

No. 105.

IN SENATE,

March 24, 1834.

Message from the Governor.

FELLOW-CITIZENS OF THE SENATE AND ASSEMBLY:

Since my communication to the Legislature at the commencement of the present session, the unusual derangement of the business operations of the community has been such, as in my judgment to render it the duty of the Executive to call your attention to the subject.

It was not then perceived that the order of the Treasury Department, directing the accruing receipts of the public moneys to be deposited in the local banks instead of the Bank of the United States, could essentially interrupt the business transactions of the community; nor is it now supposed that any necessary connection exists between that act, and the present state of commercial embarrassment.

Although it was known that the Bank of the United States had commenced a rapid curtailment of its debt anterior to the action of the government upon the deposits, and had actually reduced it more than four millions of dollars during the sixty days previous to the first of October, when the order of the Secretary took effect; yet as the government had directed the change to be made in a manner best calculated to avoid any pressure upon the bank or injury to the community, it was not reasonable to suppose that the occasion would have been seized for the purpose of giving an unnecessary shock to business, much less of exciting a causeless panic. Certain it is, however, that since the change referred to, such has been the attitude assumed by that institution in regard to the local banks, that the latter are unable to afford to the community those assurances of future accommodations, which are so essentially necessary to inspire confidence among business men in entering into new engagements.

The partisans of that institution, and certain presses devoted to its recharter, by systematic and persevering efforts in disseminating distrust of the credit of our monied institutions, particularly

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those of this State, of the credit of individuals, of the resources of the country, and its ability to meet the crisis; and by endeavoring to fasten public opinion upon this act of the government as the cause of all the depression which has been experienced, as well as that which is daily predicted and held up to the public view in a distorted and exaggerated form; have also produced an excitement among the business community, calculated essentially to aggravate the pressure, and prolong its existence.

Looking at the immense wealth and resources of the country—presenting externally, as indicated by the course of exchange, an appearance of prosperity unknown for many years, and internally, until within a short period, the same favorable appearance, as indicated by abundant crops, fair prices, active mercantile and manufacturing operations; it appears to be impossible that the existing state of things should have sprung from a cause so inadequate as the mere substitution of one place for another as the depository of the accruing receipts by the government.

Although the removal of the deposits, effected as it was prospectively, and operating upon the funds in hand, not withdrawing the whole suddenly, but gradually, as the wants of the government required, furnished of itself no sufficient cause for the results which in point of time have followed it; yet it is said that its operation has been to derange the currency, to destroy confidence, and thus to produce the present embarrassment.

It is undoubtedly true that much of the pressure upon the money market has been occasioned by the destruction of confidence; but it is not easy to perceive how that is to be charged as the necessary consequence of the action of the government. It is the consequence of the attitude assumed by the Bank of the United States towards other banks—an attitude not necessary, although its advocates attempt to justify it, either as a measure of retaliation upon the government, or for the purpose of compelling those institutions to surrender or to refuse to accept the public deposits.

Nor is it easy to perceive how the action of government should of necessity derange the currency or the commercial operations of the country, through the medium of domestic exchanges. The ability of the bank to conduct all ordinary business, has not been essentially impaired, and its amount of discounted bills of exchange is at this moment as large or about as large as it ever has been. Whatever inconveniences may have resulted from its refusal latterly to furnish drafts at sight between its different offices at the

usual rates, (and these inconveniences undoubtedly have been great,) would seem, therefore, to be of its own creation, or the result of that position in regard to the other banks which it has chosen to assume.

It is believed that the principal causes of the present embarrassment have no essential connection with the removal of the deposits.

In December, 1830, the Bank of the United States commenced a rapid increase of its loans and circulation, and continued augmenting them until May, 1832, having within that period added about twenty-eight millions of dollars to its accommodations to the public, and over four millions to its notes in circulation. The necessary consequence of such a large and sudden increase of facilities to business men, was to encourage a corresponding liberality on the part of the local banks, overaction in trade, and to stimulate to excess the industry and enterprise of the country. At all events, since that period, foreign commercial operations, domestic trade and manufactures, speculations in stocks, lands and produce, have been carried on to an extent and upon a scale before entirely unknown.

The policy of contraction on the part of the Bank, which immediately followed this unexampled expansion, had scarcely been commenced when the tariff law of July, 1832, went into effect, the operation of which, with its subsequent modification, was well calculated to develop the injurious consequences of the overtrading which had preceded.

Under the former law, duties to the amount of about fifteen millions annually accrued upon imports at the port of New-York, the payment of which was secured by bonds payable at different periods, some as long as eighteen months. As the merchandize was generally sold by the importer, soon after the execution of his bond for the duties, it is obvious that the credit afforded by the government, was to him equivalent to so much capital until the time of payment should arrive. Before this time, a fresh importation enabled him to create a new credit, and thus a very large amount of capital was constantly in use among those engaged in commercial pursuits.

