of the late war. Since that period, banks have been incorporated, not because there was capital seeking investment; not because the places where they were established had commerce and manufactures which required their fostering aid; but because men without active capital wanted the means of obtaining loans, which their standing in the community would not command from banks or individuals having real capital and established credit. Hence, the multiplicity of local banks, scattered over the face of the country, in particular parts of the Union; which, by the depreciation of their paper, have levied a tax upon the communities within the pale of their influence, exceeding the public contributions paid by them.

Statement C presents the condition of the state banks from which returns have been received, or have been transmitted by the Secretaries of State of different states, in conformity with the request of the Treasury Department. By comparing this statement with statement B, it will be perceived that it is very imper
fect. Independently of the banks which have been created since the year 1817, it will be discovered that bank capital to the amount of more than 18,000,000 dollars, comprehended in statement B, is not embraced in it. As the amount of bank capital exhibited in statement C, is 72,000,000 dollars, and its specie 9,828,000, the whole specie possessed by the state banks may be estimated at 12,250,000 dollars; if to this sum be added the specie in the possession of the bank of the United States and its offices, the specie capital of all the banks in the United States may be estimated at 15,500,000 dollars. There are no means of ascertaining, with any degree of precision, the amount of specie in circulation; it is probable, however, that it does not exceed 4,500,000 dollars. Assuming this amount to be nearly correct, the whole metallic currency of the Union may be estimated at 20,000,000 dollars.

Applying the same rule for ascertaining the circulation of the banks, not embraced by statement C, which has been employed to determine their specie, the whole amount of bank notes in circulation may be estimated at 46,000,000 dollars. It is probable, however, that this estimate is too high; as, according to the general practice of banks, all notes issued are considered in circulation, which are not in the possession of the bank by which they were issued. A reasonable deduction being made from the notes supposed to be in circulation, but which are in fact in the possession of other banks, it is probable that the actual circulation both of paper and specie, is less at this time than 45,000,000 dollars. By the same mode of calculation, the whole amount of discounts may be estimated at 156,000,000 dollars.

The destruction or loss of the returns made to the Treasury, before the year 1816, by the banks in which the public money was deposited, prevents any satisfactory comparison being drawn between their condition before and since that period. Comparative statements, however, have been received from sixteen banks in different parts of the Union, showing their situation on the 30th day of September, in the years 1813, 1815, and 1819. By statement D it appears that those banks, at the first period, with a capital of 6,903,262 dollars, and with 3,059,140 dollars of specie in their vaults, circulated 6,845,344 dollars of their notes, and discounted to the amount of 12,990,975 dollars: at the second period, their capital was 8,852,371 dollars; specie, 1,693,918 dollars; circulation, 9,944,757 dollars; and discounts, 15,727,218 dollars; and at the third period, their capital was 9,711,960 dollars; specie, 1,726,065 dollars; circulation, 4,259,234 dollars; and discounts, 12,959,560 dollars.

By statement B, already referred to, it has been shown, that, in the year 1814, the nominal bank capital in the United States ex-
ceded 80,000,000 dollars. It is understood, that a large addition was made to it, in that year, in several of the states. If it be admitted that such addition amounted to 15,000,000 dollars, the bank capital in operation, in the year 1813, may be stated at 65,000,000 dollars. Allowing to this capital the same amount of specie, circulation, and discounts, as was comparatively possessed by the banks comprehended in statement D, the estimate will be, specie 28,000,000 dollars, circulation 62,000,000 dollars, and discounts 117,000,000 dollars. In 1815, the bank capital had increased to 88,000,000 dollars; whilst, upon the same principle of calculation, the specie would have been estimated at 16,500,000 dollars, circulation at 99,000,000 dollars, and discounts at 150,000,000 dollars. Applying this principle to the 125,000,000 dollars of bank capital in operation during the year 1819, the specie possessed by all the banks would amount to 21,500,000 dollars, circulation 53,000,000 dollars, and discounts 157,000,000 dollars.

The last results, with the exception of the discounts, very materially differ from those which have been obtained by the mode of calculation previously adopted. They, nevertheless, furnish materials which may be useful in the progress of this enquiry. From them the following deductions may be drawn:

1st. That, in the year 1813, the circulation of bank notes was nearly equal to the bank capital:

2d. That, in the year 1815, it exceeded the capital by one-eighth:

3d. That, in the year 1819, it was less than the capital nearly in the proportion of 1 to 2.5:

4th. That, whilst the amount of bank capital has increased since 1813 from 65 to 125 millions; the metallic basis, upon which the circulation of notes is founded, has decreased in the proportion of 15.5 to 28; being equal to 44.6 per cent.:

5th. That the circulation of notes in the year 1819, in proportion to the specie in the possession of the banks, exceeded that of 1813, 25.9 per cent.:

6th. That, in the year 1813, the discounts, in proportion to the bank capital employed, exceeded those of 1815, in the ratio of 18 to 17, and those of 1819, in the ratio of 18 to 12:

7th. That the increase of bank notes in circulation, between the years 1813 and 1815, exceeded the increase of discounts during the same period by 4,000,000 dollars; whilst the specie, in the vaults of the banks, was diminished 11,000,000 dollars:

8th. That, whilst, between the years 1815 and 1819, an addition of 37,000,000 dollars has been made to the nominal bank capital, but 6,000,000 dollars have been added to the aggregate amount of discounts.
It is probable, that, between the year 1811 and the year 1813, a considerable addition was made to the paper circulation of the country. From a return of the former bank of the United States, made to the Treasury in 1808, it appears, that, with 15,300,000 dollars of specie, it circulated only 4,787,000 dollars of notes. Another return made in 1810 shows its condition was not materially changed. Shortly after the expiration of its charter, bank capital, to a great amount, was incorporated in some of the states. The expenditures produced by the war, which was declared in 1812, without doubt, contributed, in some degree, to produce the difference between the condition of the sixteen banks already referred to, and that of the former bank of the United States. If it be admitted, however, that the circulation in 1813 was not redundant, it must have become excessive in 1815. An increase of the currency, in the space of two years, in the proportion of 99 to 62, even if it had been wholly metallic, could not have failed to have produced a very great depreciation; but, when it is considered that, not only the increase, but the whole circulation consisted of paper, not convertible into specie, some idea of its depreciation may be formed. The depreciation, however, was not uniform in every part of the Union. The variation in the degree of depreciation depended not only upon the greater issues of banks in one section of the nation, than in others; but, also, upon the local advantages which they enjoyed as to commerce. It is impossible to determine, with precision, where the most excessive issue of bank notes occurred. Statement E, which exhibits the rate of exchange between the principal cities to the east of this place and London, and the price of bills at New York upon Boston, Philadelphia, and Baltimore, during the years 1813, 1814, 1815, and 1816, may be considered presumptive evidence of that fact. So far as it can be relied upon for that purpose, Baltimore was the point of greatest depreciation among the above-mentioned places. This is probably true; as it is known that the banks in that place made greater advances to the government in the loans which it obtained during the late war, in proportion to their capital, than those of Philadelphia, New York and Boston. But the greatest depreciation of the currency existed in the interior states, where the issues were not only excessive, but where their relation to the commercial cities greatly aggravated the effects of that excess.

This statement may also assist in explaining the cause of the necessity which existed in 1814 for the suspension of specie payments by the banks. From the commencement of the war until that event, a large amount of specie was taken out of the United States by the sale of English government bills, at a discount frequently of from 15 to 20 per cent. Immediately after the suspension, they commanded a premium in those places where the banks had sus-
pended payment, which gradually rose to 20 per cent.; whilst at Boston they remained at a discount of about 14 per cent. until February, 1815.

Whatever may have been the degree of depreciation of the currency in 1815, it continued to augment throughout the first six months of the year 1816, if the rate of exchange with London is considered conclusive evidence of that fact. The excessive importations of British merchandise during that period, and in the preceding year, might indeed account for the increase of premium paid upon sterling bills, and was, probably, one of the principal causes of it. The great fluctuations which occurred in the latter part of that period furnish some reason, however, for ascribing them, in some degree, to changes in the value of the currency, in which their price was calculated, rather than to the ordinary principles of exchange. It is more probable that the currency, in those places where it was not convertible into specie, fluctuated in value according to the efforts which were made, in particular places, to prepare for the resumption of specie payments, than that the balance of payments between the two countries should have varied to such an extent as is indicated by the sudden variations which occurred during that period in the rate of exchange. So far as these fluctuations are ascribable to the currency in which the rate of exchange was determined, a considerable appreciation of that currency took place in the last months of the year 1816. From that period until the present time, the circulation has rapidly diminished; and all the evils incident to a decreasing currency have been felt in every part of the Union, except in some of the eastern states.

If, as previously stated, the circulation of 1813 be admitted to be the amount required to effect the exchanges of the community with facility and advantage, and that, in the year 1815, that circulation was extended to 99,000,000 dollars, which was, in some degree, augmented in 1816, the extent of the diminution of the currency, in the space of three years, may be perceived. But it is probable that the currency in 1815 exceeded 99,000,000 dollars. The banks, upon whose situation that estimate is founded, were established at a period when the practice of dispensing with the payment of those portions of their capital falling due after they went into operation, had not been generally introduced. Some of them did not suspend specie payments during the general suspension. The rest were among the first to resume them, and have continued them to the present time. It cannot be expected that banks which went into operation during the war, and after the general suspension had occurred, were conducted with an equal degree of prudence and circumspection. A reasonable allowance being made for bank notes supposed to be in circulation at that period, but
which were, in fact, in the possession of other banks, and for the excess of issues beyond the estimate, the circulation may, it is believed, be safely calculated at not less than 110,000,000 dollars. The paper circulation in 1813 has been estimated at 62,000,000 dollars. At that period, however, gold and silver formed a substantial part of the currency. The condition of the old bank of the United States, in 1810, and of the sixteen banks in 1813, proves that the demand for specie from the vaults of the banks was inconsiderable. It is, therefore, probable, that the whole circulation of 1813 amounted to 70,000,000 dollars. In 1815, it is estimated to have risen to 110,000,000 dollars, and this amount was probably augmented in 1816. At the close of 1819, it has been estimated, upon data believed to be substantially correct, at 45,000,000 dollars. According to these estimates, the currency of the United States has, in the space of three years, been reduced from 110,000,000 to 45,000,000 dollars. This reduction exceeds fifty-nine per cent. of the whole circulation of 1815. The fact that the currency in 1815 and 1816 was depreciated has not sensibly diminished the effect upon the community, of this great and sudden reduction. Whatever was the degree of its depreciation, it was still the measure of value. It determined the price of labor, and of all the property of the community. A change so violent could not fail, under the most favorable auspices in other respects, to produce much distress, to check the ardor of enterprise, and seriously to affect the productive energies of the nation. The reduction was, in fact, commenced under favorable auspices. During the year 1817 and the greater part of 1818, all the surplus produce of the country commanded, in foreign markets, higher prices than ordinary. The rate of foreign exchange afforded no inducement for the exportation of specie for the purpose of discharging debts previously contracted. The only drain, to which the metallic currency was subject, was the demand for it, for the prosecution of trade to the East Indies and to China. In this trade, specie being the principal commodity, and indispensable to its prosecution, the amount exported during those years was very great, and seriously affected the amount of circulation, by compelling the banks to diminish their discounts.

