

NATIONAL MONETARY COMMISSION

The
First and Second Banks
of the United States

By

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and

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The First Bank of the United States

By

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THE FIRST BANK OF THE UNITED STATES.

The establishment of the Bank of the United States in 1791 was an essential and vital part of the general scheme for the support of public credit proposed by Alexander Hamilton, first Secretary of the Treasury. The institution of a national bank Hamilton regarded as "an indispensable engine in the administration of the finances."^a

HAMILTON'S PLAN OF 1779.

This conception of the utility of a bank was not a matter of impulse or sudden exigency. As early as 1779, Hamilton wrote to Robert Morris favoring a bank of issue based on landed security.^b Later, in 1780, when the Revolutionary finances were at low ebb and the currency of the country was demoralized, Hamilton, then serving in the army, wrote to Morris discussing the financial situation thoroughly and proposing measures of relief. "The only plan that can preserve the currency is one that will make it the immediate interest of the moneyed men to cooperate with the Government in its support." He proposed an American bank with a capital of \$200,000,000. His project contemplated a foreign loan of \$10,000,000 "to be thrown into the bank as a part of its stock." The Government was to guarantee one-twentieth of the subscription money to the stockholders, and was itself to share half the stock and profits of the bank. All the

^a Hamilton's Report on Public Credit, December 13, 1790.

^b Hamilton's Works (Hamilton), Vol. I, p. 116.

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remaining paper was to be called in and bank notes issued in its stead. The bank was to lend Congress £2,000,000 annually at 4 per cent. Hamilton questioned the necessity of so large a capital, but he wished to have it large enough "to engage a sufficient number of the principal moneyed men in the scheme." This "hasty production" of Hamilton's was the result "of some reading on the subjects of commerce and finance," but in the ten years which intervene before Hamilton's great project for a national bank materializes his ideas on the subject undergo considerable change.

HAMILTON'S PLAN OF 1781.

On April 30, 1781, Hamilton, whose mind ran constantly to questions of government and finance, wrote again to Morris, who had recently been appointed Superintendent of Finance.^a Hamilton had great respect for Morris, and he was eager to render him every aid possible. In this letter, discussing ways and means of raising revenue, Hamilton renews his suggestion of a national bank. He proposes a bank with a capital of £3,000,000 (though he thought it would succeed if only half that amount were obtained) founded in part upon landed security. Thus a subscriber of from 6 to 15 shares (£500 each) should pay one-half in specie (or plate or bullion), the other half in good landed security. Subscribers to 16 shares and over should pay one-third in specie, one-sixth in foreign bills of exchange, and one-half in good landed security. Hamilton recognized that to procure so much specie resort would have to be made to foreign assistance, for he esti-

^a Hamilton's Works, Vol. I, p. 223; Dunbar, *Economic Essays*, pp. 89-90.

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mated that in all of the States there was not more than \$6,000,000. The United States, or a particular State, or foreigners might subscribe in sums not to exceed one-half the capital. The notes were to be payable in pounds, shillings, and pence "to produce an illusion in the minds of the people favorable to the new paper," or rather to escape by a change of nomenclature the universal prejudice against the old continental currency, which was payable in dollars. Notes under 20 shillings were to bear no interest; above that sum they were to bear 4 per cent. This latter device was to give them preference over specie, and prevent a run upon the bank. Gradually the interest was to be reduced to 2 per cent. Some of the notes were to be payable in Europe as well as at home, so as to enable the bank to use its funds there and to increase the demand for bank notes by making them useful in foreign commerce. Loans were to be made at a rate not above 8 per cent. The bank might purchase estates and coin money to the amount of half its capital. This latter provision was necessary because the bank might receive plate or bullion as subscriptions, and profit might result from converting these into coin. The bank was to have the right to contract with the French Government for the supply of its armies and fleets in America and to contract with Congress for the supply of its armies. A loan of £1,200,000 at 8 per cent was to be made to Congress, for the payment of which a sinking fund of £110,400 per year was to be established for twenty years, and the States generally and severally were to pledge themselves for its payment. The bank was to be chartered for thirty years "by way of experiment," and no

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other bank was to be permitted during that period. Three agencies were to be established, one each in Massachusetts, Pennsylvania, and Virginia, to facilitate the circulation and payment of the notes. Hamilton thought they should be located in the interior, distant from the leading trading centers, so as to "make applications for the payment of bank notes less convenient." The management of the bank was to be in the hands of 12 directors, 8 to be chosen by the stockholders and 4 by Congress. Commenting upon this proposed plan, Hamilton says that if the leading principles of his scheme be approved, "the structure may easily be determined. We shall find good models in the different European banks, which we can accommodate to our circumstances."^a

Hamilton later came to realize that land was not the proper security for bank notes. In 1784, Chancellor Livingston, of New York, fathered a project for a land bank in that city, and application was made to the state legislature for an exclusive charter. Hamilton, by this time thoroughly convinced of the folly of such an enterprise, started an agitation for a bank founded on a more solid basis.^b Out of this movement grew the Bank of New York, the constitution of which was drawn by Hamilton himself.^c Hamilton became a director of the bank, and, though this relation was severed in 1788, he always showed a lively interest in its prosperity, and threw many favors in its way, when that was legitimately permissible, during his

^a Many of Hamilton's suggestions were incorporated in Morris's report to Congress recommending the establishment of the Bank of North America.—Knox, *History of Banking*, p. 40.

^b Hamilton to J. B. Church, March 10, 1784.

^c Domett, *Bank of New York*, p. 11.

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administration of the federal finances. In return, the directors of the bank were prompt to respond when called upon to assist the Government with temporary loans. For several years the Bank of New York carried on business under the articles of association drawn by Hamilton, but finally, after repeated failures, it secured a charter as an incorporated concern, March 21, 1791. At that time Hamilton held one and a half shares of its stock (par \$500).^a

HAMILTON'S REPORT IN 1790.

In December, 1790, Hamilton submitted an elaborate report on the subject of a bank to be founded under a national charter. He clearly appreciated the popular prejudice against the establishment of banks, and consequently devoted a large part of his argument to the defense of banking institutions and a bank-note currency. He anticipated possible objections by noting the successful experiences of public banks among the principal and most enlightened commercial nations of the world. In those countries the experience of centuries showed that such banks rendered invaluable service both to the Government and to trade. The Government of the United States, too, not only in the critical period of the recent war, but also in times of peace, had received from the banks indispensable aid. His discussion was undoubtedly the most informing and illuminating presentation of banking principles and practice known to American literature up to that time. It did much to remove misunderstanding regarding banking institutions, and incidentally it furnished an arsenal

^a Domett, Bank of New York, p. 132.

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of arguments for the defense of the proposed bank in the debates which followed in Congress.

The first advantage which Hamilton claims for the bank is "the augmentation of the active or productive capital of a country." He means by this not the creation of additional capital, but more effective utilization of capital by which scattered and otherwise idle amounts are concentrated and made to serve the uses of business. He states that the great proportion of the notes issued are "indefinitely suspended in circulation;" "that large sums are transferred by check" without the intervention of a single piece of coin; "that deposits for safe-keeping as well as for accommodation" form an "effective fund" for the operations of the banks, for, even if they are withdrawn, they are speedily replaced, as money "much oftener changes proprietors than place," and not only is the quantity of money increased, but its circulation is "quickenened." Without notes coin must be remitted from place to place with "trouble, delay, expense, and risk." Bank notes, however, can be transmitted by post or other convenient conveyance. With their use, therefore, the metals are not "suspended from their usual functions during this process of vibration from place to place," but "continue in activity."

Hamilton laid great stress upon the advantage of a bank in making loans to the Government, especially in sudden emergencies, and in facilitating the payment of taxes. This latter benefit had been demonstrated in places where banks already existed. These governmental advantages were, doubtless, foremost in Hamilton's mind. A national bank to him was not "a mere matter of private

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property, but a political machine of the greatest importance to the state." Thus conceived as a political machine, the Bank of the United States never threw off entirely its political trappings, and it finally died as the result of political enmities and jealousies.

The most serious charges against banks were that they served to increase usury; they tended to prevent other kinds of lending; they furnished temptations to overtrading; they afforded aid to ignorant adventurers who disturbed the natural and beneficial course of trade; they gave to bankrupt and fraudulent traders a fictitious credit, enabling them to maintain false appearances and to extend their impositions; and they tended to banish gold and silver from the country. Hamilton reviewed these charges and either refuted them or opposed counterbalancing advantages.

Hamilton concluded the introduction to his national-bank scheme by arguing strongly against the issue of paper by the Government and in favor of bank issues payable in coin.

Having demonstrated the desirability of a national bank, Hamilton next considered the possibility of utilizing one of the three existing banks—the Bank of North America, in Philadelphia, the Bank of New York, and the Bank of Massachusetts. He considered only the Bank of North America, the only one of the three which had had at any time a direct relation to the Government. While paying willing tribute to the great services of that bank to the United States during the Revolution and the aid it had extended after the war, he reasoned that it lacked certain of the essential requisites of a national

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bank. This bank, chartered originally by the Continental Congress, had afterward accepted and acted under a new charter from the State of Pennsylvania, which greatly narrowed its scope. The original capital was \$10,000,000, but this had been reduced in the state charter to \$2,000,000, which would not insure "the requisite aid to the Government nor the requisite security to the community." Another objection raised by Hamilton was that the charter of the Bank of North America did not provide for rotation in the board of directors. This principle he regarded as essential in that it would lessen the danger of combinations among the directors to use the bank's influence for partisan purposes or to monopolize its funds for the accommodation of any particular set of men or interests. Danger of a monopolization of the power and benefits of the bank lay, also, in the principle of one share one vote recognized in the charter of the Bank of North America. And, finally, that bank did not guard against the influence of foreigners by prohibiting them from becoming directors or voting by proxy. If, however, that institution should be willing to make such changes as were "necessary to the due extent and safety of a national bank," every reasonable facility should be offered it to do so, not only because of its earlier relation and services to the Government, but also because its cooperation would remove the possibility of a collision of the two institutions. The Bank of North America, however, showed no disposition to undertake the reorganization which would have been necessary to bring it into accord with Hamilton's plan. "The quiet and prosperous business in which they were engaged, under

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state auspices, was to them preferable to the anxieties and hazards which would probably attend the new national undertaking."^a

ESTABLISHMENT OF THE BANK.

The bill to charter the Bank of the United States was introduced in the Senate December 23, 1790, and was debated there until January 20, when it was transmitted to the House. On January 31 the House went into Committee of the Whole for the consideration of the bill. It was opposed by Madison and 18 others, all of whom, with one exception, were members from the Southern States. The debate was concentrated largely upon the question of the constitutionality of the proposed bank.^b Madison and his supporters assailed the constitutional authority of Congress to incorporate a national bank. He argued that the question of authority to incorporate a bank had arisen in relation to the Bank of North America under the old Confederation and that the constitutional convention had specifically refused to include among the powers of Congress that of incorporation, because this might be construed to confer power to establish a bank. The advocates of the bank, however, met this argument with the claim that there was nothing particularly awe-inspiring or sovereign about acts of incorporation; that the erection of a bank was merely an act of legislative expediency, clearly included in the implied powers of Congress under the Constitution.