The law of July, 1832, considerably reduced the amount of duties, while that of 1833, operated still further to diminish the capital of the importer thus derived from government credits, by admitting many new articles to the free list, by shortening the

bonds in some cases, and by substituting cash payments on many articles subject to duty.

This law took effect on the fourth of March 1833, and during the past year the bonds of the preceding year have been falling due, while the shortened bonds and cash duties have created an additional demand for money, thus casting upon the importer the burthen of repaying the capital formerly loaned to him by the government, and also of paying the cash duties required upon his recent importations. It has been estimated that the effect of this law has been equivalent to the withdrawal from commercial investments of from twelve to thirteen millions of capital.

The depressed rate of foreign exchange also, although an indication favorable to the general condition of the country, has, it is understood, prevented the drawing of considerable sums of money from Europe, the proceeds of produce as well as of stocks sold abroad.

These causes, together with the rapid curtailment of its debt by the United States bank, between the first days of August and December, amounting to nearly ten millions of dollars, and all operating upon a state of trade unusually and extravagantly extended, are supposed to be sufficient to account for most of the distress hitherto experienced.

The severity of the pressure in New-York, has undoubtedly been very much mitigated, by placing the public deposits in the local banks, which have thereby been enabled to discount, and have actually discounted upwards of four millions more than they otherwise could have done.

And as the charter was soon to expire, and the bank had actually commenced its curtailments sometime previous to the action of the government, that action would seem to have been indispensably necessary for the protection of the public, so far as the funds of the government would afford the means. This measure, however, which as we have seen, involved no necessary destruction of individual confidence or credit, no necessary derangement of ordinary commercial operations, much less any necessity for the panic which has followed, has furnished to the bank the pretext for placing itself in a new and menacing attitude, and to its partizans the occasion of wantonly sporting with the fears of the timid, the standing of the weak, the stability of the currency, and the credit of our monied institutions.

This Corporation, brought into existence for the purpose of subserving the general good, (if for any justifiable purpose,) seems to be bending the whole of its prodigious energies towards compelling the people, by force of pecuniary suffering, to acknowledge the necessity of its recharter.

Our constituents have distinctly expressed their unbiassed judgment upon the question of recharter; and I cannot doubt that they possess sufficient patriotism to meet any crisis, which the controversy may produce, and that in the maintenance of principles of vital importance to themselves and to posterity, they will be ready to endure any pecuniary privation, rather than to submit to the dictation of a great monied power.

From recent debates in the National Legislature; from the tone of the presses which advocate the cause of the Bank; from the language of public meetings; from the organizations of party; and from other indications too plain to be mistaken, the efforts on the part of the Bank seem to be directed especially against the monied institutions and the business relations of the State of New-York. Under such circumstances, I deem it the imperative duty of the State to put forth its energies to aid these institutions in the struggle, and to protect its citizens from oppression. Connected as these institutions are, with the industry and prosperity of the State, all classes of our constituents, whether agricultural, mercantile or manufacturing, are equally interested in their welfare.

I am furnished by the Bank Commissioners, with a statement of the condition of the banks subject to their supervision on the fourth of March instant, by which it appears that their circulation had been diminished since the first day of January last, more than three millions of dollars; and that the country institutions, or those located out of the cities of New-York and Albany, while they had reduced their loans and discounts only about \$600,000, had reduced their circulation about two millions of dollars. The entire resources of the country banks on the fourth of March, excluding the bank fund, amounted to \$21,984,000, and their entire liabilities to \$12,462,000. Notwithstanding the redemption, between those dates, of about two millions of their paper, the reduction of their specie was less than \$25,000; and their immediate means of redemption, consisting of specie at home and funds on deposit in Albany and New-York, subject to be drawn at sight, amounted to more than thirty-five per cent. of their whole circulation.

So far, therefore, as the banks themselves are concerned, I entertain not the slightest doubt, either of their present or future ability to meet any crisis that can occur; but under a state of things which may be imagined, a proper regard for their own safety, may put it out of their power to afford those accommodations to the public, which its interests may require.

The Bank of the United States has recently declared its intention to continue its curtailments, but in what ratio we know not. It probably has due to it in this State about seven millions; and what portion of this amount our citizens may be called upon to pay before the next session of the Legislature, cannot now be determined. If this amount shall be called in rapidly, our banks must necessarily strengthen themselves by calling in a portion of their debt; and thus it will be in the power of the Bank of the United States, if it should have the disposition, to occasion serious embarrassment to all classes of the community, unless the Legislature make some suitable provision to guard against such a result.