Notwithstanding the drains for this commerce during these years was unusually large, every other circumstance was favorable to the restoration of the currency to a sound state, with the least possible distress to the community. The capacity of the country to discharge a large portion of the debts contracted with banks, and which had occasioned their excessive issues, was greater than at any former period, and than it probably will be again for a lapse of successive years. The effort to reduce the amount of
currency during those years, though successful to a considerable degree, was not pursued with sufficient earnestness. In the latter part of 1818, when the price of the principal articles of American production had fallen nearly fifty per cent. in foreign markets; when the merchant needed the aid of additional loans to sustain him against the losses which he had incurred by the sudden reduction in the price of the commodities he had exported; he was called upon to discharge loans previously contracted. The agriculturist, who saw his income reduced below his indispensable necessities; the manufacturer, who was not only struggling against foreign competition, but who saw the sale of his manufactures reduced by the incapacity of his customers to buy; in fact all classes of the community, under circumstances so adverse to the command of funds, were subjected to curtailments wherever they had obtained discounts.

All intelligent writers upon currency agree that where it is decreasing in amount, poverty and misery must prevail. The correctness of the opinion is too manifest to require proof. The united voice of the nation attests its accuracy. As there is no recorded example in the history of nations of a reduction of the currency so rapid and so extensive, so few examples have occurred of distress so general and so severe as that which has been exhibited in the United States. To the evils of a decreasing currency are superadded those of a deficient currency. But, notwithstanding it is deficient, it is still depreciated. In several of the states the great mass of the circulation is not even ostensibly convertible into specie at the will of the holder. During the greater part of the time that has elapsed since the resumption of specie payments, the convertibility of bank notes into specie has been rather nominal than real in the largest portion of the Union. On the part of the banks, mutual weakness had produced mutual forbearance. The extensive diffusion of bank stock among the great body of the citizens in most of the states had produced the same forbearance among individuals. To demand specie of the banks, when it was known that they were unable to pay, was to destroy their own interests, by destroying the credit of the banks in which the productive portion of their property was invested. In favor of forbearance, was also added the influence of the great mass of bank debtors. Every dollar in specie drawn out of the banks, especially for exportation, induced the necessity of curtailments. To this portion of the community all other evils were light, when compared with the imperious demands of banks. Their exertions to prevent the drain of specie in the possession of those who controlled their destiny, equalled the magnitude of the evils which were to be avoided. In most parts
of the Union, this forced state of things is passing away. The convertibility of bank notes into specie is becoming real wherever it is ostensible. If public opinion does not correct the evil in those states where this convertibility is not even ostensible, it will be the imperious duty of those who are invested with the power of correction to apply the appropriate remedy.

As the currency is, at least in some parts of the Union, depreciated, it must, in those parts, suffer a further reduction before it becomes sound. The nation must continue to suffer until this is effected. After the currency shall be reduced to the amount which, when the present quantity of the precious metals is distributed among the various nations of the world, in proportion to their respective exchangeable values, shall be assigned to the United States; when time shall have regulated the price of labor, and of commodities, according to that amount, and when pre-existing engagements shall have been adjusted, the sufferings from a depreciated, decreasing, and deficient currency, will be terminated. Individual and public prosperity will gradually revive, and the productive energies of the nation resume their accustomed activity. But new changes in the currency, and circumstances adverse to the perpetuity of the general prosperity, may reasonably be expected to occur. So far as these changes depend upon the currency, their recurrence, to an extent sufficient to disturb the prosperity of the nation, would be effectually prevented, if it could be rendered purely metallic. In that event, we should always retain that proportion of the precious metals which our exchangeable commodities bear to those of other nations. The currency would seldom be either redundant or deficient, to an extent that would seriously affect the interests of society. But when the currency is metallic, and paper convertible into specie, changes to such an extent, it is believed, will frequently occur.

The establishment of banks which are restrained from issuing notes of small denominations, furnishes great facilities for the transmission of money, and increases the efficiency of the capital subject to their control, to the extent of the credit employed by them. The degree of facility afforded by them for the transportation or transmission of money, depends upon the extent of country within which their notes circulate, and preserve a value equivalent to specie. Ordinarily, this extent is determined by the interior trade of the country; they will circulate through the whole extent of country, the produce of which is carried for sale to the place of their establishment. If they are established only in the principal commercial city of the nation, their notes will circulate through the whole extent of its territory, and afford the greatest possible facility for the transmission of money. If they
are established in several of the commercial cities, their circulation will be circumscribed by the sections of country, the inhabitants of which trade to those cities. The facility for transmitting money will be diminished by their establishment. But if banks should be established in all the interior towns, this facility would be impaired to a still greater degree. In that event, their notes would circulate within very narrow limits; but within those limits the notes of the banks in the commercial cities would no longer form part of the circulation. Should they by accident be carried within it, the first individual having remittances to make, and into whose hands they might come, would use them for that purpose.

The degree of credit which a bank can employ, in proportion to its capital, depends upon a variety of circumstances. If the community reposes great confidence in the prudence and integrity of those who direct its concerns; if the capital employed is small in proportion to the demand for the transmission of money; if there is no other bank whose local situation repels its circulation from those sections of country, the produce of which is ultimately carried to the place where it is established, the credit which it will be able to employ will be very great. Where all these facilities are wanting, the extent of the credit which it will employ will be very inconsiderable. The additional efficiency which, in the latter case, will be imparted to capital invested in banks, will, it is believed, not countervail the evils which necessarily result from their establishment.

Among the advantages which have been supposed most strongly to recommend their establishment, especially in a community whose resources are rapidly expanding, their capacity suddenly to increase the currency to the utmost demand for it, has been considered the most important.

In a country where the currency is purely metallic, no considerable addition can be made to it, without giving, at the time of its acquisition, articles in exchange of equal value. No addition can be made to the currency without affecting, to the extent of such addition, the enjoyments of the community. The amount so added will, to the same extent, diminish the quantity of articles which would otherwise be imported into the country for domestic consumption, or for re-exportation.

Ordinarily, the currency of one country will not be exported to another, because its value in every country is nearly the same. It will not, therefore, like other commodities, command a commercial profit upon exportation. It will be taken from one country to another, only when the price of commodities in the former is so high as to produce a loss in the latter equal to the expense of transporting specie. It is this condition, annexed to every acqui-
sition to the currency of a state, when it is purely metallic, of diminishing, to the same extent, the enjoyments of the community, which affords the most efficient protection against its becoming redundant. It is equally efficient in guarding against a deficiency, to an extent that can seriously affect the interest of the community. But this condition is not annexed to the increase of the currency, by the issue of bank notes, even when convertible into specie. The notes, by which the currency is suddenly augmented, do not, in any degree, diminish the enjoyments of the community. No equivalent is, by such issue, transferred to another community, as is invariably done when an acquisition is made to a metallic currency. Whenever the currency can be augmented, exempt from such transfer, it must be subject to some degree of fluctuation in quantity. Every addition made to the currency by the issue of bank notes, changes the relation which previously existed between the amount of the currency, and the amount of the commodities which are to be exchanged through its agency. Their issue depends not upon receiving, in exchange, articles of equal value; but, upon the pledge of a credit of one or more individuals, to the amount of such issue. No evil can result to the community from the advance of the capital of a bank in exchange for the credit of individuals. In that case, no addition is made to the amount of the currency previously in circulation. It is perfectly immaterial to society, whether this capital be lent by individuals or by corporations. The relation between the currency and the exchangeable commodities of the state is not disturbed. But, when their credit is greatly extended, the currency is expanded, and that relation is deranged. An expansion of the currency, through the agency of banks, will generally occur only in periods of prosperity. During such periods, enterprise will be fostered, industry stimulated, and the comfort and happiness of the people advanced without the fictitious aid of an expansive currency. But there can be no doubt that a sudden increase of the currency during periods of prosperity, through the agency of bank issues, gives additional force and activity to the national enterprise. Such an increase will be followed by a general rise in the value of all articles, especially of those which cannot be exported. The price of lands, houses, and public stock, will be augmented in a greater degree than if no such increase had taken place.

If these prices could be maintained; if they could even be protected against sudden reduction, they would be cause of gratulation rather than of complaint. But the expansion of the currency by the issue of paper, in a period of prosperity, will inevitably be succeeded by its contraction in periods of adversity. The extent to which the currency may be contracted, through the agency
of banks, depends upon the use which they may have made of their credit. The excess of their discounts beyond their capital actually paid, determines the amount of the credit which they have employed: Thus, in 1813, the capital of the banks in the United States has been estimated at 65,000,000 ds., and their discounts at 117,000,000 ds. The extent to which their credit was then employed was 52,000,000 ds. Their circulation, at the same period, has been estimated at 62,000,000 ds. In this estimate no allowance was made for notes stated to be in circulation, but which were probably in the possession of other banks. A reasonable deduction being made on that account, it is probable that the paper circulation did not much exceed 52,000,000 ds. But the liability of the banks for specie was equal to the whole amount of notes represented to be in circulation, besides the individual deposits. To meet an immediate demand, they are estimated to have had 28,000,000 ds. in specie. If the deposits of individuals should be estimated at 18,000,000 ds. their ultimate means of meeting the demand of 62,000,000 ds., without sacrificing their capital, would consist of 10,000,000 ds. in specie, and 52,000,000 ds. secured by the notes of individuals; this sum being the excess of their discounts over their capital. Under ordinary circumstances, the basis upon which the credit of this circulation rested, might be considered sufficient to sustain it. A debt of 117,000,000 ds. could not, under the most adverse circumstances, be considered inadequate to meet one of 52,000,000 ds. But, in the case of currency, the capacity to ultimate redemption is not sufficient. The capacity to redeem it as it is presented is indispensable. Whenever the public confidence, in this capacity, is impaired, an immediate demand for specie will be created; and, if it is not promptly met, depreciation will ensue. But, even in circumstances in some degree adverse to the operations of banks, if their discounts consisted principally of notes founded upon real transactions, in which the idea of renewal was excluded; and if specie formed a considerable proportion of the circulation, the capacity of the banks to meet the demands upon them for specie, might have been sufficient to sustain the credit of the currency.