^a Lewis, *History of Bank of North America*, p. 79.

^b Clarke and Hall, *Legislative and Documentary History of the Bank of the United States*, pp. 36-85.

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After a week's debate the bill was passed, February 8, by a vote of 39 to 19. This was not a strictly party vote, for 11 of those who voted for the bank were Democrats, while 6 Federalists voted against it; but it afterwards became "one of the landmarks of party, and in the Second Congress a resolution declaring the bank charter unconstitutional was within one vote of passing the House."^a

As the bank bill reached its final stages numerous attempts were made to limit the scope or the life of the proposed institution. A motion in the Senate to expunge the section providing that no other bank should be established by the United States was defeated.^b Another motion to add a clause that nothing should prevent Congress from abolishing the corporation after May 4, 1802, was likewise voted down.^c On January 13, 1791, a motion to limit the term of the charter to seven years was met by another motion to extend it to March 4, 1815, both of which were postponed.^d

The bill was presented to the President February 14, 1791. Washington gave it anxious and diligent consideration. The question of its constitutionality, which had been the chief ground of controversy and opposition in Congress, was carefully considered by the President. To aid him in reaching a sound decision, he asked three of his cabinet advisers for their written opinion. The Attorney-General (Randolph) and the Secretary of State (Thomas Jefferson) argued against the constitutionality of the bank, but Hamilton, Secretary of the Treasury, to

^a Gouge, *Paper Money and Banking*, p. 38.

^b *Annals of Congress*, Vol. II (1789-1791), p. 1748.

^c *Ibid.*, p. 1769.

^d *Ibid.*, p. 1745.

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whom these opinions were submitted by Washington, swept away their arguments so completely that Washington signed the bill, February 25, 1791.^a

CHARTER PROVISIONS.

. The bill provided for a Bank of the United States to be located in Philadelphia with a capital of \$10,000,000, divided into 25,000 shares of \$400 each. One-fourth of all subscriptions, private and corporate, was to be paid in specie, and three-fourths in United States stock bearing 6 per cent interest, payable in four equal semi-annual payments. The President of the United States was authorized to subscribe, on behalf of the United States, \$2,000,000, a loan of equal amount to be made by the bank, which was to be reimbursed in 10 equal annual installments. No subscription other than that of the Government was to exceed 1,000 shares. There were to be 25 directors, not more than three-fourths of whom were to be eligible for reelection the next ensuing year. Seven directors were to constitute a quorum. No stockholder, unless a citizen of the United States, could be a director. The directors were to elect a president who was to receive a salary, but they were to serve without compensation. No foreign stockholder might vote by proxy. One share was to have 1 vote, 3 shares 2 votes, 5 shares 3 votes, and so on until 100 shares had 20 votes. The bank was allowed to issue notes, payable to any person or persons, assignable and negotiable, or to bearer assignable by delivery. The notes were legal tender in payment of all debts to the United States.

^a Works, Vol. IV, p. 104.

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The maximum amount of debts which the bank might owe at any time, except for moneys deposited for safe-keeping, was never to exceed \$10,000,000, unless the contracting of such debts was authorized by Congress, and in case of excess the directors under whose administration it occurred were to be personally liable for the amount. The bank was forbidden to buy or sell goods except forfeited collateral, under penalty of forfeiting three times the value of the commodities, one-half of the forfeit to go to the informer, the other half to the United States. It might sell but not buy United States stocks (bonds). It was permitted to hold only such real estate as was necessary in the immediate accommodation of its banking business or such as had been mortgaged to it as security or conveyed to it in satisfaction of debts previously contracted in the course of its dealings or at sales upon judgments obtained for such debts. The bank was not to loan to the United States more than \$100,000, nor to any State more than \$50,000, nor make any loan to a foreign prince or State, unless previously authorized by act of Congress. Loans and discounts were not to be made at a rate above 6 per cent. The directors were permitted to establish offices for discount and deposit only wherever they should think fit within the United States. A report of the condition of the bank was to be furnished to the Secretary of the Treasury at his demand, but not oftener than once a week, and that officer had the right to inspect the books, except private accounts. The charter was to expire March 4, 1811, and during the continuance of the corporation no other bank was to be established by the United States. The

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bank might begin operations when \$400,000 had been paid in gold and silver.^a

On March 20, 1791, a supplementary bill was passed providing that subscriptions should not be opened until the first Monday in July, thus affording three months longer to allow citizens in distant parts of the country to subscribe. This bill also provided that payments in the United States 3 percents might be subscribed as well as the 6 percents, computing the former at one-half the latter, and reserving to subscribers the right to redeem the threes with sixes any time before January 1, 1793; that the specie proportion was to be paid at the time of subscribing, failure to make future payments forfeiting the first payment; and that no person or corporation, except on behalf of the United States, should, for three months after July 4, subscribe in any one day for more than thirty shares.

It is to be noted that the bank was to be under private management. In this, as Dunbar points out, Hamilton followed English rather than continental precedent. "This independence of the Executive he secured by forbidding loans of serious amount for the use of the Government, unless specially authorized by law."^b A comparison of the Bank of England act of 1694 and the United States Bank act of 1791 shows, moreover, that a careful study had been made of the English institution. The powers of the banks, relating to the scope of the business, were practically identical. "In each the redemption of notes in specie was required, and the amount of the issue

^a For full text of the bank bill, see Appendix A.

^b Economic Essays, p. 91.

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was limited in the charter of the Bank of England by forbidding debts in excess of the capital, and in the charter of the Bank of the United States by forbidding the debts exclusive of deposits to exceed the capital."^a

SUBSCRIPTIONS FOR STOCK.

Under date of May 3, 1791, the commissioners appointed to receive subscriptions gave notice in the newspapers that the books would be opened for that purpose at the Bank of North America, in Philadelphia, July 4.^b The commissioners included some of Philadelphia's leading business men—Thomas Willing, Beale Bordley, David Rittenhouse, Samuel Howell, and Lambert Cadwalader. Active interest in subscriptions to the stock developed at once all over the country, but especially in New York and Boston. In the latter city the Bank of Massachusetts received subscriptions, and in New York the Bank of New York had to refuse many who wanted to subscribe. In Boston it was said that subscriptions for 2,400 shares were filled in four days, and a specie deposit of \$60,000 was paid into the Bank of Massachusetts.^c Similar interest was shown in Baltimore, Richmond, and Charleston. In Charleston the Chamber of Commerce instituted steps to secure a branch of the bank in that city, and resolutions were adopted inviting the people of South Carolina, by public advertisements, to subscribe for stock. Under date of June 2, 1791, certain public-spirited citizens of Charleston announced in the papers that they would receive and transmit subscriptions

^a Economic Essays, p. 92.

^b General Advertiser, May 13, 1791.

^c Dunlap's American Daily Advertiser, June 30, 1791.

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and urged haste, saying that in the North subscriptions were pouring in so fast that Charleston might be left out unless they subscribed at once. They estimated that annual profits on the stock would amount to 8 or 10 per cent. At the end of June it was reported that South Carolina had already subscribed 1,000 shares and that a part of the specie deposit had been deposited in the Bank of North America.^a Commenting upon this interest in the new bank, the Daily Advertiser said: "The Bank of the United States may justly be considered as a proposition made to the moneyed interest, foreign and domestic, and in fact appears to both in a very favorable point of light—the latter, from every information, are making great preparations to subscribe, and the terms are so advantageous that no equal object of speculation is perhaps presented in any quarter of the globe to the former."^b Subscriptions continued to pour in from all quarters. A long debate in the Massachusetts legislature on the proposal to subscribe for 400 shares was defeated. The Bank of North America, the only bank in Philadelphia at that time, might naturally have resented the intrusion of this new giant in the local banking field, over which for years it had held undisputed sway, and by some it was thought that "the jealousy and rivalry drawn from the existence of the Bank of North America" might prevent the moneyed men of Philadelphia from participating to their proportionate quota in the subscriptions to the new concern.^c Later

^a Dunlap's American Daily Advertiser, June 9, 24, 1791.

^b Ibid., May 9, 1791.

^c General Advertiser, June 24, 1791.

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developments, however, disclosed the fact that Philadelphians were as eager to participate in the benefits and profits of the new bank as were the people of any other section, while the Bank of North America evinced a lively interest in the welfare of the new institution, with which it worked harmoniously from the outset.

On July 4 the subscription books were opened in Philadelphia, and within two hours the entire capital of 25,000 shares was subscribed and application was made for 4,000 additional shares.^a The commissioners, accordingly, were compelled to deduct a certain proportion from every subscription. In some quarters there was "lament that Philadelphians have engrossed so much of the stock and have so divided the shares as to multiply their notes. They believe that there was management and partiality in the commissioners."^b Immediately a violent speculation sprang up in bank stock or "script," as it was called. Two days after the subscription books were closed \$35 was paid for a right to the certificate which the commissioners were to deliver, acknowledging receipt of the first cash payment of \$25, and within a week sales were made at \$50.^c Brokers' offices sprang up on all sides advertising the purchase and sale of bank script. The New York Daily Advertiser, in warning the public against speculators, notes that the stock under speculative manipulation rose in August, 1791, to 56, then dropped to 45, "from 45 to 60, from 60 to 100 in two days, from 100 to 150 was the leap in a single day." It was claimed

^a Gibbs, *Administrations of Washington and Adams*, Vol. I, p. 68.

^b Fisher Ames to Hamilton, July 31, 1791, *Works*, Vol. V, p. 473.

^c *General Advertiser*, July 6, 8, 1791.

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that the interests of agriculture, commerce, and manufactures suffered by the withdrawal of considerable sums of specie with which to speculate in bank script.

ORGANIZATION.

The work of organization proceeded very slowly, and it was not until October 7 that a meeting of the Philadelphia stockholders was called to select a committee to meet like committees of other States to propose names of directors.^a

On October 21 a general meeting of the stockholders was held in the city hall, Philadelphia, and 25 directors were chosen. Ten of the directors received 2,936 votes each, and the lowest vote cast for any director was 2,920.^a The directors met October 25 to select the officers of the bank. The presidency was offered to Oliver Wolcott, at that time serving as Comptroller of the Currency under Hamilton, but he declined it, "preferring the public service, and believing that such a station would be deemed unsuitable for a young man without property."^b Thomas Willing, president of the Bank of North America, and formerly a business partner of Robert Morris, was then made president, a position which he retained until 1808. Willing was, by social position, business talent, and experience in public affairs, remarkably well qualified to assume the responsible position of president of the most powerful financial concern in the country. He had wide business experience as partner in the prosperous business of Morris & Willing and as president of the Bank of North

^a *General Advertiser*, October 21, 1791.

^b Gibbs, Vol. I, p. 68.