It has been suggested to me by several intelligent and practical gentlemen from the city of New-York, for whom and for whose opinion I entertain the highest respect, and who, I am sure, were governed by no motives of individual interest in the matter, that the establishment of a large banking institution in that city was called for at the present time. A capital of eight or ten millions was mentioned; and it was proposed that the State should take one half, and pay for it by a State stock, bearing an interest of four or five per cent., redeemable at the expiration of the charter; the balance of stock to be distributed by commissioners to be appointed by the Governor and Senate, or in such other manner as should be thought best; the State to appoint its share of directors; the rate of discount to be fixed at six per cent., and if deemed proper, the surplus profits over six or seven per cent. per annum to be paid into the State treasury; the institution to issue no notes under twenty dollars, and in other respects to be made subject to the general laws of the State, reserving to the Legislature the usual right to modify or repeal the charter.

It was urged that the stock issued by the State might readily be disposed of in Europe for specie, and that such a charter would furnish a sufficient inducement to insure the necessary subscriptions for the residue of the capital; that such an institution would be able to take the debt now due to the United States Bank in this State, whenever it should be called in; to furnish the requisite facilities to the commercial interests of the city of New-York in

the discount and collection of domestic exchange; to acquire a character in Europe which would enable it to sustain mercantile credit in times of revulsion in trade; and, in short, to exercise a healthful influence over all the diversified interests of that great city, and consequently over every branch of industry throughout the State.

Although many of the advantages anticipated from an institution of such a character, might and probably would be realized, there are, nevertheless, objections to this proposition, of serious if not preponderating weight. It is deemed by many to be objectionable in principle for any government to engage in the ordinary pursuits of individual enterprise. Such an institution, possessing ample powers over the currency of the State, which, properly directed, might be productive of salutary effects, might also, by a misdirection of its efforts, be equally capable of producing serious and extensive injury. It might in its administration be subject to the fluctuations of political power, and thereby be in danger of becoming an engine wielded to subserve the interests of a party. It might, by the acquisition of political influence, paralyze the controlling power reserved to the Legislature; it might, for the purpose of acquiring this influence, openly take the field of party politics, and exhibit the disgusting spectacle, with which we are already too familiar, of a large monied corporation arrayed in political opposition to the government of the country.

Unless, therefore, such an institution, or one of a somewhat similar character, should be found indispensably necessary to enable us to counteract a greater evil, I should be unwilling to hazard so dangerous an experiment.

It has occurred to me, that a remedy, as well for the existing evil, as for the inconvenience which may in any event result from the withdrawal of the capital now employed by the Bank in this State, may be provided, by the issue of a State Stock, if necessary, to the amount of four or five millions of dollars, and by increasing the ability of the banks in the city of New-York with loans of this stock, in such manner as would be perfectly safe to the State, and at the same time enable them to extend their accommodations so as to supply the amount of capital to be withdrawn by the Branch in that city. It is due to the city banks to say, that this suggestion does not proceed from them; they have thus far sustained themselves with creditable ability, and feel a perfect confidence in their resources to do so under any emergency that may happen; but the suggestion is intended for the relief of the whole community, by

sustaining the markets for our agricultural and manufacturing productions, and giving activity and vigor to commercial enterprise.

Should this measure be adopted, the necessity will at once be perceived of imposing upon certain persons to be designated by the Legislature, the power and responsibility of carrying it into effect. Ample provision should be made to secure the regulation of interest, and the ultimate redemption of the stock by the banks to which the loans may be made, so that the State will neither be subject to inconvenience, nor incur any responsibility beyond the loan of its credit to stable and well conducted institutions. It may also be necessary to provide, that during the continuance of the loans to the banks, they shall possess the power of discounting upon them as upon so much additional capital, without allowing them to extend their circulation beyond the limits now prescribed by law. The banks in New-York, from their position, must necessarily meet and sustain the first shock of any pressure upon the money market, and by strengthening them therefore, we aid every branch of industry throughout the State. A depression in the city necessarily affects prices in the country, and operates to the injury of the agricultural, as well as the manufacturing and mercantile interests of the whole State. Should it be deemed advisable, a portion of this stock might be disposed of, and the avails loaned in the different counties of the State through the agency of the county loan officers, as has heretofore been done on several occasions, to the great relief of the community.

It is not doubted that the State, by the loan of its credit in such a manner, may, without incurring any loss or inconvenience, do much to sustain the great interests of the people, if the necessity for it should arise; and I cannot entertain the slightest doubt that the measure would meet with their cordial approbation.

Being perfectly satisfied, that the energies and resources of this State, will enable it to bear up against any temporary depression of business which can be anticipated; that in this desperate struggle by a great monied power to perpetuate its own existence by the force of its pressure upon the community, the patriotism of the people will be found to rise, regardless of mere pecuniary sacrifices: and that it is the duty of the State to stand forth in its strength, and by the use of its credit and the sanction of its name, to shield its institutions and its citizens from harm; I commit the entire subject to your deliberate consideration.

W. L. MARCY.

Albany, March 22, 1834.