If, on the other hand, the debts due to the banks consisted chiefly of fixed or permanent loans, generally denominated accommodation paper; if specie had been banished from circulation, by the issue of dollar notes, the suspension of payment by the banks could not fail to be the result of any considerable pressure upon them for specie. In the former case, as their notes should be withdrawn from circulation, they would gradually be reduced to the demand for them for the transmission of money. If the effort to withdraw them should be continued beyond that point,
specie would be paid into the banks by their debtors, in preference to bank notes; and the just proportion between the paper circulation and the specie in their vaults, would be promptly restored. In the latter case, as the debts due to the banks would not, according to the understanding of the parties, become due at short intervals, the only mode of meeting the increasing demands upon them for specie would be, to require of the whole mass of debtors, the payment of a fixed proportion of the sums due by them. As the circumstances which would require this measure, on the part of the banks, would generally affect the community in the same degree, the capacity of their debtors to meet this demand would generally be found to be in an inverse ratio to the demand. The demand itself, being inconsistent with the impression under which the debt was contracted, would be resisted in every case where the interest of the debtor would be subserved by delay. As specie formed but an inconsiderable part of the currency, the reduction of the paper circulation would have to be carried to a greater extent than in the former case. A just proportion between the paper circulation and the specie necessary to support it, could be obtained only by the positive reduction of the former, as it would be impracticable to increase the latter while the demand continued. Under such circumstances the suspension of payment would be the probable result.

Such, in fact, were the circumstances under which the suspension in 1814 occurred.

The injudicious multiplication of banks, where capital in that form, to some extent, might have been useful; the establishment of them where they could only be injurious; the permission to issue dollar notes, by which specie was banished from circulation; and the demand for specie for exportation, which existed during the years 1813 and 1814, imposed upon the banks in the middle, southern, and western states, the necessity of suspending payment. A longer effort to discharge their notes in specie, would not only have been ineffectual, but would certainly have postponed, to a more remote period, the resumption of specie payments. The evils which have resulted to the community from that suspension have certainly been great; but it may well be doubted, whether others, of equal magnitude, would not have been suffered, if that event had not occurred. The extent to which the currency must have been reduced, in order to have avoided the suspension, could not have failed, at any period, to produce great embarrassment and distress to the community. But in a time of war, when the country was invaded; when the public safety required that the energies of the nation should be fully developed, a sudden and extensive reduction of the currency, by any cause whatever, would
have been fatal. Under such circumstances, the demand for currency would have been too imperious to be resisted. It would, from necessity, have been supplied by the issue of treasury notes.

The fact that in a small portion of the Union specie payments were continued, cannot be admitted as evidence that it was practicable throughout the nation. In that part of the country the extensive bank issues consequent upon loans to the government in the middle states, had not occurred. Foreign trade, which in the other parts of the Union, was nearly annihilated, still preserved there a languid existence through the permission or connivance of the enemy. These circumstances could not fail to enable the banks in the eastern states to continue specie payments longer than those of the middle, southern, and western states. In an effort to preserve their credit, they would inevitably be the last which would fail. In such a struggle, however, they must have failed, had not the circulation of the paper of their weaker neighbours and the issues of treasury notes, come to their aid. But for this adventitious assistance, wholly unconnected with the wisdom and foresight of their directors, specie payments must have been suspended there, or the best interests of the community have been sacrificed. From that period until the resumption of specie payments, in the early part of 1817, treasury notes, and the notes of the banks which had suspended payment, formed the great mass of the circulation in the eastern part of the Union. Specie, or the notes of banks which continued to pay specie, formed no part of the receipts of the government in Boston and the districts east of that town, until about the close of the year 1816.

In all great exigencies which, in the course of human events, may be expected to arise in every nation, the suspension of payment by banks, where the circulation consists principally of bank notes, is one of the evils which ought to be considered as the inevitable consequence of their establishment. Even in countries where paper does not form the principal part of the circulation, such an event will sometimes happen. In the year 1797, when the restriction was imposed upon the bank of England, the average of its circulation for several successive years, was about 10,000,000l. sterling, whilst the metallic currency was estimated at 30,000,000l. Yet, in that country, whose trade in time of war, through the protection of its fleets, was rather expanded than contracted, it was found necessary to authorise the bank to suspend payment; which suspension, after a lapse of twenty-three years, still continues. When the existence of banks depends upon the authority which regulates the currency, it may be practicable to impose salutary checks against excessive issues of paper.
during suspension, and, in some degree, to guard against an ex-
cessive depreciation of the currency. But, where these institu-
tions are created by an authority having no power to regulate the
currency, and, especially, where they are created by a great va-
riety of authorities, independent of each other, and practically in-
capable of acting in concert, it is manifest that no such checks or
restraints can be imposed. It is impossible to imagine a currency
more vicious than that which depends upon the will of nearly four
hundred banks, entirely independent of each other, when released
from all restraint against excessive issues. By the term currency the
issue of paper by government, as a financial resource, is excluded.
Even such an issue, in a state where the reign of law is firmly
established, and public opinion controls the public councils, would
be preferable to a currency similar to that which existed, in some
parts of the United States, during the general suspension, and
which now exists in some of the states. This truth has been
practically demonstrated by the redemption of the whole of the
treasury notes issued during the war, within the short space of
about two years after the peace; whilst a large amount of bank
notes, issued during the suspension, are yet unredeemed, and
greatly depreciated.

There can be no doubt that a metallic currency, connected with
a paper circulation, convertible into specie, and not exceeding the
demand for the facile transmission of money, is the most convenient
that can be devised. When the paper circulation exceeds that
demand, the metallic currency to the amount of the excess will
be exported, and a liability to sudden fluctuations to the same
extent will be produced.

If banks were established only in the principal commercial
cities of each state; if they were restrained from the issue of
notes of small denominations; if they should retain an absolute
control over one half of their capital, and the whole of the credit
which they employ, by discounting to that amount nothing but
transaction paper, payable at short dates; the credit and stability
of the banks would, at least, be unquestionable. Their notes
could always be redeemed in specie, on demand. The remaining
part of their capital might be advanced upon long credits to man-
ufacturers, and even to agriculturists, without the danger of being
under the necessity of calling upon such debtors to contribute to
their relief, if emergencies should occur. Such debtors are, in
fact, unable to meet sudden exigencies, and ought never to accept
of advances from banks, but upon long credits, for which timely
provision may be made. The latter class, of all others, is the
least qualified to meet the sudden demands which a pressure upon
banks compels them to make upon their debtors. The returns
of the United States.

of capital invested in agriculture, are too slow and distant to justify engagements with banks, except upon long credits. If the payment of the principal should be demanded at other periods than those at which the husbandman receives the annual reward of his toil, the distress which would result from the exaction would greatly outweigh any benefit which was anticipated from the loan. That the establishment of banks in agricultural districts has greatly improved the general appearance of the country, is not denied. Comfortable mansions and spacious barns have been erected; lands have been cleared, and reduced to cultivation; farms have been stocked, and rendered more productive, by the aid of bank credits. But these improvements will eventually be found, in most cases, to effect the ruin of the proprietor. The farm, with its improvements, will frequently prove unequal to the discharge of the debts incurred in its embellishment. Such, in fact, is the actual or apprehended state of things, wherever banks have been established in the small inland towns and villages. Poverty and distress are impending over the heads of most of those who have attempted to improve their farms by the aid of bank credits. So general is this distress, that the principal attention of the state legislatures, where the evil exists, is at this moment directed to the adoption of measures calculated to rescue their fellow citizens from the inevitable effects of their own indiscretion. If, in affording a shield to the debtor against the legal demand of his creditor, the axe shall be applied to the root of the evil, by the annihilation of banks where they ought never to have existed, the interference, however doubtful in point of policy or principle, may eventually be productive of more good than evil.

The general system of credit which has been introduced through the agency of banks, brought home to every man's door, has produced a factitious state of things, extremely adverse to the sober, frugal, and industrious habits which ought to be cherished in a republic. In the place of these virtues, extravagance, idleness, and the spirit of gambling adventure, have been engendered and fostered by our institutions. So far as these evils have been produced, by the establishment of banks where they are not required; by the omission to impose upon them wholesome restraints; and by the ignorance or misconduct of those who have been entrusted with their direction, they are believed to be beyond the control of the Federal government. Since the resumption of specie payments, measures have been adopted in some of the states to enforce their continuance; in others, the evil has been left to the correction of public opinion. There is, however, some reason to apprehend that the authority of law may be interposed in support of the circulation of notes not convertible into specie.
But the Federal government has, by its measures, in some degree contributed to the spirit of speculation and of adventurous enterprise, which, at this moment, so strongly characterise the citizens of this republic. The system of credit which, in the infancy of our commerce, was indispensable to its prosperity, if not to its existence, has been extended at a period when the dictates of sound discretion seemed to require that it should be shortened. The credit given upon the sale of the national domain has diffused this spirit of speculation and of inordinate enterprise among the great mass of our citizens. The public lands are purchased, and splendid towns erected upon them, with bank credits. Every thing is artificial. The rich inhabitant of the commercial cities, and the tenant of the forests, differ only in the object of their pursuit. Whether commerce, splendid mansions, or public lands, be the object of desire, the means by which the gratification is to be secured, are bank credits.

This state of things is no less unfriendly to the duration of our republican institutions than it is adverse to the development of our national energies, when great emergencies shall arise; for, upon such occasions, the attention of the citizen will be directed to the preservation of his property from the grasp of his creditors, instead of being devoted to the defence of his country. Instead of being able to pay with promptitude the contributions necessary to the preservation of the state, he will be induced to claim the interference of the government to protect him against the effects of his folly and extravagance.

This ought not to be the condition of a republic when menaced by foreign force or domestic commotion. Such, it is apprehended, will be the condition of the United States, if the course which has been pursued since the commencement of the late war, is not abandoned. Since that period, it is believed the number of banks in the United States has been more than doubled. They have been established in the little inland towns and villages, and have brought distress and ruin upon the inhabitants. When the cause and the extent of the evil is known, no doubt is entertained that the appropriate remedies will be applied by those who, in our complex form of government, are invested with the necessary authority.

But the resolution requires the Secretary of the Treasury "to report such measures as, in his opinion, may be expedient to procure and retain a sufficient quantity of gold and silver coin in the United States."