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America. He had served successively as secretary to the congress of delegates at Albany, judge of the supreme court of Pennsylvania, mayor of Philadelphia, member of the Colonial Assembly, president of the Provincial Congress, and delegate to Congress under the Confederation. He thus enjoyed a wide acquaintance with public men and affairs.^a The appointment of Willing as president did not meet with general satisfaction. In Boston, for example, it was feared that he might be dominated by men like Robert Morris, a powerful influence in the affairs of the Bank of North America, who was regarded in the East as a desperate speculator and as "a man of talents and intrigue."^b

With the selection of a president, the business of organization proceeded more rapidly. John Kean was appointed cashier, with a salary of \$2,700, and George Simpson, first teller at \$1,500. There was a second teller at \$1,000, a first and second bookkeeper at \$1,000 and \$800, respectively, a discount clerk at \$750, an assistant clerk at \$600, and a runner at \$600. Some of the papers reported that President Willing's salary had been fixed at \$3,000, but the General Advertiser denied this, remarking that the president's salary could not be fixed by the directors, but only by a general meeting of the stockholders. Later his salary was fixed at \$3,000.^c The records of the Bank of North America show that, a few years later, the salary of the president of the Bank of Pennsylvania was \$3,000, while the Farmers and

^a Simpson, *Lives of Eminent Philadelphians*, p. 960.

^b Ames to Hamilton, Works, Vol. V, p. 474.

^c Minute book, Bank of North America.

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Mechanics' and the Bank of North America each paid \$2,500 to their respective presidents.

BY-LAWS AND REGULATIONS.

At a general meeting of stockholders, held in City Hall, October 28, 1791, a committee of seven was appointed to draft by-laws and regulations for the bank. A month later the committee submitted its report. The by-laws as adopted provided that the bank should be open every day in the year excepting Sundays, Christmas, and July 4. The books were to be kept in dollars and cents, and were to be balanced the first Monday in January and July, when the semiannual dividends were to be declared and published in four newspapers. The bank was to take charge of the cash of all who cared to deposit it there, free of expense, and keep it subject to their order, payable at sight; also to receive deposits of gold ingots, silver bars, wrought plate, or other valuable articles of small bulk. It was to receive and pay all specie coins according to the rates and value fixed by Congress. Until the contemplated offices of discount and deposit should be established, there were to be two discount days each week, at which times a meeting of the board of directors was to be assembled. Discounts were to be made at such rates, not less than 5 per cent or more than 6, as the board should deem proper "on bills of exchange that have not more than sixty days to run, and with such securities and under such modifications" as the board should deem satisfactory and expedient. The president was authorized to convene the board on special occasions and to affix the seal of the bank to all conveyances and

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documents. A committee of at least three of the directors was to be elected by ballot monthly to visit and inventory the vaults to see that the cash agreed with the books. The bank was to issue no notes or bank paper except by direction of the board. It was further provided that if the directors should declare a dividend above what the profits justified, thus diminishing the capital, the assenting directors should be responsible therefor. The board was authorized to receive the money subscribed from the commissioners. They were to determine how the balance of the stock should be paid in and to establish forms for stock transfers, dividend receipts, proxies, notes, etc. They were to establish a seal and fix the duties of the officers. The directors were empowered to make loans to the Government or to any State, but the assent of a majority was required. They were also empowered to purchase a lot and erect a bank building thereon.^a

On November 22, 1791, the following bank regulations were adopted and published for the information of stockholders and customers: The bank was to be open from 9 to 4. The discount rate, "for the present," was to be 6 per cent. The charter of the bank fixed that as the maximum interest rate.^b Bills or notes offered for discount were to be delivered at the bank Mondays and

^aDaily Advertiser, November 14, 1791.

^bFisher Ames thought that if the rate were made 5 per cent the bank would do more business and with safer people. By giving better terms to borrowers the bank would overpower the state institutions, which he feared might become unfriendly and through hatred and rivalry narrow the business of the United States Bank, and, perhaps, become dangerous instruments in the hands of state partisans.—Ames to Hamilton, July 31, 1791, Works, Vol. V, p. 474.

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Wednesdays and presented to the directors on Tuesdays and Thursdays. The results of their action were to be known on the next succeeding days—that is, borrowers submitting paper for discount were apprised of the result two days later. After the bank got under way, this rule was changed so that bills and notes for discount were presented on Mondays and Thursdays.^a Discounts were to be made on personal security only, with at least two responsible names—that is, double-name paper—and were limited to sixty days. Three days of grace were allowed on all bills payable to the bank, interest being charged for the same. The bank would present without charge bills or notes left for acceptance, provided that in case of non-payment and protest the protest charges should be paid by the person lodging the bill. Payments made over the counters of the bank were to be examined at the time, and no errors were to be corrected afterward. The regulations also prescribed and set out in detail the forms for voting by proxy at elections, for transferring stock, and similar forms.^b

PAYING IN OF CAPITAL.

December 12, 1791, ten months after receiving its charter, the bank opened for the regular transaction of business. It is assumed that the prescribed amount of specie, \$400,000, necessary to begin operations had been paid in. Sumner says: “The belief at the time, and subsequently, was that no more than the specie part of the first installment ever was paid into the bank in specie.”^c

^a Daily Advertiser, January 3, 1792.

^b *Ibid.*, November 22, 1791.

^c History of Banking in all Nations, Vol. I, p. 33.

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Bollman, writing in 1810, said: "No more or little more than the first installment, \$675,000, can be considered as having been received by the bank actually in hard money."^a In a debate in the Pennsylvania legislature in 1793, it was stated that one great source of profit to the Bank of the United States when it was first established was in the discounting of notes for stockholders, to enable them to pay subsequent installments. No one seemed sufficiently informed or inclined to defend the bank from this charge, and in the light of facts bearing upon this dangerous practice in the organization of other banks it seems probable that the charge was not groundless.^b To facilitate the payment of the second installment of specie, due in January, 1792, the bank arranged with the Bank of Massachusetts and the Bank of New York to receive the payments. The cashiers of these banks issued receipts or certificates which were accepted by the Bank of the United States as evidences of payment. Further, the bank encouraged stockholders to prepay the remaining installments by allowing full-paid shares to draw dividends from the first of the month following such payments.^c Arrangements were made whereby the specie portion of the third installment, due in July, 1792, might be made at the bank or any of its branches, while transfers of United States stocks might be made on the books of the Treasury or at the office of the commissioners of loans. The transfer books were closed for two weeks prior to dividend days—July 1 and January 1. Though the major part, probably, of the shares were not fully

^a Paragraphs on Banks, p. 35.

^b House Journal (Pa.), 1793-95, Vol. III, p. 180.

^c Daily Advertiser, March 24, 1792.

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paid in until the end of 1792, dividends were declared in July, 1792. Shares completed in March received \$12, in April \$10.67, and in May \$9.33.

PAYING IN OF CAPITAL BY THE GOVERNMENT.

The proposal to permit the President to subscribe \$2,000,000 on account of the public was obviously to secure a share in the profits of the bank.^a Hamilton explained that the main design of this provision was "to enlarge the specie fund of the bank, and to enable it to give a more early extension to its operations. Though it is proposed to borrow with one hand what is lent with the other, yet the disbursement of what is borrowed will be progressive, and bank notes may be thrown into circulation instead of the gold and silver. Besides, there is to be an annual reimbursement of a part of the sum borrowed, which will finally operate as an actual investment of so much specie." But he concludes this naïve explanation with the statement that "as far as the dividend on the stock shall exceed the interest paid on the loan, there is a positive profit."

Hamilton deemed it necessary to make a special explanation and defense of one other feature in his bank scheme—the provision that United States stocks might be subscribed into the capital. The chief object of this was "to enable the creation of a capital sufficiently large to be the basis of an extensive circulation, and an adequate security for it." To collect a specie capital of \$10,000,000 into one depository was out of the question; recourse must be had, then, as was the case with the Bank of England, to basing

^a See p. 45.

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the circulation in large part on the public debt. Public stocks could always be converted promptly into coin. But as Professor Sumner very properly puts it: "When the first Bank of the United States was organized, the Government did not need to borrow and did not obtain any loan by the subscription of the public stock into the capital. That arrangement never had any proper cause or excuse, and only served to give occasion for some clamor against the bank, as a piece of jobbery and favoritism to the bondholder."^a

The device by which Hamilton carried through the government subscription of \$2,000,000 and received a loan of a similar amount, "a simultaneous transaction" which did not involve the payment of a single dollar in money, was an ingenious example of financial juggling. For the Government to pay for its stock by actually drawing money from Europe, and then to remit back to Europe out of the loan to be obtained from the bank, would be at once useless and disadvantageous. This would involve a loss on exchange in consequence of overstocking the market with foreign bills and a loss in interest while the transaction was being carried through. Accordingly, upon Hamilton's suggestion, the following "merely formal arrangement" was adopted. The United States Treasurer drew bills on the American commissioners in Amsterdam for the amount of the subscription. These bills were bought by the bank, and warrants on the bank in favor of the Treasurer placed the proceeds in the Treasury. Warrants were then issued on the Treasury in favor of the bank

^a History of Banking in all Nations, Vol. I, p. 32.

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and the amount of the subscription was receipted for as paid. Simultaneously with this transaction, the bank loaned \$2,000,000 to the Government, which sum was paid by the redelivery of the Amsterdam bills. Finally warrants were drawn upon the Treasurer to replace the money supposed by this arrangement to be drawn from the foreign fund. The bills were canceled, attached to the warrants, and held in the Treasury as vouchers of the transaction.^a Shorn of technicalities, the Government paid for its stock in bills of exchange on Amsterdam, then it borrowed these bills and gave its note for \$2,000,000, payable in ten equal annual installments of \$200,000 each, with interest at 6 per cent. The practice thus instituted by the Government itself of paying subscriptions with stock notes was followed widely and, in numerous instances, with disastrous effects, in the next fifty years.^b

It will be fitting here to trace how the Government met its subscription obligations to the bank. The first installment was due January 1, 1793. In the preceding November Hamilton brought the matter to the attention of the House, but that body made no provision for paying it; so Hamilton left a deposit of \$200,000 with the bank as an offset until legislative provision should be made. This had the effect of suspending interest on the installment. On March 2, 1793, Congress authorized payment out of the proceeds of foreign loans. The Attorney-General decided, however, that under the legal construction of the contract the foreign fund could not be applied in that way until June 25. Not until July 20—a delay of

^a American State Papers, Finance Folio, Vol. I, p. 91.

^b Sumner, History of Banking in all Nations, Vol. I, p. 32.

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more than six months—was the first installment actually paid. A similar delay occurred in paying the second installment. Congress was even more tardy in acting, for it was not until July 4, 1794, that payment was authorized. Hamilton advised the bank that as an offset he would defer calling the last installment of the \$800,000 loan which the bank had made to the Government. This arrangement favored the Treasury, for it arrested interest at 6 per cent on the sum due the bank with a fund obtained from the bank itself bearing only 5 per cent.^a The foregoing transactions established the principle of paying the installments on the last day of the year. Congress provided for the payment of the next installment, due at the end of 1794. The next two payments were not made until January, 1797, when 2,160 shares of the Government's stock were sold at \$500 (a premium of 25 per cent) and \$400,000 was applied in paying the fourth and fifth installments. The other five installments were paid more promptly.

ELECTION OF DIRECTORS.

The bank had been open only about two weeks when the time came for the election of directors, of whom only three-fourths were eligible for reelection. Of the 25 chosen, 11 were from Pennsylvania, 6 from New York, 3 from Massachusetts, and 1 each from Maryland, South Carolina, North Carolina, Connecticut, and Virginia.^b In the list were several recognized leaders of the Federalist party and several of them were members of Congress. It

^a Finance, Vol. I, p. 278.

^b General Advertiser, January 5, 1792.

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was but natural that the directors of the bank, chartered by a Federalist Congress, should be largely of that party, yet this fact gave the Republicans and opponents of the bank a basis for criticism and opposition which was never in the twenty years of its existence wholly silenced. In the next annual election of directors, January 5, 1793, only 10 Pennsylvanians were elected to the directorate, and 15 from other States. This would indicate that more than a majority of the stock was held out of the home State. The Philadelphia stockholders apparently were slow in nominating their quota of directors, so the outsiders named 10, of whom 2 were not included in the ticket of 12 which a few of the stockholders in the city had got together at short notice. In a letter to the General Advertiser a disgruntled stockholder urged that non-resident directors could not serve the interests of the bank so effectively, since "they do not visit the bank more than once or twice in the course of twelve months, and then only for a few days when their private business calls them to this city."^a

For the first few years the Bank of the United States occupied Carpenters' Hall on Chestnut street between Third and Fourth.^b In 1797 a superb building was erected for its accommodation on Third street between Chestnut and Walnut, after plans drawn by Samuel Blodget.^c Under date of December 3, 1791, the cashier, John Kean, gave notice in the newspapers that the bank would open on Monday, December 5, and that it would begin to

^a February 5, 1793.

^b Philadelphia Directory, 1793.

^c Blodget's *Economica*, p. 165. This site is now occupied by the Girard National Bank.

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receive deposits the following Monday, December 12. The intervening week was occupied in making transfers of stock and with matters of routine incident to the commencement of actual business.

BRANCHES.

Hamilton's original plan of the bank did not contemplate the establishment of branches, and the clause providing for them was inserted against his judgment.^a In his report to Congress on the national bank he admits that there might be some advantages in the branch plan. It would afford more general accommodation, and would lessen the danger of a run on the bank. But, on the other hand, the mismanagement of any branch, which, though under subordinate direction, must necessarily be intrusted with considerable discretion, might endanger the interests of the whole system. Because of the complexity and uncertainty of the branch scheme, therefore, he thought it well to go no further than to insert a provision by which branches might be established some time in the future if experience demonstrated their utility and safety. There was much difference of opinion on this subject. Wolcott, who was consulted, favored the branch plan, and, "a majority of the stockholders assenting, it was adopted on a plan suggested by him."^b

The directors decided to open branches at New York, Boston, Baltimore, and Charleston as soon as possible after the first Monday in January, 1792. The plan provided that the directors of the parent bank should appoint

^a Hamilton to William Seton, November 25, 1791, Works, Vol. V, p. 486.

^b Gibbs, Vol. I, p. 67.

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annually not less than nine directors for each branch, a majority to constitute a board. Not more than three-fourths of them, exclusive of the president, were to be eligible for the next year. The directors of the main bank appointed the cashiers of the several branches; the directors of the branches appointed their own president, tellers, and clerks, but the sureties of the latter were subject to the approval of the directors of the Bank of the United States. The salaries of all the branch officers and clerks were fixed by the directors of the parent bank, who also prescribed the method of keeping the accounts and records. It was provided that the part of the capital which consisted of United States stock (bonds) should not be divided, but the branches could discount upon such part of the specie capital as the directors should apportion to them, and "with such part of the deposits as shall be lodged with them" as the branch directors should deem safe and expedient. All the notes issued at the branches were to be signed and countersigned by the president and cashier of the parent bank, to be payable at the branch issuing them, and to be delivered to the cashier of the branch, who was required to give duplicate receipts for them, one to be lodged with the president of the parent bank, the other with the president of the branch. All notes unfit for circulation were to be canceled by the president and directors of the branch, and immediately transmitted to the directors of the main bank, where they were to be credited to the branch. Each branch was required to send to the mother bank a weekly statement of condition—debts and credits, notes issued, and cash on

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hand, distinguishing specie and the several kind of bank notes. The continuance of the branches was to be at the pleasure of the directors of the main bank, but none of the foregoing regulations was to be rescinded except at a meeting of a majority of the directors.^a

At a meeting of the directors January 12, 1792, 13 directors were elected for each of the branches at New York, Boston, and Charleston, and a month later a like number were chosen for the Baltimore branch.^b Within a short time other branches were opened at Norfolk (1799), Savannah, and Washington, and in 1804 a branch was established at New Orleans, making in all eight branches. Contrary to the original arrangement, under which that part of the capital which consisted of United States bonds was not to be divided, each branch was apportioned a share of the whole capital. The capital reserved for the parent bank at Philadelphia was \$4,700,000, the balance being distributed among the several branches as follows: New York, \$1,800,000; Boston, \$700,000; Baltimore, \$600,000; Norfolk, \$600,000; Charleston, \$600,000; Savannah, \$500,000; New Orleans, \$300,000; and Washington, \$200,000.^c This distribution gave the eight branches a total capital of \$5,300,000, a trifle more than the amount allotted to the main bank. In 1792, when these branches went into operation, Boston had one bank, the Bank of Massachusetts, established in 1784; Baltimore had one, the Maryland Bank, chartered in 1790; Philadelphia had the Bank of North America, founded in 1781; and New York had the

^a Daily Advertiser, November 18, 1791.

^b Pennsylvania Journal, January 25, February 15, 1792.

^c Finance, Vol. II, p. 479.

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Bank of New York, which began business in 1784, but which did not secure a charter until 1791. The other banks in the country at that time were the Bank of Providence, established in 1791, the Bank of Albany, the unchartered Bank of South Carolina, the Union Bank of Boston, and the Hartford Bank, all founded in 1792.^a

It has already been noted that Hamilton did not favor the establishment of branches. Writing to his friend, William Seton, cashier of the Bank of New York, November 25, 1791, Hamilton says: "Strange as it may appear to you, it is not more strange than true that the whole affair of branches was begun, continued, and ended, not only without my participation, but against my judgment."^b He naturally had a deep interest in the Bank of New York, and Professor Sumner suggests that one reason for his opposition to the establishment of branches was that he foresaw a collision of interests.^c Apparently he had hoped to make the Bank of New York the exclusive fiscal agent of the Government in that city.

In a letter to Seton, January 24, 1792, he stated his wish that the Bank of New York should continue to receive deposits from the collector and payment for the Dutch bills in the paper of the Bank of the United States. He had explicitly directed the treasurer not to draw upon the New York institution without special direction from himself. It was his intention to leave it in undisturbed possession of whatever government funds it might have until the commercial crisis impending

^aGouge, *Journal of Banking*, p. 240.

^bWorks, Vol. V, p. 486.

^cHistory of Banking in all Nations, Vol. I, p. 33.

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at that time should subside. Hamilton even commended the action of the Bank of New York in refusing to receive the paper of the Bank of the United States during the crisis, and assured Seton that, if pressed, his bank should receive whatever support the Secretary could render. He wrote: "I consider the public interest as materially involved in aiding a valuable institution like yours to withstand the attacks of a confederated host of frantic and, I fear in too many instances, unprincipled gamblers."^a

Hamilton recognized, however, that the establishment of a branch of the Bank of the United States in New York would ultimately make it incumbent upon him to deposit the public funds in the branch rather than with the Bank of New York. He assured Seton, however, that he would precipitate nothing, but would effect the transfer so as not to embarrass or disturb his bank. Realizing that the branch must preponderate, he advised Seton to cast his lot with it.^b Experience demonstrated the safety and wisdom of the branch system, and in time Hamilton's doubts were dispelled. In 1794 we find him urging the bank to open a branch at Alexandria, Va.^c

RELATION TO STATE BANKS.

From the outset the United States Bank entered into friendly cooperation with the State banks. Early in the year 1792 the directors appointed a committee to confer with a similar committee of the Bank of North America once a week, "for the purpose of communicating freely upon the business of both, as well to prevent improper

^a Works, Vol. V, p. 492.

^b Ibid., p. 486.

^c Ibid., p. 76.

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interference with each other as to promote the accommodation of the citizens.”^a The two banks made settlements and exchanged notes daily, and when the Bank of Pennsylvania was established in 1793 it was included in this arrangement. Some years later the three banks went still further and adopted uniform rules regarding discounts and other matters of routine. At a joint committee meeting held March 2, 1797, the rule was adopted that “after March 31 all bills made payable at sight or on demand must be paid on the same day they are presented.” It was also agreed not to discount any note in which the words “without defalcation” or “without set-off” were omitted.^b Again, during the hard times that followed the devastations of the yellow fever we find committees from the three banks conferring on “the prevailing distress of the mercantile interests of this city.”^c

Similar cooperation existed at first between the New York branch and the Bank of New York. When financial stringency threatened, however, each bank looked to its own interests. In 1796 Europe experienced a severe financial crisis, which caused the Bank of England to suspend specie payments, and its effects were felt in this country. The Bank of New York, partly because of heavy loans to the Government, and partly because of an overextension of credit, became a heavy debtor to the Bank of the United States. The New York branch demanded the payment of \$100,000 in specie on account,

^a Directors' Minute Book, Bank of North America, March 22, 1792.

^b *Ibid.*, March 2, 1797.

^c *Ibid.*, May 16, 1799.

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which, it was apprehended, would be followed by further demands. It was feared that the Bank of New York would be compelled to sell the public stock which it held as collaterals, if the Government should not be punctual. Hamilton wrote to Wolcott, December 6, 1796, asking him to come to the aid of the Bank of New York. "It would be wise," he writes, "if possible, to anticipate a particular payment. It will be also useful to arrest for a time too free calls from the office."^a Wolcott replied, December 8, that the Bank of New York might rest assured of as full and cordial assistance from him as was in his power. He thought, however, that they would have to rely upon sales of stock, principally, as it was impracticable in the existing state of the Treasury to anticipate payments. In this same letter, Wolcott says: "These institutions have all been mismanaged; I look upon them with terror. They are at present the curse, and I fear they will prove the ruin, of the Government. Immense operations depend upon a trifling capital fluctuating between the coffers of the different banks."^b

The bank undoubtedly had an influence in restricting the circulation of state banks. This was admitted by these institutions, and by many of them regarded as a benefit.