It has already been suggested that, if the currency was purely metallic, or connected with paper convertible into specie, to the extent only of the demand for the transmission of money, the United States would retain that proportion of the precious metals which
of the United States.

the value of their exchangeable commodities bore to those of other states. But if paper can be made to circulate, independent of its employment in the transmission of funds, gold and silver, to the same extent, will be exported. If paper will be received and employed generally, as the medium of exchange, and especially if it is issued in bills of small denominations, the amount of specie which will be exported will be great in proportion to the paper in circulation. If this position be correct, the power of Congress will be insufficient to retain any considerable portion of gold and silver in the United States. Bank notes, from one dollar to those of large denominations, have circulated, and, it is presumed, will continue to circulate, independent of its authority. As long as bank notes will be received as a substitute for specie, the quantity of specie necessary for currency will be small, and may be easily retained without the aid of government. But the demand for specie where the circulation is principally paper, is extremely fluctuating. When there is but little or no demand for it, the temptation to increase their discounts, by the issue of more paper, is too strong to be resisted by banks. When a demand for specie arises, the currency has to be suddenly diminished by the contraction of their discounts. Fluctuation in the amount of the currency, produced by this means, is the principal mischief to be remedied. These fluctuations will frequently occur in every state where the currency is principally paper, convertible into coin. In the United States, where the specie exported, as a primary article of commerce, to the East Indies and to China, bears so large a proportion to the metallic currency of the country, they must not only be more frequent than in states where no such commerce exists, but more extensive in their effects. The demand created for Spanish milled dollars, by the exportation of specie, in the prosecution of this trade, has, without doubt, caused their importation to an extent which otherwise would not have occurred. As this demand is in some degree contingent, the supply will also be contingent. When it exceeds the demand, the banks will be tempted to new issues of paper. When it is deficient, the deficiency will be drawn from the banks, and will cause a sudden diminution of the currency. If this diminution could be limited to the amount of the deficiency thus drawn from the banks, the evil would be no greater than if the currency were metallic. But this is not the fact. When the paper circulation is returned upon the banks for specie, prudence requires that an effort should be made to preserve the same proportion between the specie in their vaults and their notes in circulation, as existed at the moment the pressure commenced.

If the paper in circulation should be three times the amount of specie in the possession of the banks, a demand upon them for 1,000,000ds.
of specie, would produce a diminution of 3,000,000 ds. in the currency, if the specie should be exported, and of 2,000,000 ds. if it remained in the country. It is even probable that the comparative diminution would exceed this ratio. As the demand increased, apprehensions would be excited for the credit of the bank; the exertions produced by that apprehension would correspond with the magnitude of the evil to be avoided, rather than with the positive pressure. This, it is presumed, would be the effect of such an emergency, where banks had not become familiarized with bankruptcy, and were not countenanced by society in a course of conduct which, in private life, would be considered dishonest.

If, by any constitutional exercise of the power of Congress, banks can be restrained, 1st, from issuing notes of small denominations; and, 2d, from excessive issues when their notes are not returned upon them for specie, fluctuations in the currency, to an extent to derange the interests of society, may be prevented. But, if the imposition of these restraints is not within the constitutional powers of Congress, the evils which have been suffered for the want of those restraints, must continue, until the present system of banking shall be abandoned. In an inquiry into the state of the currency, the consideration of the coinage is necessarily involved. The principles upon which the coinage of the United States has been established, are substantially correct. The standard fineness of the gold coinage corresponds with the coinage of England and Portugal. The standard of the silver coinage differs but little from that of Spain. The American dollar is intrinsically worth about one per cent. less than the Spanish milled dollar. This difference, if the Spanish dollar had not been made a legal tender, might have secured to the nation a more permanent use of its silver coinage. American dollars would not be exported, as long as Spanish dollars could be obtained for that purpose, at a reasonable premium. If this latter coin was not a legal tender, the banks might afford to import it, and might sell, at a fair premium, the amount which might be required of them for the China and East India trade.

The relative value of gold and silver has been differently established in different nations. It has been different in the same nation at different periods. In England, an ounce of gold is equal in value to about 15.2 ounces of silver. In France, it is equal to 15.5; and in Spain and Portugal, to 16 ounces. In the United States, an ounce of gold is equal to 15 ounces of silver. But the relative value of these metals, in the markets, frequently differs from that assigned to them by the laws of the different civilized states. It is believed that gold, when compared with silver, has been, for many years appreciating in value; and now, everywhere commands, in the money markets, a higher value than that which has been as-
signed to it in states where its relative value is greatest. If this be correct, no injustice will result from a change in the relative legal value of gold and silver, so as to make it correspond with their relative marketable value. If gold, in relation to silver, should be raised five per cent, one ounce of it would be equal to 15.75 or 15 $\frac{3}{4}$ ounces of pure silver. This augmentation in its value would cause it to be imported in quantities sufficient to perform all the functions of currency. As it is not used to any considerable extent, as a primary article of commerce, the fluctuations to which silver currency is subject from that cause, would not affect it. It would be exported only when the rate of exchange against the country should exceed the expense of exportation. In ordinary circumstances, such a state of exchange would not be of long continuance. If the currency of the United States must of necessity continue to be paper, convertible into specie, an increase of the gold coinage, upon principles which shall afford the least inducement to exportation, is probably the most wholesome corrective that can be applied; after the rigid enforcement of that convertibility.

The copper coinage is believed to be susceptible of improvement. Copper itself is too massive to serve the purposes of change. One hundred cents are too cumbersome to be carried, and used in the numberless transactions which daily occur between individuals. Coin, compounded of silver and copper, of from one to ten cents, would be much more suitable for that object. This kind of coinage has been adopted in other countries, with great advantage.

It has, however, been objected to this coinage —

1. That, as compounded metals are much harder than the component ingredients, it would be difficult, and consequently expensive, to work.

2. That the coin itself would be of little or no intrinsic value: copper or brass being of superior value in the manufactures, to which it might be applied. And that the public would scarcely submit to the circulation of a coin so worthless.

3. That it might be counterfeited by a composition of zinc and copper.

After giving to these objections their due weight, it is believed that a change of this nature, in the copper coinage, would be beneficial. Although the expense of such a coinage should be twice as much as that of an equal number of silver coin, still it might be advantageous. Small change, both of silver and copper, may be abundant in Philadelphia, the seat of the mint; but it is not generally so elsewhere. If it were, tickets of $6\frac{1}{2}$, 10, 12 $\frac{1}{2}$, 25, and 50 cents, issued by mayors and corporation officers, and dollar bills torn in two pieces, for the purposes of change, would not be employed for that purpose. This single fact is an answer to the
second objection. The fractional parts of a dollar are so indispen-
sable in the transactions of individuals, that any thing which as-
sumes that character will be employed. If the tickets, which, at
this moment, form so great a portion of the change of this city,
and of various other places, are employed for that purpose, it is
inconceivable that the community should refuse to permit a com-
 pound coin, of silver and copper, to circulate, containing the in-
trinsic value which it represents, merely because, for manufactur-es,
it will not be worth more than brass or copper, and that the ex-
pense of refining will be equal to the value of the silver. Change,
that is, the fractional part of a dollar, is so indispensable to the
community, that its inapplicability to manufactures and its ex-
emption from liability to exportation, instead of forming objections,
are recommendations in its favor.

The objection that this coin may be easily counterfeited, is, if it
cannot be obviated, entitled to great consideration. As has been
before stated, this compound coinage has been successfully prac-
tised in other states. If compound metals are much harder than
their component ingredients, may not a sufficient security against
counterfeiting be derived from that circumstance? The dimen-
sions and power of the machinery, which constitute one of the ob-
jections to the coinage, will render it extremely difficult to secure
that secrecy and concealment, which are indispensable to the suc-
cess of the counterfeiter. If this compound coinage should not
be carried higher than ten cent, or disme, pieces, the inducement,
compared with the danger of detection, resulting from the magni-
tude of the machinery, would not, it is believed, be sufficient to
encourage counterfeiting. If, however, it should be deemed im-
practicable to guard against this evil, in a coinage composed of sil-
ver and copper, an attempt might be made to obtain a supply of
small change by a mixture of silver and zinc. The danger of coun-
terfeiting would then be removed.

As various plans have been suggested, during the last twelve
months, for alleviating the general distress which has prevailed,
by the emission of a large amount of treasury notes, a few obser-
vations on that subject will close this part of the report.

If treasury notes are to be issued for this purpose, they will be
either receivable in all payments to the government, or they will be
made redeemable at a fixed period.

1. If they are made receivable in all payments to the govern-
ment, the revenue will, from the time that 5,000,000 ds. are
issued, be substantially received in them. The government will
be immediately unable to pay the interest and reimbursement of
the public debt in specie, as it becomes due. These notes, when
compared with the notes of the Bank of the United States, will
be at a discount. The latter notes, independently of their being
every where receivable, in all payments to the government, are convertible, at the place of their issue, into specie. They are equal to the treasury notes in payment of the revenue, and superior to them, as they can command specie when the holder shall desire it.

If the 14th section of the bank charter was modified, so that the notes of the bank and of its offices should be receivable by the government, only when tendered where they are made payable, a small amount of treasury notes might be issued, and circulated, without depreciation. In that case, they would be used for the transmission of money, and would be in constant demand for that purpose. It is the reception of the notes of the Bank of the United States, and its offices, by the government, wherever they are tendered, that causes them to be considered as a good remittance throughout the United States. If they should cease to be so received, a demand for treasury notes to a small amount, for the transmission of money, would be created, and would preserve them from depreciation. If the notes thus issued should be made redeemable at the Treasury, in specie, upon demand, the amount which might be put and retained in circulation would probably exceed, to a considerable extent, the sum demanded for the facile transmission of money. Such treasury notes would, however, have no advantage over the notes of the Bank of the United States, as long as they are receivable in all payments to the United States, without reference to the place where they are payable. It is even probable that they would not be of equal value and currency with those notes, as the latter would generally be made payable in the principal commercial cities, where remittances are continually made, whilst the treasury notes would be payable only at this place. If treasury notes, payable in specie, on demand, when presented at this place, should be preferred to the notes of the Bank of the United States, it would be in consequence of the abuses which have been practised by banking institutions, which have, in some degree, shaken the public confidence in the integrity of their direction.

2. If treasury notes were to be issued, not receivable in payments to the government, but redeemable at a fixed period, they would immediately depreciate, unless they bore nearly six per cent interest. In the latter case, they would be of little more use, as currency, than the funded debt. They would not perform the functions of money.

3. In any case whatever, whether they are receivable in payments to the government, or bear an interest, and are redeemable at a fixed period, they will afford no substantial relief where the distress is greatest, unless they should be advanced as a loan in
order to alleviate that distress. If they are to be issued from the treasury in discharge of the demands upon the government, they would never reach those sections of country where relief is most required. There, the government already collects more than can be expended. One of the causes of this distress is the necessity of transferring the public funds from those sections, for the purpose of being expended, to those where there is no deficiency of currency.