LOANS TO THE GOVERNMENT.

The first loan which the bank made to the Government in connection with the subscription of capital has already been referred to. Under the terms of the charter the bank loaned the United States \$2,000,000 at 6 per cent,

^a Works, Vol. VI, p. 184.

^b *Ibid.*, p. 176.

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reimbursable in 10 equal annual installments or in any greater proportions that the Government might think fit. The interest on \$1,000,000 of the loan commenced December 20, 1791, at which time the dividends on the stock began to accrue. On the other \$1,000,000 interest commenced July 1, 1792. Toward the close of the year 1792 Congress asked Hamilton to submit a plan to reimburse the loan to the bank. He proposed to borrow the money. He thought a loan could be floated in Holland, which, based upon the rates of earlier foreign loans, would effect a net saving to the Government of \$35,000 a year—the difference between the interest on the proposed foreign loan and that on the bank loan. But the dividends on the bank stock were 8 per cent, while the interest on the loan was only 6, and with this profit Congress seemed satisfied.^a The Government, however, was not content with this. It was without funds at the outset, and though Hamilton early worked out a scheme to supply it with revenue, the money flowed into the Treasury but slowly, while obligations had to be paid when due. Recourse was had to temporary loans, which were secured from the bank. Unexpected exigencies required the expenditure of considerable sums before there was time to raise them by the normal method of additional taxes. These loans, therefore, were larger and continued for a longer time than was at first expected, causing embarrassment to the Treasury and uneasiness to the bank before they were finally settled.

In May, 1792, the Government needed money to meet the expenses of one of its Indian wars, and Hamilton

^a Finance, Vol. I, p. 178.

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contracted with the bank for a loan of \$400,000 at 5 per cent.^a In 1794 Congress authorized a loan of \$1,000,000, and Wolcott, who had succeeded Hamilton as Secretary of the Treasury, entered into negotiations with the Bank of the United States, which, fettered by its previous loans, could not advance the money. The bank, however, offered to lend \$800,000 in Government at 6 per cents, if certain duties were pledged for payment. Another loan of \$1,000,000 was made by the bank at the same time.^b

The difficulties of the Government increased with both England and France, and more money was needed to prepare for hostilities. In December, 1794, another loan of \$2,000,000 at 5 per cent was authorized.^c In the following February a loan of \$800,000 was authorized to reimburse the bank for that amount borrowed the previous year. On March 3, 1795, Congress authorized still another loan of \$1,000,000. The bank advanced one-half of this March 24, and the balance September 30, at 6 per cent. Again on December 31, 1795, the bank advanced \$500,000 at 6 per cent for payment of interest on the public debt. Three years then elapsed without further loans from the bank. On January 1, 1799, Wolcott secured another loan of \$200,000 at 6 per cent, payable January 1, 1803.

Thus it appears that the Bank of the United States accommodated the Government whenever called upon and continued the loans to suit its convenience. At the end of its first year the bank had loaned the Government

^a Act May 2, 1792, 2d Cong., 1st sess., ch. 27, sec. 16.

^b Act March 20, 1794, 3d Cong., 1st sess., ch. 8.

^c Finance, Vol. I, p. 630.

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over \$2,500,000; by January 31, 1795, when Hamilton resigned, the total loan amounted to \$4,700,000. This indebtedness increased under his successor, Wolcott, until it finally amounted to \$6,200,000 at the close of the year 1795.^a Within four years the Government had borrowed nearly two-thirds of the entire capital of the bank. The bank naturally became restive and impatient; the loan of so large a proportion of its funds crippled its services to commerce and manufactures and made it difficult to "facilitate the financial operations of the Government by temporary loans." Wolcott proposed to commute the whole debt due to the bank into a funded stock at 6 per cent, and irredeemable for such a period as would invite purchases at par. He argued that inasmuch as this debt was contracted in exchange for an equal sum of the capital stock or consisted of sums advanced for the public service in anticipation of revenue, it might fairly be considered as first in merit and importance. Moreover, the proposed commutation would enable the bank to grant further loans as public exigencies should require without exposing the Government to certain expenses always attending loans from individuals. Then, again, sales of stock could be made to the best advantage through the agency of the bank, and any premium would inure to the advantage of the Government.^b

In March, 1796, the Ways and Means Committee, acting upon Wolcott's proposal, recommended a loan of \$5,000,000 to discharge the debt to the bank. But in May, William Smith, the chairman of the committee, was

^a Gibbs, Vol. I, pp. 187, 288.

^b Statement of Public Debt, December 31, 1795, Finance, Vol. I, p. 372.

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delegated to inquire whether the bank might be willing to continue the loans of the Government by new loans on terms similar to the old ones.^a The bank, however, was not disposed to permit even so powerful a customer as the United States to continue to monopolize its funds. There had been a great increase in the price of all kinds of property, which required a corresponding increase of circulating medium to represent it. The bank needed more available funds to serve more generally the interests of commercial and manufacturing customers, and also to be in a position to aid the Government by temporary loans. The active employment of a larger specie capital would also be to the immediate advantage of stockholders and customers. While serving as president of the Bank of North America, Willing had seen that institution crippled by large loans to a few powerful customers, who met their maturing obligations by renewal upon renewal, and he seems now determined that the Bank of the United States shall not be subjected to the same experience, through monopolization by the Government. He, therefore, requested that the United States should extinguish the loans already due, as well as provide for those maturing during the year 1796.

When the bank took this firm stand a bill was introduced into the House authorizing the commissioners of the sinking fund to issue \$5,000,000 of 6 per cent stock, the proceeds of which were to be paid to the bank. The stock was to be redeemable in 1819, and was not to be sold below par. But the Government's credit had been so weakened by its failure to meet expenditures through

^a Finance, Vol. I, p. 409.

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additional taxation that the stock was selling at a discount when this bill passed the House.^a The directors of the bank saw clearly that the bill would not furnish the desired relief. Willing, therefore, wrote to the Secretary of the Treasury protesting against the kind of relief proposed in the bill then before the Senate. The bank's advances amounted to \$6,000,000, of which \$4,400,000 was due or payable during the year 1796. The existing state of moneyed operations, and the prosperity and reputation of the bank, absolutely required the active use of a larger portion of its specie capital. If the Government should provide no other means of liquidating their claims than by the sale of stock at par, a violation of public faith would surely follow. Government stocks fluctuate in price like other property, and if these could be sold only at par the bank might have to wait indefinitely for reimbursement. Moreover, even if they were disposed to make a sacrifice and receive the stock at par, they were debarred by a clause in the charter from making such a commutation.^b

Wolcott, recognizing that the bill would fail of its purpose, addressed a letter to the Senate May 12, 1796, suggesting that the commissioners be empowered to obtain loans unfettered by any conditions which might result in a failure of public credit.^c The act was, in consequence, modified so as to allow not more than one-half the stock to be sold below par; and as a final resource the commissioners were authorized to sell the bank shares.

^a Goodrich to Oliver Wolcott, sr., May 6, 1796, Gibbs, Vol. I, p. 336.

^b Communication to Senate, May 11, 1796, Finance, Vol. I, p. 412.

^c Gibbs, Vol. I, p. 348.

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THE GOVERNMENT SALE OF BANK STOCK.

Even in its amended form the act was unsatisfactory, and the new securities thus authorized went a-begging. After a lapse of several months only \$80,000 had been sold, and the commissioners were compelled to sell some of the government holdings of bank stock to reimburse the bank. Hamilton deplored the sale of the bank stock and declared that he wished to forget there was a bank or a treasury in the United States. Writing to Wolcott, he said: "I shall consider it as one of the most infatuated steps that ever was adopted."^a Wolcott, too, opposed the sale, and it was only resorted to by the commissioners upon the most urgent compulsion. On January 24, 1797, Wolcott reported the sale of 2,160 shares of bank stock on a credit of sixty days without interest at \$500 (a premium of 25 per cent).^b The proceeds, \$1,080,000, together with \$120,000 realized on the sale of the new government stock up to that time, were paid over to the bank.^c By July, 1797, 620 more shares were sold through the bank as agent, 387 shares at a premium of 20 per cent, the rest at 25 per cent advance, netting a total of \$304,260. They were sold mostly in small lots of 6, 10, 20, and 50 shares.^d By November 30, 1797, Wolcott had made additional payments to the bank to the amount of \$560,000, making for the year a reduction of about one-fourth of the indebtedness. Thereafter the Government made greater effort to reduce the debt,

^a Works, Vol. VI, p. 143.

^b The bulk of these shares were sold in Philadelphia, a few in New York and Boston.—Finance, Vol. I, pp. 468-469.

^c Finance, Vol. I, p. 467.

^d For details of these sales, see Finance, Vol. I, pp. 467-500; *ibid.*, Vol. II, p. 351.

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but it was not entirely discharged for several years.^a These sales of bank stock, rendered necessary by the stupid failure of Congress to provide adequate revenues by resort to taxation, or its desire to embarrass the administration,^b reduced the holdings of the Government to 2,220 shares. These were sold in 1802 to the Barings at a premium of 45 per cent.^c Thenceforth the Government ceased to be a stockholder. Exclusive of dividends, the Government made a profit of \$671,860. The dividends amounted to \$1,101,720 in addition.^d

CIRCULATING NOTES.

The act of Congress laying duties on imports, which went into effect August 1, 1789, provided for the acceptance of gold and silver only in payment of duties. Hamilton, however, construed the object of this provision to be the exclusion of payments of the notes of the States, and "the securing the immediate or ultimate collection of the duties in specie, as intended to prohibit to individuals the right of paying in anything except gold or silver coin; but not to hinder the Treasury from making such arrangements as its exigencies, the speedy command of the public resources, and the convenience of the community might dictate, those arrangements being compatible with the eventual receipt of the duties in specie. The measure is understood by all concerned to be temporary. Indeed, whenever a national bank shall be instituted, some new disposition of the thing will be a matter of course."^e

^a Bolles, *Financial History*, Vol. I, p. 139. ^c See below, p. 85.

^b Gibbs, Vol. I, p. 348.

^d Seybert, *Statistics*, p. 519.

^e *Finance*, Vol. I, p. 49.

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The charter of the Bank of the United States, therefore, provided specifically that its notes should be receivable in all payments to the United States. Both the parent bank and the several branches issued notes, the lowest denomination being \$5. The total amount in circulation never exceeded \$6,000,000. The notes issued by the branches were signed by the president and cashier of the main bank. The cashier of each branch gave duplicate receipts for them, one copy to remain in the hands of the branch president, the other to be kept by the president of the parent bank. At first the bank established the rule of making the notes payable only at the places where they were issued. Subsequently, it undertook to receive them in Philadelphia or at any branch, but a short experience with this practice led to its discontinuance.^a The fact that the bank refused to accept the notes of its own branches gave occasion for much criticism, but the rule, under the conditions existing at that time, was, probably, a wise one. It compelled each branch to stand upon its own bottom, and checked any possible disposition to overissue. On the other hand, this rule protected the bank from the effects of a sudden demand for payment, at any of its offices, of a large accumulation of its bills. The principle was recognized in the charter of the second Bank of the United States.^b

For protection against loss in transmission "half notes," or duplicates, were issued and widely employed. Payment of these notes could be secured only upon presenta-

^a Minute book, Bank of North America, April 27, 1795.