As a financial resource, the issue of treasury notes is justifiable only where the deficiency, which they are intended to supply, is small in amount, and temporary in its nature. As a measure of alleviation, it will be more likely to do harm than good. If a sufficient amount of those notes, of any description whatever, should be issued, and put into circulation where they are most wanted, unless they were given away, a debt in that part of the Union would be contracted to the extent of the issue. It might enable the borrowers to pay debts previously contracted, but their relative situation would be the same. Unless the currency became vitiated by the relief which was afforded, the ultimate payment of the debt would consummate the ruin which the measure was intended to prevent. But it is probable that the sums which might be advanced, by way of loan, would, in a great degree, be lost. The government is not, from its nature, qualified for operations of this kind. The general system of credit, which has been introduced by the agency of banks, and by the inevitable effect of the measures of the general government, has produced an artificial state of things, which requires repression rather than extension. The issue of treasury notes, for the purpose of alleviating the general distress, would tend to increase this natural and forced state of things, and give to it a duration which it would otherwise never attain. If much of the evil resulting from a decreasing currency had not already been suffered, there might be some plausible reason for urging the issue of treasury notes, as a measure of alleviation. This ground cannot be urged in its favor; it is, therefore, indefensible, upon the ground of expediency, as well as of principle.

The last member of the resolution assumes, by implication, the practicability of substituting, by the constitutional exercise of the powers of Congress, a paper currency for that which now exists.

In considering this proposition, the power of Congress over the currency of the United States cannot, consistently with the respect which is due to that body, be either affirmed or denied. It cannot be supposed that the House of Representatives, in adopting the resolution in question, intended, through the agency
of an executive department of the government, to institute an inquiry as to the extent of the constitutional authority of a body, of which it is only a constituent member. Yet it will necessarily occur to the House, that, if the power of Congress over the currency is not absolutely sovereign, the inquiry, whatever may be its immediate result, must be without any ultimate utility. The general prosperity will not be advanced, by demonstrating that there is no intrinsic obstacle to the substitution of a paper for a metallic currency, if the power to adopt the substitute has been withheld from the Federal government. Without offering an opinion upon the weight to which these views would have been entitled, had they been urged whilst the resolution was under consideration, it is admitted that they furnish no ground for declining the performance of the duty imposed by its adoption. In the discussion of a question of so much delicacy and importance, the utmost confidence is reposed in the justice and liberality of those who have rendered it indispensable.

At the threshold of this inquiry, it is proper to observe, that it is deemed unnecessary to present an analysis of the motives which led, even in the most remote antiquity, to the general adoption, by civilized states, of gold and silver, as the standard of value; or, of the advantages which have resulted from that adoption. The circumstance, to which, in the course of this investigation, it will be necessary to advert, is the tendency which a metallic currency has to preserve a greater uniformity of value than any other commodity; and the facility with which it returns to that value, whenever, by any temporary causes, that uniformity has been interrupted. No argument will, in this place, be offered in support of this proposition. It is founded in the experience of all nations. Its truth, for the present, will therefore be assumed. But, the proposition itself admits, that gold and silver, when employed, by the consent of all civilized states, as the standard of value, are subject to temporary variations of value. It is equally true, that they are subject to permanent variations. The cause and effect of these changes will be considered previously to the discussion of the practicability of substituting a paper for a metallic currency.

1st. When by any circumstance whatsoever, a greater portion of these metals is found in a particular state, than is possessed by other states, having articles of equal value to be exchanged, they will, in such state, be of less value than in the adjacent states. This will be manifested by an increase in the price of the commodities of such state. This increase of price will continue until the metallic redundancy is exported, or converted into manufactures. Whenever this redundancy is disposed of, the currency
will return to its former value; and the price of other commodities will be regulated by that value.

2d. But the exportation of specie may take place where is no such redundancy. This occurs whenever the general balance of trade continues, for some time, unfavorable to a particular state. The currency then appreciates in value; and the price of all other commodities in such state is diminished. As commerce is nothing more than the exchange of equivalents; the reduction in the price of the articles of such state, and the increased value of the currency, will promptly produce a re-action; and gold and silver will soon return in the quantities required to reduce their value to that which they maintain in the adjacent states. With the return of specie, all other articles will return to the prices which they commanded before its exportation. Like fluids, the precious metals, so long as they are employed as the general measure of value, will constantly tend to preserve a common level. Every variation from it will be promptly corrected, without the intervention of human laws. These fluctuations, being temporary in their nature, are wholly independent of the permanent causes which may affect the value of gold and silver, when employed as the general standard of value. They will equally occur, whether the quantity of these metals, compared with the exchanges which they are destined to effect, be redundant or deficient. The limits, however, within which these fluctuations are confined, are so contracted, that the great interests of society cannot be seriously affected by them. But this observation must be understood to apply to a currency purely metallic, or, at least, when the paper which is connected with it does not exceed the demand for the convenient transmission of money.

3d. Gold and silver, when employed by the common consent of nations as the standard of value, are subject to variations in value from permanent causes. When their quantity is increased more rapidly than the articles which are to be exchanged through their agency, their price will fall; or, what amounts to the same thing, the price of all exchangeable articles will rise. It has been admitted by all intelligent writers upon this subject, that, immediately after the discovery of America, towards the close of the fifteenth century, a sudden and extensive depreciation in the value of these metals occurred; and that, from that time, to the close of the eighteenth century, they continued gradually to depreciate. This depreciation, it is believed, has been accelerated during the last century, as much by the substitution of paper for specie, as by the increase in the quantity of those metals during that period, beyond the demand which would have existed for them, as currency, had that substitution not taken place. The precise effect upon
the depreciation of these metals, produced by the partial substitution of paper, in various countries, for a metallic currency, will not now be inquired into; but it is generally conceded, that the depreciation has been more rapid since that substitution, than at any former period; except when the accumulated stock of ages in the new world, was brought into Christendom, and thence distributed into every other region where gold and silver were in demand. Since the close of the last century, doubts have existed, whether those metals, even when employed as currency, have not appreciated in value; and it is contended, by the advocates of a paper currency, that this appreciation will probably continue through a long succession of years, and seriously affect all the operations of the civilized world. It is maintained by these writers, that the demand for currency, at present, throughout the world, is greater than the supply which the existing quantity of the precious metals will afford, without materially depressing the price of all the objects of human industry and human desires. When it is recollected that production is regulated by demand, and that both are directly affected by the quantity of currency compared with the quantity of articles to be exchanged; it is readily perceived, that an increase in the currency of the world by the substitution of paper, even when convertible into coin, will increase the quantity of exchangeable commodities in the world, beyond what would have existed had such increase of currency not taken place. Under such circumstances, a sudden reduction of the currency, by the rejection of the paper which had been employed, could not fail to derange all the relations of society, by diminishing the quantity of currency, whilst the articles to be exchanged through its agency would suffer no such diminution.

An immediate depression in the price of all commodities would be the inevitable consequence of an unqualified return to a metallic currency, upon the supposition that the quantity of gold and silver, annually produced, should remain undiminished. But, if this return to a metallic currency should be attempted at a period when the annual product of these metals, either from temporary or permanent causes, should have considerably decreased, all the great interests of society would be most seriously disordered, property of every description would rapidly fall in value; the relations between creditor and debtor would be violently and suddenly changed.

This change would be greatly to the injury of the debtor; the property, which would be necessary to discharge his debts, would exceed that which he had received from his creditor: the one would be ruined without the imputation of crime, whilst the other would be enriched without the semblance of merit. Until the
engagements existing at the moment of such a change are dis-
charged, and the price of labor and of commodities is reduced to
the proportion which it must bear to the quantity of currency
employed as the medium of their exchange, enterprise of every
kind will be repressed, and misery and distress universally prevail.
When this shall be effected, the relations of society, founded upon
a new basis, will be equitable and just, and tend to promote and
secure the general prosperity.

Such, it is contended by the advocates of a paper currency, are
the circumstances under which the principal states of Europe are
endeavouring to return to a metallic currency. For a century past,
the currency of those states has been greatly increased by the em-
ployment of paper, founded, it is true, originally upon a metallic
basis. During the last twenty years, this paper has ceased to be
convertible into specie; and, as no systematic effort has been made
to prevent excessive issues, it has become redundant, and, conse-
quently, depreciated. Notwithstanding this depreciation, the pro-
ductions of those countries, it is believed, have more rapidly
increased than those of countries where a metallic currency has
been preserved. The first efforts that are seriously made by those
states to retain a metallic currency, will be the repression of enter-
prise of every description among themselves. It will be foreseen
that the currency must appreciate, and that all other articles must
depreciate in value. The effects of this appreciation of money
will be first manifested in those states, by the fall of the price of
all articles which cannot be exported. In the progress of these
measures, the price of the exportable articles will also be affected,
by the reduction in the currency employed in effecting their ex-
change. It is even probable that the quantity of exchangeable
articles will be diminished. Whilst the appreciation of the cur-
rency is perceptibly advancing, the manufacturer will not hazard
his capital in producing articles the price of which is rapidly declin-
ing. The merchant will abstain from purchasing, under the ap-
prehension of a further reduction of price, and of the difficulty of
re-vending at a profit. It is even probable that the interest of
money will fall, whilst the cry of a scarcity of money will be in-
cessant. Under such circumstances, loans will not be required,
except to meet debts of immediate urgency, none will be demanded
for the prosecution of enterprises by which the productive energies
of the community will be increased.

As the measures which have been adopted by England and
several of the continental states of Europe, for returning to a me-
tallic currency, advance, the interest of those states which have
adhered to it will be affected. Whilst gold and silver were, in the
former states, dispensed with as coin, they were sought for merely
as commodities. The quantity necessary for their manufactures was readily obtained, without deranging, in any serious degree, the currency of other states.

It has been estimated, that, from eighty to one hundred and twenty millions of dollars were necessary to England. Taking the mean sum, and admitting that the other European states engaged in the same effort require an equal amount, a supply of two hundred millions of dollars is necessary. The commencement of the measures necessary to obtain that portion of this sum which cannot, in a short time, be drawn from the annual product of the mines, may not be immediately felt by other states. But, when these measures approach their completion; when a large quantity of gold and silver is necessarily withdrawn from the currency of other states, the price of specie will, in the latter, appreciate, and the price of all commodities will decline. All the evils incident to an appreciating currency will be felt in those states, though in a less degree than where a paper currency had been exclusively adopted. The example presented by the return to a metallic currency in France, even in the midst of a revolution, which probably had some influence upon the decision of this question by other states, is believed to be, in no degree analogous in its principal circumstances. At the precise period that this change was operating, England, and the principal continental states, abandoned the precious metals as currency. The supply demanded by France was not only at hand, but was seeking the very employment which that change had made indispensable. At the same time, immense sums were brought into France by her conquering armies, which, being raised by military contributions, had, in some degree, rendered a resort to paper currency, in the invaded states, necessary. At present the civilized world is at peace, and each state is endeavoring, by systematic measures, to secure to itself a just participation of the benefits of equal and reciprocal commerce. The states which are now attempting to return to a metallic currency, will find much greater difficulty in effecting this change than was experienced by France.

The demand for gold and silver, as the medium of exchange, cannot be supplied until the price of all exchangeable articles has fallen in proportion to the reduction of the currency, which the abandonment of paper must produce. It is even probable, as has been before suggested, that, after the price of commodities and of labor shall have fallen, so as to bear a just proportion to the currency which is to be employed in effecting the necessary exchanges, that the currency will continue gradually to appreciate. This, however, is matter of conjecture. It depends entirely upon the fact, whether the annual produce of the mines, after furnishing the

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quantity necessary for the consumption of the precious metals in manufactures, will be equal to the increased demand for currency arising from the increase of exchangeable commodities throughout the world. The great advancement in the arts and sciences—the rapid improvement in machinery, which characterise the present age, acting through a long succession of ages, cannot fail to augment, in an astonishing degree, all the products of human industry.

It may, however, be urged, that the same improvements will augment, in an equal degree, the product of the mines; and that, therefore, the quantity of the precious metals in the world will continue to bear to other commodities, the same relation which they may assume when the return to a metallic currency is effected. This may be true; but, so far as it depends upon the general principle, that the supply of all articles is regulated by the demand, there is reasonable ground of doubt. The maxim, although good as a general rule, admits of exceptions. A demand beyond the supply increases the price of the thing demanded, and invites to the investment of additional capital in its production. But, when the article demanded is to be produced from a material, which no investment of capital, no application of skill, can augment, the only effect of such investment and application is to produce the most which the material has the capacity to furnish. Such, in fact, is the case of gold and silver. The material from which they are made, is limited in quantity, which neither capital nor skill can augment. It is probable that the improvements in machinery, and the art of refining, will be counterbalanced by the exhaustion of the mines, or the difficulty of working them, arising from the depth and extent of their excavations. It is therefore possible, that the demand for the precious metals, for currency, and for manufactures, may exceed the production of the mines.

Previously to entering upon the immediate discussion of the practicability of substituting a paper for a metallic currency, it is proper to observe, that gold and silver derive part of the uniformity of value which has been ascribed to them, from the general consent of civilised states, to employ them as the standard of value. Should they cease to be used for that purpose, they would become more variable in their value, and would be regulated, like all other articles, by the demand for them, compared with the supply in any given market. It is presumed, that, if they should cease to be employed as the standard of value by several states, their uniformity of value would be in some degree affected, not only in those states where they were considered as mere commodities, but in those where they were still employed as currency.

Whenever, as commodities, they should rise in value, a drain would take place from the currency of other states; and when they
should fall in value, as commodities, they would seek employment as currency, and render in some degree redundant the currency of the states where they are employed. After making due allowance for the depreciation of bank notes in England, from the time of the bank restriction, in 1797, to the present period, the price of gold and silver in that country is believed to have varied more than at any former period. Their price, when compared with bank notes, from the year 1797 to 1808, showed but a slight degree of depreciation; considerably less, in all human probability, than actually existed. During that interval, the demand for those metals was limited in England to the sum required for manufactures. It is highly probable, that, if the quantity of the paper circulation had been reduced to the amount of the currency in circulation at the time, or for one year before the restriction, the price of bullion would have been below the mint price. On the contrary, in the year 1808, when the employment of a British force in Spain created a sudden demand for specie, the depreciation of bank notes, indicated by the price of bullion, was probably greater than that which really existed. In the year 1814, after the treaty of Paris, the price of bullion, estimated in bank paper, was not above the mint price; whilst, in the succeeding year, it rose to more than twenty per cent. above that price: the amount of bank notes in circulation at the former exceeding, in a small degree, that of the latter period. It is impossible that these variations in the price of gold and silver, in the short space of one year, can be entirely chargeable to the depreciation of bank notes. The effect which these variations, in a great commercial state, where the precious metals were considered only as commodities, were calculated to produce upon the currency of the neighbouring states, has not been ascertained. The convulsions to which most of these states were subject, during that period, may account for the want of sufficient data to elucidate the subject. It is, however, highly improbable that these fluctuations were not sensibly felt by them.

Having considered the nature and extent of the variations in value, to which a metallic currency is necessarily subject, it remains to examine, whether it is practicable to devise a system by which a paper currency may be employed as the standard of value, with sufficient security against variations in its value, and with the same certainty of its recovering that value, when, from any cause, such variations shall have been produced. It is distinctly admitted that no such paper currency has ever existed. Where the experiment has been made directly by government, excessive issues have quickly ensued, and depreciation has been the immediate consequence. Where the experiment has been attempted through the agency of banks, it has invariably failed. In both cases, instead of being used as a mean of supplying a cheap and stable currency...
invariably regulated by the demand, for effecting the exchanges
required by the wants and convenience of society, it has been em-
ployed as a financial resource, or made the instrument of unre-
strained cupidity. In no case has any attempt been made to deter-
mine the principles upon which such a currency, to be stable must
be founded. Instead of salutary restraints being imposed upon
the monied institutions which have been employed, the vital prin-
ciple of whose being is gain, they have not simply been left to the
guidance of their own cupidity, but have been stimulated to exces-
sive issues, to supply deficiencies in the public revenue. This is
known to have been the case in an eminent degree, in the experiment
which has been attended with most success. The issues of the
Bank of England, on account of the government, were frequently
so great as to destroy the demand for discounts by individuals. In
consequence of these excessive issues, the interest of money fell be-
low five per cent, the rate at which the bank discounted; the demand
for discounts at the bank therefore ceased. It is, indeed, not sur-
prising that no systematic effort has been made to restrain excessive
issues. In the case of banks, the experiments which have been
made were intended to be temporary; they were the result of great
and sudden pressure, which left but little leisure for the examina-
tion of a subject so abstruse. The employment of a paper circu-
lation, convertible into specie, the favorite system of modern
states, having, as has been attempted to be shown in a previous
part of this report, the inevitable tendency to produce the necessity
of resorting, in every national emergency, to paper not so converti-
ble, imposes upon those who are called to administer the affairs of
nations, the duty of thoroughly examining the subject, with a view,
if practicable, to avoid that necessity. If the examination does
not result in the establishment of a paper currency, unconnected
with specie, it may lead to the imposition of salutary checks against
excessive issues, when the necessity of suspending payment may
occur.

It has already been said, that every attempt which has been
made to introduce a paper currency has failed. It may also be
said, that of all the systems which, during the discussion of this
interesting subject, both in Europe and the United States, have
been proposed, none are free from objections. It is possible that
no system can be devised, which will be entirely free from objec-
tion. To ensure the possibility of employing such a currency with
advantage, it is necessary:

1. That the power of the government over the currency be ab-
solutely sovereign.

2. That its stability be above suspicion.

3. That its justice, morality, and intelligence, be unquestion-
able.
4. That the issue of the currency be made not only to depend upon the demand for it, but that an equivalent be actually received.

5. That an equivalent can only be found in the delivery of an equal amount of gold or silver, or of public stock.

6. That, whenever, from any cause, it may become redundant, it may be funded at an interest a fraction below that which was surrendered at its issue.

1. This proposition needs no elucidation. Coinage, and the regulation of money, have, in all nations, been considered one of the highest acts of sovereignty. It may well be doubted, however, whether a sovereign power over the coinage necessarily gives the right to establish a paper currency. The power to establish such a currency ought not only to be unquestionable, but unquestioned. Any doubt of the legality of the exercise of such an authority could not fail to mar any system which human ingenuity could devise.

2. A metallic currency, having an intrinsic value, independent of that which is given to it by the sovereign authority, does not depend upon the stability of the government for its value. Revolutions may arise; insurrections may menace the existence of the government: a metallic currency rises in value under such circumstances; it becomes more valuable, compared with every species of property, whether moveable or immoveable, in proportion to the instability of the government. Not so with a paper currency: its credit depends, in a great degree, upon the confidence reposed in the stability of the authority by which it was issued. Should that authority be overthrown by foreign force or intestine commotion, an immediate depreciation, if not an absolute annihilation, of its value, would ensue.

3. It might, however, be saved from such destruction by a well grounded confidence in the justice and intelligence of the government which should succeed that which had been overthrown. The history of modern times furnishes examples that are calculated to inspire this confidence. In France, during the revolution which has just terminated, the public debt was reduced to one third of its amount. The same rule was applied to the public debt of the Dutch republic, when it fell under French domination. In the successive political changes to which France has, since that period, been subjected, the public debt and the public engagements have been maintained with the strictest good faith. In Holland, that portion of the public debt, which had been abolished by the French government, has been restored. In the opinion of well informed men, however, the conditions connected with that restoration were so onerous as to render it almost nominal. Indeed, the public debt in that country had become so
disproportionate to the means of the nation, when deprived of the
resources it enjoyed when the debt was contracted, that the reduc­
tion which it underwent while the country was annexed to the
French empire was not generally considered an evil. The reduc­
tion of the national debt of France during the revolution, was per­
haps equally indispensable. If the intelligence of the age, and the
influence of public opinion, even in states where the reign of law
was but imperfectly established, have been sufficient to induce the
governments which have alternately succeeded each other for the
last twenty-five years, in France, and Holland, to respect the pub­
lic engagements which had been previously contracted, well
grounded expectations may be cherished, that the period is rapidly
passing away when the public faith of nations can be violated with
impunity.

If public engagements, under such circumstances, have been con­
sidered obligatory upon those who have successively administered
the affairs of those nations, a reasonable confidence may be repos­
ed in the fulfilment of the obligations which may be contracted
by existing governments, where the reign of law is firmly establish­
ed. It is not denied that a paper currency furnishes strong tem­
pitations to abuse. Millions may be issued in a few days; and the
deficiencies in the revenue promptly supplied, if the condition of re­
cieving an equivalent is abandoned. The moment the currency
shall be issued as a financial resource, depreciation will follow, and
all the relations of society will be disturbed. If the government
of the nation in which a paper currency has been established,
shall be deeply impressed with this truth, will it not be restrained
from the apprehended abuse? Currency of every kind is liable to
great abuses. The history of the coinage of every nation whose
annals are known it little more than a detail of the frauds which
have been practised by governments upon the people; until the
twentieth year of the reign of Edward the III. of England, a pound
troy of silver of standard fineness, and a pound sterling, were syno­
nymous terms: twenty shillings sterling being, in fact, a pound
troy of standard silver. Change followed change, in rapid succes­
sion, until, in the reign of Elizabeth, a pound troy of standard
silver was directed to be coined into sixty-two shillings. This
immense change in the value of the currency was effected in the
space of about two centuries. In other modern states, during the
same period, changes not less important occurred in the coinage.
Frequently, these changes were effected by deteriorating the stand­
ard fineness of the coin. For more than a century past, the coin­
age of the civilised world has undergone no material change, with
a view to the practice of fraud upon the people. Whether this
forbearance is to be attributed to an improvement in the morality
of modern governments, or to a more correct understanding of the
principles of currency, and of the consequences that must result from every change by which the relations of society are affected, it furnishes just ground of expectation that they will not hereafter be attempted. Nothing more is necessary, to secure an unalterable adherence to the maxims upon which it is manifestly necessary that a paper currency must be founded, in order to preserve an uniformity of value, than the same morality and the same intelligence. Without assuming the principle of the perfectibility of human nature, the hope may be indulged, that the nature of currency will continue to command the attention of statesmen, and that the abuses which have resulted from improper changes in the currency will not again occur in the same degree.