^b Finance, Vol. IV, p. 809.

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tion of both halves or upon furnishing a guaranty of the destruction of the missing half.

The bank also issued post notes in various denominations, not infrequently of \$100, and having various terms to run. Generally, they were payable thirty days after the post date. They were signed by the president and cashier of the bank, and instead of being made payable to the bearer, as with the ordinary circulating notes, were made payable to the order of some merchant or trader who would pass them by indorsement in the course of business. They differed in no essential particular from the ordinary personal promissory notes, except that the bank stood behind the promise. The papers of this period contained frequent notices of the loss in transit of these post notes and of application to the bank for renewal or payment.

By making all duties payable in notes of the Bank of the United States, these notes gained a far more extensive circulation than those of any other bank. Moreover, the bank and its branches exercised a salutary restraint upon overissue by other banks by following the practice of presenting promptly the notes of other banks received over their counters.

Owing to the lack of published reports, it is impossible to present statistics showing the volume of notes issued at different dates. In 1811, just before liquidation, the total note issues amounted to \$6,152,553, of which about \$5,000,000 was outstanding. The mother bank had issued \$1,600,000, of which \$1,500,000 was in circulation; New York had about \$1,000,000 in circulation against \$1,200,000 issued; Boston issued only \$435,680, of which \$259,248 was on hand; Charleston and Savannah each had

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put out over \$800,000, the bulk of which was in circulation; the total issue of the New Orleans branch, \$192,140, was in circulation.

COUNTERFEITING OF NOTES.

As early as 1794, counterfeiting of bank notes became alarmingly prevalent. Counterfeits of the \$5 bills of the Bank of the United States were especially common.^a In March of that year, a joint committee from the Bank of North America and the Bank of the United States met to take action. The two institutions joined in offering a reward of \$1,000 for the apprehension of the counterfeiters. Winchester, Va., was headquarters for a nest of them, and in April, 1794, George Simpson, assistant cashier of the United States Bank, and the teller of the Bank of North America were sent there to gather and present evidence against them. They were instructed to post hand bills in every tavern and public place along the route advertising rewards for the detection of the counterfeiters.^b In 1798, Congress passed an act making it a felony to counterfeit the notes of the Bank on penalty of imprisonment for from three to ten years, or ten years' imprisonment and a fine of \$5,000.^c In 1807, this act was amended so as to include the passing of counterfeit notes.^d The courts had decided that the former law was inconsistent with itself and would not support an indictment for knowingly uttering as true a forged paper.^e

^a Minutes, Bank of North America, March 31, 1794.

^b *Ibid.*, April 30, 1794.

^c Act June 27, 1798.

^d Act February 24, 1807.

^e 4 Cranch, 167.

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COOPERATION WITH THE MINT.

Under the terms of the coinage act of February 9, 1793, all foreign silver coins, except Spanish milled dollars and parts of such dollars, ceased to be a legal tender after October 15, 1797. These coins, however, constituted a considerable part of the silver in circulation, and much embarrassment and loss resulted. The Bank of the United States showed a willingness to receive French crowns and other silver coins at current rates as a legal tender. The Treasury Department, therefore, sent out a circular authorizing collectors of the customs and supervisors of the revenue to accept such coins in payment to the Government. Not until 1857 did these foreign gold and silver coins cease entirely to be a legal tender.^a

As late as 1798, the bulk of the bank's specie supply consisted of French and Spanish coins, for which there was a large foreign demand at that time. The mint received these foreign coins from the bank in sums not exceeding \$10,000.^b The specie in the vaults of the bank, collected on government account, was not regarded as the exclusive property of the United States; it was considered rather, as an aggregate fund in which the Government and the bank were jointly interested. The bank, however, was always willing to cooperate with the mint by advancing foreign coins and bullion to be recoinced. It was the chief source of supply of bullion for coinage, and the temporary depository of bullion until required in the mint operations.^c

^a Hepburn, *Contest for Sound Money*, pp. 48, 497; 11 stat. L. 163.

^b *Finance*, Vol. II, pp. 503, 506.

^c *Finance*, Vol. II, pp. 165, 224, 458, 611.

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On January 11, 1803, the Director of the Mint reported that the most of the bank's specie was in gold coin, and that for some time past they had been canceling their \$5 notes, substituting half-eagles "by which our coins begin to be more generally dispersed among the people."^a

THE TREASURY AND THE BANK—FOREIGN EXCHANGE OPERATIONS.

The relations of the bank to the Treasury were, as designed by its establishment, of a most intimate character. In addition to making loans, it aided the Government in its foreign exchange operations; it was the depository of a large part of the government funds; it assisted the importers in the payment of customs duties; it transferred the public funds from place to place at its own expense.

The article of the charter which set forth the objects in which the bank might trade, specifically permitted dealing in bills of exchange. In view of its superior resources, the wide distribution of its funds through the medium of its eight branches, its practical control of the specie supply of the country, and its intimate relation to the Government, it is but natural that the Bank of the United States should have secured the lion's share of the exchange business, both foreign and domestic. The purchase of the Government's foreign remittances generally fell to the bank or one of its more important branches. At certain periods the volume of this business on government account was very large. That it was profitable may be inferred from the fact that the second

^a Finance, Vol. II, p. 18.

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Bank of the United States was eager to secure a monopoly of it.^a

Hamilton utilized the services of the Bank of the United States, as well as some of the state banks, in negotiating the foreign bills drawn upon the American commissioners in Amsterdam and elsewhere. He was accused of displaying favoritism toward the bank. In a communication to one of the papers, in 1793, "Observer" takes Hamilton sharply to task for his rather curt report to the House of Representatives in obedience to a resolution calling for a report of certain operations and accounts of the Treasury, especially in relation to the bank in the matter of the foreign loans.^b "Observer" suggests that the proceeds of these loans, instead of being placed in the Treasury, where they would be subject to official checks, were deposited in the bank "in concert with the directors, many of them members of the legislature, well-trained partisans of the fiscal faction, and deeply immersed in paper speculations."^c

In a letter to the House of Representatives, February 19, 1793, Hamilton replied rather brusquely, but in considerable detail, to the criticism that the proceeds of the foreign bills served no object of public utility, and that they were calculated merely to indulge a spirit of favoritism toward the Bank of the United States. He presented a detailed statement of all receipts on account of these bills which began in March, 1791, and ended in March, 1792, showing that the government deposits in the Bank of the

^a McCulloch to Secretary Crawford, March 17, 1817, *Finance*, Vol. IV, p. 774.

^b *Journal, House of Representatives*, March 1, 1793, pp. 151-156.

^c *General Advertiser*, February 27, 1793.

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United States were about one-fourth of those in the Bank of North America and one-half of those in the Bank of New York, these two institutions being agents of the Treasury for the sale of the foreign bills. The Bank of New York continued as a depository of public revenues until April 1, 1792, when the New York branch of the Bank of the United States went into operation. Indeed, a portion of the government deposits, as shown in the following table, was continued in the state banks through the year 1792. After the bank got well under way a concentration of the public deposits in that institution, growing out of its relation to the Government, followed as a matter of course. But this concentration was accomplished gradually by drafts upon the other depositories to meet government disbursements, rather than by direct transfer.

Statement of cash in the Treasury, showing monthly balance during 1792.^a

[Cents have been omitted throughout table.]

Date.	Bank of the United States.	Boston branch.	New York.	Baltimore.	Charleston.	Bank of Massachusetts.	Bank of New York.	Bank of North America.	Bank of Providence.	Bank of Maryland.	Total.	Sums in bills as returned by Bank of the United States.	Specie.
1792.													
Jan. 1	\$133,000					\$65,578	\$224,677	\$471,972	\$7,969	\$50,665	\$953,862		
Feb. 1	456,278					71,215	128,708	151,516	7,969	49,583	865,271		
Mar. 1	692,959					31,769	32,352	31,515	8,404	34,752	831,754		
Apr. 1	359,643					37,712	254,930	31,515	7,156	60,418	751,377		
May 1	301,455					50,785	305,854	31,515	1,156	86,618	777,385		
June 1	309,186		\$24,273			3,735	294,527	31,515	5,856	85,095	754,191	\$157,508	\$596,683
July 2	212,403	\$111,343	63,919		\$43,805	11,415	62,628	61,601	18,434	37,581	623,133	220,900	402,233
Aug. 1	208,988	99,538	83,099	^b \$2,530	49,113	13,012	54,078	61,601	21,588	2,723	593,762	73,650	520,112
Sept. 1	401,084	110,139	93,980	3,454	33,661	13,626	54,259	61,601	18,649	9,800	790,457	118,700	671,757
Oct. 1	117,198	77,666	14,130	22,344	36,970	13,626	60,219	61,601	17,157	(^b)	420,914	31,100	389,814
Nov. 1	172,405	116,686	64,908	43,644	51,616	13,626	69,019	61,601	28,452		621,962	88,700	533,262
Dec. 1	247,139	14,3267	223,321	81,074	69,354	^c 13,626	69,019	61,601	45,957		940,735	58,300	882,435
1793.													
Jan. 1	109,169	154,860	224,734	73,653	62,015		69,019	61,601	28,157		783,212	209,200	628,012

^a Finance, Vol. I, p. 214.

^b On August 15.

^c On November 15.

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From the foregoing treasury statements, Hamilton demonstrated that so far as any advantages accrued from the deposits on account of foreign bills drawn prior to April, 1792, they inured to the benefit of the Bank of New York and the Bank of North America, and not to the Bank of the United States or its branches. Indeed, in transferring its fiscal operations from the state banks to the Bank of the United States regard had been paid to the convenience of the former, and so little solicitude had been shown for the accommodation of the latter that the Treasury had been criticised as consulting the accommodation of the Bank of the United States less than was due to its relation to the Government and to the services expected from it.^a

GOVERNMENT DEPOSITS.

The charter of the bank contained no stipulation that the Government should deposit the public funds in the bank and its branches, nor was there any engagement on the part of the bank to transfer the public funds from one part of the country to another. "It therefore became the subject of arrangement between the Treasury and the bank, and the benefit of the exclusive deposits, it is believed, was made the condition of the service."^b The successive Secretaries of the Treasury seem to have been content to leave the public deposits with the bank in exchange for the services rendered by the latter in transmitting government funds and in accommodating the Treasury with loans when called upon. Though Gallatin had occasion to turn to the bank for assistance only once,

^a Finance, Vol. I, p. 223.

^b Finance, Vol. IV, p. 808.