4. When the currency is metallic, no addition can be made to it without giving an equivalent. It is indispensable that this condition should be annexed to the acquisition of the paper currency, preliminary to its entering into circulation. If it can be put in circulation, only on paying its nominal amount in that which has a general and fixed value, determined by the consent of other nations, it will continue to preserve that value during the time it circulates, unless the relation which it bore, at the time of its issue, to the quantity of articles, the exchanges of which it is destined to perform, shall be varied.

5. As a paper currency is issued upon the national credit, the whole property of the nation is pledged for its redemption, whenever, by any circumstance, it may become the interest of the community, that it should be redeemed. It is, therefore, manifest that it should not issue upon the credit of any individual, or association of individuals. A part can never be equal to the whole. The credit of any individual, or association of individuals, cannot be equivalent to that of the nation, of which they form a part. But it may be said, that, although the credit of individuals is not equivalent to the credit of the nation, yet, an equivalent for a particular portion of that credit, may be found in the pledge or mortgage of property of equal or greater value than the currency issued upon it. This may be true; but the value of property has been continually fluctuating: it will continue to fluctuate, after giving to the advocates of a paper currency full credit for the superior stability which, they suppose, will attend its substitution for gold and silver, as the standard of value. But this is not the only objection to the acceptance of property as a pledge for the payment, by individuals, of an equivalent for the paper currency, which may be advanced upon such pledge. Frauds will be practised by pledging property which is encumbered, which it would be extremely difficult to detect. The government will be involved in endless litigation with individuals who are interested in the incumbrances by which its rights to the property pledged is embarrassed. In such contests,
the interest of the government is always endangered, even where right is on its side. It is not qualified to enter into such litigations, with an equal chance of success. The feelings of the community are always, except in flagrant cases of fraud, upon the side of an individual supposed to be struggling with the overwhelming influence of authority. Besides, in all contests of this nature, something of the respect for the government, which ought to be cherished by the citizens, especially of a free state, will be lost. The situation is invidious, and ought not voluntarily to be assumed by a government jealous of its dignity and purity of character. It is, therefore, believed that a national currency cannot be issued with safety, with a reasonable prospect of success, and with sufficient security against redundancy, but in exchange for gold and silver of a definite standard, or for the public stock at certain fixed rates. When issued in exchange for them, and for them alone, there is, though not the same, yet perhaps an equal security against redundancy, as in the case of a metallic currency. When it is issued in exchange for coin, there is no addition made to the currency. When it is issued in exchange for public stock, commanding, previously to the exchange, its par value in coin, the party who acquires the currency parts with that which was equal to specie, and is deprived of the annual interest which it produced. Unless the interest of the currency, resulting from the scarcity, should exceed that paid upon the stock, it would not be demanded in exchange for the stock. In either case, the danger of redundancy is extremely remote. By the exchange of specie for currency, the active capital of the country will be increased to the amount of the currency; and the capacity of the nation to redeem it, whenever it shall, by any circumstance whatever, become expedient, will be unquestionable.

But it may be doubted whether, under such conditions, a paper currency ever can be put in circulation. Under a government firmly established, conducted by upright and enlightened councils, and possessing absolute power over the currency, it is believed there is no just reason to apprehend a difficulty of that nature. If, in such a government, banks existed, deriving their powers from it, the specie in their possession would be gradually exchanged for the paper currency, which would become the basis of their operations. Not only the specie which they possessed would be thus exchanged, but exertions would, from time to time, be made to acquire the sums necessary to support their banking operations. Specie would be imported, even at an expense, for the purpose of being exchanged. Whilst specie formed the basis of the operations of banks, its importation could not fail to be productive of loss. Each importation not only produced the necessity of additional importations, but at an increased expense. But, when importations shall be made, for the purpose of being exchanged for the currency, the
exportation of the specie thus imported will not affect the operations of the banks. It is only when the funding of the currency shall commence, that they will be admonished to desist from further importations. Individuals and banks would likewise exchange public stock at the rates prescribed by the system for the paper currency. Whenever the demand for currency should be such as to raise the interest of money considerably above that produced by the public stock, it would, by banks and individuals, be given in exchange for the currency. But the facility which the existence of a public debt furnishes in procuring the paper currency, is counterbalanced by the difficulty of complying with the public engagement to discharge such debt in a metallic currency. After a paper circulation shall be substituted for gold and silver, they will be found in the country only in the quantity demanded for manufactures, and for such branches of commerce as are entirely dependent upon them. A considerable demand for gold and silver by the government, to meet its engagements, previously contracted, would raise their price in the market, and render the obligation to discharge those engagements in the precious metals not only extremely onerous, but, perhaps, sometimes impracticable. In such a state, a compromise with the public creditors would seem to be a preliminary measure. This, under any circumstances, would be a measure of great delicacy and difficulty, and, in some cases, would probably be utterly impracticable.

6. Whenever, from any cause, the currency should become redundant, the redundancy may be funded at a rate of interest a fraction below the rate of legal interest.

In determining the rate at which it may be funded, due regard should be paid to the rate of interest, previously existing in the state. The rate of interest, it is conceived, ought not to depend, and where a metallic currency prevails does not depend, solely upon the amount of currency necessary to perform, with facility, the exchanges required by the wants and convenience of society. In a new country, where there is but a slight accumulation of capital, the interest of money will be high, notwithstanding there may be even a redundancy of currency beyond what is necessary to effect its exchanges. In such a country, all the objects upon which capital may be employed, except those of the most simple kind, are unoccupied. The currency necessary to effect the exchanges of its property, movable and immovable, will be entirely insufficient to satisfy the demand for capital for those objects. If it should be multiplied, so as to equal that demand, it would exceed the demand for the necessary exchanges of society, and, consequently, depreciate. Such, in fact, it is believed, would be the consequence of issuing the currency upon individual credit, or upon the pledge of property at
a rate of interest below that which previously existed in the state. Any change of the interest of money by law, previous to its having taken place in individual transactions, in consequence of the accumulation of capital, would be unjust, and could not fail to produce serious inconvenience to the community. Admitting the rate of interest in a state about to make the experiment, to be six per cent, then the currency should be issued only in exchange for specie or six per cent stock, or other stock, according to that ratio. If the currency should, when, by any means, a redundancy existed, be fundable at five and a half per cent interest, the utmost depreciation to which it could be subject would be eight and one third per cent. But it is probable that the real depression in its value would not, at any time, be more than half that amount. Before funding would commence, the public stock, receivable in exchange for the national currency, would be above the rates at which it was receivable. Its issue upon the exchange of stock would, therefore, have ceased. There are, in every community, capitalists, who would prefer lending to the government, at five and a half per cent., than to individuals at six. The funding of the currency would, therefore, begin before the redundancy would offer any general inducement to that mode of reducing it. The variation to which its value would be subject, would therefore be less than eight and one-third per cent. It would be the interest of the government to reserve the right of redeeming the stock created by funding, at its par value; under the condition, however, of redeeming it according to the order of time in which it was created. Connected with this system should be a permission to the banks to purchase public stock, but not to dispose of it, except to the government, at its par or current value, when under par, unless the government should decline the purchase. The currency, upon being funded, should be invariably cancelled. Under a system of this kind, if no other paper was permitted to circulate than the national currency, a redundancy which would affect its value could only occur by a temporary diminution of the articles which were to be exchanged through its instrumentality. In that event the price of the articles would be enhanced, so as to require a greater amount of currency to effect their exchange. Should the price not be enhanced in proportion to the diminution in the quantity of the articles, that portion of the currency which would, under such circumstances, be left without employment, would be funded. A just relation between the amount of currency, and the demand for it, would be promptly restored, without affecting, injuriously, the relations between individuals. On the other hand, should a greater quantity of exchangeable articles be produced, the demand for currency would exceed the supply, and lead immediately to additional issues, until the necessary supply should be obtained.
But in a state where banks already existed, which derived their charters from the sovereignty that regulated the currency; where the people were accustomed to bank notes; and in the habit of receiving them, the agency of these institutions might be admitted in supplying a portion of the currency. They might be permitted to issue their notes, payable on demand, in the national currency. Their notes would, of course, be issued on personal security. In this case, the currency might become redundant by the issues of the banks. Whenever this should happen, the national currency would be demanded of them for the purpose of being funded; the banks would be compelled to curtail their discounts, to relieve themselves from the pressure, and the amount of the currency would be promptly reduced to the legitimate demand. Wherever the agency of banks should be employed in furnishing part of the circulation, a refusal, or omission, to discharge their notes on demand, in the national currency, should be treated as an act of bankruptcy. The national currency being a legal tender in the payment of debts to individuals and to the government, would, in relation to the banks, perform the functions of specie, where bank notes are convertible into coin. But, in order to impose a salutary check against excessive issues of bank notes, the national currency should alone be receivable in all payments to the government.

In an attempt to trace the probable results of a paper currency, founded upon the principles which have been developed in the preceding pages, the influence which it will have upon foreign exchange requires investigation. The want of stability, morality, and intelligence, in the government which may undertake to substitute a paper for a metallic currency, are the objections which have already been considered. To these, according to common opinion, is to be added, the injurious effect which it is supposed it will have upon foreign exchange. In a country where the currency is metallic, an unfavorable state of foreign exchange will probably have the following effects:

1st. To raise the price of exportable articles as much above that which they ought to bear, as the premium paid upon foreign bills, until it exceeds the expense of exporting specie to the foreign market.

2d. When this rise exceeds the expense of such exportation, the price of exportable articles will fall gradually below what they ought to command, to the extent of that excess.

3d. Until this fall in their price shall be effected, specie will be exported; after which, it will cease.

4th. This fall in their price, by increasing their consumption in the foreign markets, ultimately provides for the return of the specie which had been exported.
5th. During the second and third stages of this process, the price of all articles not exportable, is affected in a greater degree; enterprise is damped, and distress prevails.

Such are the necessary effects of an unfavorable state of foreign exchange, where the currency is metallic. As the vital principle of commerce is gain, it is probable that, generally, the price of exportable articles would, in fact, be rather higher than is stated in the preceding deductions; the timid might export specie, before the premium upon exchange exceeded the expense of its exportation; but timidity is not the predominant characteristic of commercial enterprise. On the other hand, the sanguine and enterprising, relying upon the chance of better markets, would give higher prices rather than submit to certain loss upon the exportation of specie or the purchase of bills above par.

In a country where a paper currency has been adopted, and the principles by which a redundancy may be prevented, have been enforced, an unfavorable state of foreign exchange will probably have the following effects:

1st. The effect of raising the price of exportable articles, as much above what they ought to bear, as equals the premium upon foreign bills. But, in this case, gold and silver being exportable articles will rise in the same proportion as all other articles.

2d. When the price of all articles is raised so high that a loss will be incurred by their sale in foreign markets, those who have no remittances to make will withdraw from the competition. If profitable investments in other enterprises cannot be made, a portion of the currency at their disposition will be withdrawn from circulation, by being converted into funded stock; competition will in this manner be diminished; the price of articles for exportation will be reduced by the reduction of the currency, and by diminished competition among the purchasers. It is not probable, however, that the price will fall so low as to admit of a profit in foreign markets, as long as the premium upon exchange continues above the ordinary commercial profit upon exported articles. But exportation will not be continued at a certain loss, longer than the discharge of debts previously contracted renders indispensable; foreign articles will not be imported when the loss upon remittances, whether made by bills of exchange or by the exportation of commodities, is equal to the profit upon importation; the high price given for exported articles will increase their production, and restore foreign exchange to a favorable state.

The balance of trade and the rate of foreign exchange, which have given so much trouble to statesmen for two centuries past, when left to the laws by which they will be governed, in despite of human devices, as invariably regulate themselves, as fluids, when
unrestrained, find their common level. They will, probably, more promptly conform to these laws in a state where a well regulated paper currency prevails than where it is metallic. In the latter, the currency is exported to make up any temporary deficiency, and by that means provides against the recurrence of the evil, by indirectly causing an increase of the exportable articles of the state, and diminishing the importation of foreign articles. Until the capacity to purchase these, by the exchange of articles, shall be restored in the former, as the currency cannot be exported, the importations will be more promptly reduced to the capacity of the country to purchase, whilst the increase of its exportable articles will be the direct instead of the indirect consequence of a temporary incapacity to pay for previous importations.

3d. During the whole process of restoring a favorable state of exchange in a country where a well regulated paper currency prevails, the price of all articles not exportable, will suffer no material variation. The funding of the currency, which will probably take place, will not be immediately carried so far as to reduce the price of exportable articles so as to command a profit in foreign markets. They will, so long as the rate of exchange is unfavorable, continue to command higher prices than when the exchange is favorable. This increased price will encourage industry and enterprise, and constantly tend to augment the productive energies of the community. This effect cannot fairly be attributed to any depreciation in the currency. That will continue to bear nearly the same proportion to the exchangeable articles of the state, as when foreign exchange was favorable. It is probable even that its relation to those articles will be changed, so as to produce an appreciation of the currency; and that this appreciation will be perceived in a slight degree in the depression of the value of all articles not exportable. The effects of this appreciation will, however, be diminished by the impulse given to industry and enterprise, by the increased price of all articles which can be exported.

These are conceived to be the effects which a well regulated paper currency will have upon the foreign exchanges, and upon the domestic industry of the country which may adopt it. If the value of currency depends, like that of all other articles, upon the quantity, compared with the demand, the idea of its depreciation in raising the price of articles in the case which has been considered, must be rejected. That this position is incontrovertible, seems to have been admitted by all writers upon the subject. This admission is found in the reports which have been made to the British Parliament; in the evidence upon which those reports have been founded; and in the essays of those who have opposed
the paper system in that country, since the year 1797. The objection to the paper system, as it existed in England, was the absence of all restraint upon the issue of paper, and the supposed impossibility of imposing any efficient restraint. In fact, no attempt has been made to impose such restraint in that country, unconnected with the convertibility of bank notes into the precious metals. So far as this restraint is limited to the convertibility of bank notes into bullion, at any given rate; it is rather an attempt to regulate foreign exchange through the instrumentality of the bank, than to confine the issue of bank notes to the sound demand for currency. The restraint imposed seems to rest upon the idea that an unfavorable state of foreign exchange must be the result of a redundant currency. Nothing can be more incorrect than this hypothesis. Considering the vitiated state of the currency of England for more than twenty years past, it is not surprising that this idea should there be entertained. During that period, the unfavorable rate of foreign exchange which generally prevailed, was, if not directly, at least indirectly attributable to the depreciation of their currency. But in this interval a favorable rate of foreign exchange more than once occurred. To what could this favorable exchange be attributed? Certainly not to the depreciation of their currency. But it would be as unjust to attribute every unfavorable state of foreign exchange to the depreciation of the currency, as to ascribe to that currency the credit of any favorable state of such exchange. The truth is that fluctuations in the exchange between two countries having a metallic currency, continually occur, and depend upon principles wholly unconnected with the idea of a depreciated currency.

If these views be correct, the only obstacles to the establishment of a paper currency, by a government having a sovereign right to establish it, is the danger of the instability and want of integrity and intelligence of the government. There is, certainly, just reason to apprehend that emergencies may arise in the affairs of every nation, in which their stability may be menaced by foreign force or domestic insurrection. In such an event, a panic might ensue, and the credit of the currency be utterly annihilated. How far the recent examples which have been adverted to in other states —how far the influence of public opinion over the conduct of governments, may be relied upon, as an efficient preventive against evils of such magnitude, must be determined by those to whom, under Divine Providence, the prosperity and happiness of nations are committed. The subject involves all the complicated interests of society, except the enjoyment of civil, political, and religious liberty. It ought to be approached with more than ordinary circumspection. In states the best qualified to attempt the change,
it is environed with doubt which can only be dispelled by the light of experiment. In the United States these doubts are greatly increased by the complex form of the government. In the division of power, between the federal and state governments, the line of separation is not sufficiently distinct to prevent collisions, which may disturb the harmony of the system. Collisions have already arisen, and, in the course of human events, may be reasonably expected to arise, until the line of separation by which their relative powers and duties are determined, shall be distinctly defined by practice, or by explanatory amendments of the constitution, effected according to the forms prescribed in that instrument. Upon no question will collision more likely arise than that contemplated by the resolution under which this report is submitted. No attempt to make the change has succeeded. The measure when stripped of extraneous difficulties, must be admitted to be of doubtful tendency. Under the most auspicious circumstances it may prove abortive. Under circumstances in any degree adverse, it must inevitably fail. Any obstacle opposed to its execution, by one or more of the state governments, would be decisive of its fate. Their simple acquiescence in the measure would not be sufficient to secure to it that issue, to which the principles upon which it might be established, would necessarily lead. Their active co-operation would be indispensable. The banks which derive their authority from the state governments, are generally bound by their charters to discharge their notes in specie on demand. From this obligation it would be necessary to the system to relieve them. The obligation to discharge their notes upon demand, in the national currency, should be substituted for that of paying them in specie.

If these obstacles should be removed, that connected with the public debt, which has been suggested in a previous part of the report, would still remain. After the substitution of the national currency, gold and silver would be imported only in the quantity required for manufactures, and for the prosecution of those branches of trade in which they are primary articles of commerce. For these purposes, the importations would be sufficient. They might even be sufficient, and at a reasonable price, for the payment of the annual interest of the public debt. But, after the year 1824, when the sum of 10,000,000 dollars, would annually be expended by the Commissioners of the Sinking Fund, it is probable that the premium which would be paid upon it would be considerable, until the debt was extinguished. A compromise, as has already been suggested, with the public creditors, would seem to be a measure preliminary to any attempt to establish a paper currency.
It is more than probable that the attempt would not only be unsuccessful, but that it would injuriously affect the public credit.

It may, also be proper to observe, that those sections of the Union where a measure of this kind would be most likely to be acceptable, would probably derive from it the least benefit. In the West and in the South, the complaints of a deficient currency have been most distinctly heard. In the latter, these complaints are of recent date. In both they proceed in a greater degree from the disbursement of the public revenue than from any other cause. The great mass of public expenditure is made to the East of this city. The revenue accruing from imports, though principally collected in the middle and eastern states, is paid by the great mass of consumers throughout the United States. That which is paid for the public lands, although in some degree drawn from every part of the Union, is principally paid by the citizens of the West, and of the South. The greatest part of the revenue accruing from the public lands, as well as that collected in the southern states, upon imports, has been transferred to the middle and eastern states to be expended. The necessity of making this transfer, arises from the circumstance that the great mass of the public debt is held in those states, or by foreigners, whose agents reside in them: and from the establishment of dock yards and naval stations in their principal ports. This transfer will continue to be necessary until the public debt shall be extinguished, and until the other expenditures of the government can, consistently with the public interest, be more equally distributed.

If a national currency should be established, the demand for it in the southern and western states, for the purpose of transmission, would be incessant; whilst its return, by the ordinary course of trade, especially in the latter, would be slow and in some degree uncertain. The currency, being everywhere receivable by the government, would, for the purpose of remittance, be more frequently demanded in that section than specie, for the same reason, that the notes of the Bank of the United States and its offices command there, at this time a premium in specie. As the transfers of the public money are made by the Bank of the United States, the excitement produced by the demand for specie, or funds that can be remitted, consequent upon such transfers, has been directed against that institution. All the evils which the community, in particular parts of the country, has suffered from the sudden decrease of the currency, as well as from its depreciation, have been ascribed to the Bank of the United States, which, in transferring the public funds, has been a passive agent in the hands of the government.

It is then believed that the evils which are felt in those sections of the Union where the distress is most general will not be exten-
sively relieved by the establishment of a national currency. The sufferings which have been produced by the efforts that have been made to resume, and to continue specie payments, have been great. They are not terminated, and must continue until the value of property, and the price of labor, shall assume that relation to the precious metals which our wealth and industry, compared with those of other states, shall enable us to retain. Until this shall be effected, an abortive attempt, by the substitution of a paper currency, to arrest the evils we are suffering, will produce the most distressing consequences. The sufferings that are past will, in such an event, recur with additional violence, and the nation will again find itself in the situation which it held at the moment when specie payments were resumed.

I have the honor to be your most obedient servant,

WM. H. CRAWFORD.

The Honorable the Speaker
of the House of Representatives.