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be stated that it always showed a willingness to aid the Government in every way; and he was careful not to displease it because he recognized that in an emergency the Treasury would have to depend upon it for loans. This arrangement was satisfactory to both the Government and the Treasury, and continued under the administrations of Hamilton's successors. Gallatin said of it: "They place instantly our money where we want it, from one end of the Union to the other, which is done on the tacit condition of our leaving our deposits with them."^a He maintained that the state banks could not effect the transmission of the public funds with the same facility or to the same extent as the Bank of the United States through its several branches.^b No step seems to have been taken, therefore, toward requiring the bank to pay interest on the public deposits. In recommending the renewal of the charter, however, Gallatin proposed that the bank should be required to pay 3 per cent on deposits above \$3,000,000, which would provide the Government with a means of accumulating an emergency or war fund.^c

The reports of the bank that have been preserved are so few and fragmentary that it is impossible to present a progressive statement of the government deposits. During the first few years of the bank's existence the Government was not a large and probably not a very profitable depositor.

At the beginning of the year 1793 the treasury funds amounted to \$783,212, of which \$624,431 was on deposit in the bank and the four branches that had been established by that time.^d The largest balance to the credit

^a See p. 64.

^b See pp. 71, 78.

^c See p. 73.

^d See table, p. 53.

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of the Government at any one time was at the close of the year 1806, when its balance reached nearly \$5,500,000. By the close of the year 1810, however, it had fallen to less than \$2,000,000.

In obedience to a resolution of the House, Gallatin submitted a statement December 23, 1806, of the amount of public deposits in the several banks for the three years previous. The Government's average deposits in all banks during that period ran from \$4,000,000 to \$5,500,000. The average balance, considered as a permanent deposit, in the Bank of the United States and its branches ranged from \$3,500,000 to \$4,200,000. The following table shows the government balance in each of these depositories at the end of the year: ^a

	1803.	1804.	1805.	1806.
Bank of the United States.	\$996.047	\$1,130.905	\$554.488	\$877.505
Boston branch.	588.078	666.909	818.569	1,173.714
New York branch.	1,244.276	702.768	1,097.099	1,340.620
Baltimore branch.	616.177	227.208	431.430	294.560
Washington branch.	229.648	178.034	72.398	305.740
Norfolk branch.	471.978	188.339	332.406	180.595
Charleston branch.	430.224	305.644	159.180	244.975
Savannah branch.	138.591	150.445	119.720	62.328
New Orleans branch.	121.000	236.748
Ten other banks.	(a)	(a)	(a)	(a)
	4,285,811	4,036,985	3,999,368	5,497,984

^a Small amounts.

The deposits in the state banks were inconsiderable, the Pittsburg branch of the Bank of Pennsylvania carrying the largest amount, a total of \$1,190,277 for the three years. That bank was used largely as an agent in collecting the revenues from the sale of western lands. The

^a Finance, Vol. II, p. 218.

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banks located in the leading customs ports were, of course, the largest depositories. The growth of the business of Boston, and especially of New York, and the decline of the southern ports during this period, are significant.

Among the charges brought against Hamilton was favoritism to the bank in making large deposits of government funds instead of reducing the government debt by buying in stock. Hamilton, however, showed that speculation had so increased prices that profitable purchases could not be made other than those he had negotiated. He also entered into a long and lucid explanation of the treasury practice of keeping \$500,000 on hand at the different depositories. This sum was not concentrated at the seat of the Government, but was scattered among the several branches from Boston to Charleston. Funds more remote than New York on one side and Baltimore on the other could not be counted upon as ready cash in less time, on the average, than sixty days, "making allowance for the usual delays in the sale of bills and the usual terms of credit."^a

Although the bank did not pay interest on the government deposits, it maintained that they were not profitable. In the main, they were not permanent deposits and fluctuated from time to time and from place to place. The heaviest and most frequent demands were made, of course, on the main bank, which always stood ready to support the branches, but each office had to be prepared at all times to meet Treasury drafts payable at some other office or bank. These fluctuations in the deposits, and

^a Finance, Vol. I, p. 223.

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the care and expense involved in their transfer, were such that the bank did not regard them as "a profitable item in the estimates of a discount day." In support of the claim that the Government had added little or nothing to its profits, the bank pointed to the fact that its dividends were usually less than those of other banks which had no government patronage.^a On the other hand, the bank's opponents contended that the state banks would cheerfully undertake the custody and transmission of public funds in exchange for the benefits arising from government deposits.^b In the debates of 1811 it was claimed that the large loans of the New York branch, \$4,175,000 on a capital of only \$1,800,000, were due to the immense deposits of revenue collected there.^c At different times state banks made overtures to the Treasury to receive a share of the public deposits.^d

The bank dealt largely in domestic exchange, also, the premium being enhanced considerably by the restriction of the circulation of its notes to the region of the branch issuing them.^e Government funds were transmitted by the bank from one part of the country to another without direct commission or compensation, but the monopoly of public deposits was probably a liberal return for this service.

The following practice for the simplification of the treasurer's bank account, begun with the Bank of North America, had been continued with the Bank of the United States: Bills drawn by the treasurer upon distant points,

^a Bank Petition for Renewal, April 20, 1808, Finance, Vol. I, p. 301.

^b See p. 92.

^d See p. 65.

^c Ibid.

^e Finance, Vol. IV, pp. 271, 272, 808, *passim*.

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and deposited with the bank for sale, were credited at once to his account as cash, though they might be sold at credits of from thirty to sixty days. It was understood, however, that the proceeds could not be drawn upon until they were collected. Hence the actual balance in the bank was always less than the apparent amount. Drafts on supervisors and collectors of customs were credited immediately on deposit; those upon foreign agents of the United States were not so credited, but after being collected by the bank were passed upon warrants to the treasurer. Bills deposited in the bank were sold according to general instructions from the Secretary of the Treasury. The instructions generally were to dispose of all bills drawn on the domestic revenue at par.^a

AID TO IMPORTERS.

The first revenue act provided that all duties should be paid in gold or silver coin only. Upon the establishment of the bank, however, Hamilton construed this regulation to allow post notes of the bank not having more than thirty days to run to be received in payment, and circular instructions were sent out to all the custom-houses authorizing collectors to accept these notes.^b

In the spring of 1792 importations into Philadelphia were unusually heavy, and merchants were pressed for money with which to pay their bonds. Hamilton wrote to the bank, March 19, 1792, reminding it that these notes were thus receivable, leaving it to the bank to

^a Report of Committee to Examine the State of the Treasury, May 22, 1794, Finance, Vol. I, p. 282.

^b Finance, Vol. IV, p. 267.

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decide "how far it might be convenient to make these operations payable in such notes, which might not be convenient if payable immediately in specie or cash notes." In December, 1792, "certain mercantile speculations" had caused an unusual pressure for money, and Hamilton advised the bank that he would have no objection if the notes in which the Government was interested should be renewed for thirty days in all cases where it could be done with perfect safety to the public.

Again, in February of 1793, an arrangement was made with the Bank of the United States for the accommodation of the merchants of Philadelphia whose bonds for duties were to become payable within the next few weeks by which the bank would discount their thirty-day notes for the amount of their bonds and receive these notes from the collector as cash, to be drawn for only by the collector. The branch offices at New York, Boston, and Baltimore were advised that if similar accommodations seemed necessary at those points the Treasury would not draw for the sums involved until the middle of the following May.^a One striking instance of cooperation between the bank and the Treasury in assisting the importer occurred in Wolcott's administration. John Wilcocks, a Philadelphia merchant, received a cargo of coffee in 1797. He already owed so much for duty bonds that he was unable to meet the obligation on the coffee. He appealed to the Treasury Department, and Wolcott suggested to the bank that they give him the necessary accommodation upon the presentation of indisputable paper and upon the condition that the

^a Finance, Vol. IV, p. 269.

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sum discounted be paid in a post note to be deposited with the collector of the customs.^a

Prior to 1800 the bank was not utilized in any special way for the collection of the public revenue. The collectors of government revenues kept the collections in their own hands, giving bond for the faithful discharge of their duties. This system was not altogether satisfactory, for there was fear that the collector might lend the public funds to the bondsmen. It seemed wise, therefore, both in the public and private interest, to deposit the revenue bonds in the larger ports in banks. After 1800 the revenue bonds in the half-dozen largest cities were deposited in the Bank of the United States and its branches, by which they were collected. Through this agency the revenues were collected with greater punctuality and economy. A merchant who failed to pay his revenue bond when due lost all credit at the custom-house; and if he failed to pay promptly any bond deposited in the bank for collection, he was denied further accommodation at that bank and the privilege of renewing his paper. Furthermore, whenever any merchant was known to be thus in default, all the other local banks refused him credit and called his loans. This was an obligation he was compelled to meet under penalty of losing his credit at the banks.

The bank exercised another direct influence upon the collection of the revenue. The parent bank at Philadelphia established a rule that any person whose bond to the Government was deposited there had the right,

^a Finance, Vol. IV, p. 270.

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upon securing an additional indorser, to claim a discount for half the amount of his bond. The proceeds of this discount were carried immediately to the credit of the Government. In this way one-half of the bond was collected at the sole risk of the bank without any possibility of loss to the Government.^a

Gallatin, in citing the advantages derived by the Government from the bank, said: "The punctuality of payments introduced by the banking system and the facilities afforded by the bank to importers indebted for revenue bonds were among the causes which enabled the Government to collect with such facility and with so few losses the great revenue derived from imports."^b

Opponents of the bank contended, however, that the revenues were nowhere better collected than in those districts where there was no branch of the Bank of the United States, and that in some instances the state banks offered better collection facilities, for they received the notes of banks which the Bank of the United States and its branches would not accept.^c

ATTITUDE OF DEMOCRATIC ADMINISTRATIONS TOWARD THE BANK.

The passing of the political control of the country's affairs from the hands of the Federalists to those of the Democrats at the beginning of the nineteenth century had no immediate effect upon the interests or fortunes of the bank. Though always regarded as a Federalist institution, and managed largely by men of Federalist leanings, its affairs were administered in the main with an eye

^aFinance, Vol. II, p. 452. ^bSee p. 70. ^cSee pp. 88, 90.

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single to business and profit, and it never became embroiled in political controversies as did its successor, the second Bank of the United States. Only once did the Treasury, under Democratic administrations, apply to the bank for aid, and then it was as cheerfully and generously given as under earlier Federalist administrations.

Jefferson, however, never gave up his antagonism to banks in general and to the Bank of the United States in particular. Writing to Adams in 1814, he says: "My zeal against those institutions was so warm and open at the establishment of the Bank of the United States that I was derided as a maniac by the tribe of bank mongers."^a In the Anas papers he shows his enmity toward the bank. "While the Government remained at Philadelphia, a selection of members of both Houses were constantly kept as directors, who, in every question interesting to that institution, or to the views of the Federal head (Hamilton), voted at the will of that head, and, together with the stockholding members, could always make the Federal vote that of the majority."^b

In 1802, the Bank of Pennsylvania ran in debt to the Bank of the United States at the rate of \$100,000 a week, owing, it was claimed, to the government deposits in the latter. The cashier of the Bank of Pennsylvania went to Washington to apply for relief. Gallatin, writing to Jefferson, says: "It is evident they have extended their discounts too far. They say they can not at once curtail without ruining their customers, chiefly retail shopkeepers. Those for whom the Bank [of the] United States discounts are generally importers." Gallatin suggests

^a Works of Thomas Jefferson, Vol. VI, p. 305. ^b *Ibid.*, Vol. IX, p. 95.

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three possible lines of relief: (1) To write to the United States Bank to spare them; (2) to deposit \$300,000 with them, or to direct the collector at Philadelphia to deposit part of his public money with them; (3) to contract with them for part of the Dutch debt, which, as the Government always paid considerably in advance, would have the effect of a deposit. He had proposed the last of these expedients to the Bank of Pennsylvania, but fearing that they might not be able to agree upon terms, he asks Jefferson whether either of the other two plans might be adopted. Gallatin wanted to avoid any step which would displease the Bank of the United States, "because they place instantly our money where we may want it from one end of the Union to the other, which is done on the tacit condition of our leaving our deposits with them, and because if we shall be hard run and want money, to them we must apply for a loan."^a

Jefferson's reply again shows his antipathy to banks, and throws light upon the banking practices of the period. He says the difficulties of the Bank of Pennsylvania were due to excessive discounts. The bank, in its plea for help, had submitted a statement showing \$3,000,000 of outstanding debts due to them. Jefferson calculates that they owed \$2,200,000, with \$965,000 of good assets. To pay the \$1,235,000 balance, "they depend on \$3,000,000 of debts due them, the amount of which shows that they are of long standing, a part desperate, a part not commandable." He concludes, therefore, that to deposit public funds with them would only enable them to continue these excessive discounts, the checking of which was

^a Adams, Writings of Gallatin, Vol. I, p. 80.

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the only means of avoiding bankruptcy. The least dangerous plan would be to recommend indulgence to the Bank of the United States, but that would virtually be asking it to lend money to the other bank in order that it might continue lending to others. "The monopoly of a single bank," he says, "is certainly an evil. The multiplication of them was intended to cure it, but it multiplied an influence of the same character with the first, and completed the supplanting the precious metals by a paper circulation. Between such parties the less we meddle the better."^a

Another illustration of Jefferson's position is seen in the fact that although there was a tacit understanding that the government deposits were to be kept in the Bank of the United States and its branches, he viewed with favor the overtures which state banks made from time to time to the Government to secure a share of them. In the autumn of 1802, the Bank of Baltimore applied for a deposit of government funds. Jefferson wrote to Gallatin: "The consideration is very weighty that it is held by citizens while the stock of the United States Bank is held in so great a proportion by foreigners."^b If Hamilton regarded the Bank of the United States as a political agent of great possible usefulness to the new government, Jefferson valued no less the political support of banks in general. In the above-mentioned letter, he says: "It is certainly for the public good to keep all the banks competitors for our favors by a judicious distribution of them, and thus to engage the individuals who belong to them in the support of the reformed order of

^a Jefferson's Works, Vol. IV, p. 439. ^b Writings of Gallatin, Vol. I, p. 101.

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things.” Again, writing to Gallatin, July 12, 1803, Jefferson says: “As to the patronage of the Republican bank at Providence, I am decidedly in favor of making all the banks Republican by sharing deposits among them in proportion to the dispositions they show; if the law now forbids it, we should not permit another session of Congress to pass without amending it.”^a

With the acquisition of the Louisiana territory from France in 1803 and the consequent expansion of American trade in the Mississippi Valley, the need of more adequate fiscal and banking facilities became imperative. Gallatin urged the Bank of the United States to establish a branch at New Orleans. The bank was disinclined to hazard its resources in the new and undeveloped territory. While negotiations were in progress, Claiborne, governor of the territory, took it upon himself without instructions to establish a bank called the “Louisiana Bank,” with a capital of \$600,000, which might be increased to \$2,000,000.^b Gallatin was apprehensive that the Bank of the United States would seize this opportunity to break off negotiations for the establishment of the proposed branch, and suggested to Jefferson that Claiborne should be instructed to revoke the charter, leaving the Louisiana Bank on the footing of a private association.^c The New Orleans branch project stirred Jefferson to a fresh outburst against the bank. Writing to Gallatin, December 13, 1803, he says: “This institution is one of the most deadly hostility existing against the principles and forms of our Constitu-

^a Writings of Gallatin, Vol. I, p. 129.

^b United States Gazette, April 9, 1804.

^c Gallatin to Jefferson, April 12, 1804, Writings of Gallatin, Vol. I, p. 184.

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tion." Its hostility was evident from a knowledge of the principles of the persons composing the body of directors in every bank, principal or branch; from their opposition to the measures and principles of the Government, and to the election of those friendly to it; and from the sentiments of the papers they support. He urges that in time of war, the bank with its many branches might be a great obstruction, withdrawing its aid or dictating the terms of peace. Now, while the Government was strong they ought to bring "this powerful enemy to a perfect subordination under its authorities. The first measure would be to reduce them to an equal footing only with other banks as to the favors of the Government." ^a

GALLATIN'S DEFENSE OF THE BANK IN 1803.

In reply, Gallatin cited the advantages the Government derived from banks, and especially from the Bank of the United States, as follows: A safe place for the deposit of public money; the instantaneous transmission of funds from one part of the country to another; the great facility which an increased circulation and discounts give to the collection of the revenue. For these reasons he was anxious to see a bank established at New Orleans. He could see none but political objections, which, he thought, lost their force when the dependence of banks upon the Government was properly considered. "They are formidable only as individuals and as merchants, and not as bankers. Whenever they shall appear to be really dangerous, they are completely in our power and may be crushed." ^b

^a Jefferson's Works, Vol. IV, p. 518.

^b Writings, Vol. I, p. 171.

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The branch at New Orleans was duly established under the act passed March 23, 1804, which authorized the bank to establish offices of discount and deposit in any part of the Territories or dependencies of the United States.^a Gallatin's persuasion overcame Jefferson's objections and he signed the bill, thus waiving, so the friends of the bank afterwards maintained, all opposition to the bank on the score of its unconstitutionality.^b

APPLICATION FOR RECHARTER.

In 1808, three years before the charter expired, the stockholders of the bank memorialized Congress for a renewal. The memorial recited that "in view of the extensive operations of the bank, its intimate connection with public credit and finances, and the wide dispersal of the stockholders, duty to the Government, to the commercial world, and to themselves, prompted them to submit the expediency of protracting the duration of their charter." Without assurance upon this point, prudence and justice would demand the adoption of measures to effect a gradual dissolution. Dissolution would unavoidably impair the fiscal machinery provided by the bank for the collection and payment of public funds, while the withdrawal of \$10,000,000 of banking capital would produce serious embarrassment to the trade and commerce of the country. The petition set forth the advantages

^a United States Statutes, Vol. II, p. 274.

^b And yet in the face of this obvious waiver, Jefferson had the temerity to write to Eppes, November 6, 1813: "During the life of the United States Bank, the nation had time to consider the constitutional question, and when the renewal was proposed they condemned it, not by their representatives in Congress only, but by express instructions from different organs of their will."—Jefferson's Works, Vol. VI, p. 232.

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reaped by the Government from the bank. During the thirteen years that the Government had been a stockholder it had made a neat profit through the difference between its loan from the bank at 6 per cent and the dividends on its stock which averaged about 8 per cent, and when, finally, it disposed of its stock it realized a profit of over \$650,000. The bank had aided the Government in maintaining the public faith and credit both at home and abroad by advancing loans amounting to millions of dollars at 5 and 6 per cent. By establishing branches, in some cases upon the suggestion of the Secretary of the Treasury for the peculiar accommodation of the public, and "not always for the general emolument of the bank," it had enabled the Government to carry on its fiscal operations with ease, security, and economy. These fiscal services had been performed without charge or compensation. The petitioners were not insensible to the advantages they, in turn, had derived from this fiscal relationship to the Government. But these advantages consisted, not so much in the government deposits which were subject to such fluctuations and to so much care and cost in transfer that they could hardly be regarded as profitable. That the Government had added little to the profits arising from the general business of the bank was shown by the fact that "the dividends of the bank had always been moderate, and usually less than those of other banks." The advantage to the bank came rather from the confidence of the Government, "founded upon a constant knowledge of the interior management and condition of the bank," which, in turn, had attracted the confidence of both Europe and

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America and had given it a character of dignity and stability. The memorial concluded by assuring the Government that, at a time of some national apprehension and alarm, it might confidently rely, in every emergency, upon the prompt and legitimate aid of the bank.^a

RECHARTER FAVORED BY GALLATIN.

The memorial was referred to Gallatin, who brought in a report, March 3, 1809, in every way favorable to the bank.^b Indeed in the struggle for renewal which ensues, Gallatin became the advocate and champion of the bank, laboring as faithfully, but with less success, to preserve and perpetuate its life as Hamilton had done twenty years before to bring it into existence. In doing so, he encountered even more opposition and obloquy from his own party than Hamilton had met at the hands of the opposition. The founder lived to see the beneficent effects of the bank enjoyed both by the Government and the business interests of the country; the defender and advocate witnessed its fall and a resulting stream of disaster and ruin.

In stating the advantages derived from the bank by the Government, Gallatin laid stress upon the safe-keeping and transmission of the public funds, the economical collection of the revenue, and the aid furnished to the Government in the matter of loans. The punctuality of payments introduced by the banking system, and the facilities afforded by the bank to importers indebted for revenue bonds, were among the causes which had enabled the

^a Communicated to Senate, April 20, 1808, Finance, Vol. I, p. 301.

^b Finance, Vol. II, p. 351.

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Government to collect with such facility and with so few losses the great revenue derived from imports. The numerous state banks might afford considerable assistance to the Government in its fiscal operations, but they could not effect the transmission of public funds with the same facility or to the same extent as the Bank of the United States through its several branches. Moreover, the superior capital of the latter afforded greater security against losses, and greater resources in making loans. Another argument advanced by Gallatin was that the Government, in respect to its own operations, should not be dependent upon institutions over which it had no control whatever. A national bank would feel stronger inducements, both from interest and from a sense of duty, to afford the Union every assistance in its power. Though the Government, during the first ten years of Gallatin's administration, had been able to finance its obligations without asking the bank for aid, it had been eminently useful in making the necessary advances in earlier years; and a similar disposition had been shown repeatedly when treasury matters had rendered it advisable to ascertain whether new loans might be obtained if needed.

The strongest objection raised against the renewal of the charter was the large holdings of the bank's stock abroad, requiring the payment of dividends to foreigners. Gallatin turned the tables on these objectors by noting that if the bank should be liquidated, \$7,200,000, the amount of foreign holdings, would have to be remitted at once, whereas, if the charter were renewed, only the dividends of about 8½ per cent would be sent abroad. The renewal of the charter would, in that respect, act as a foreign loan

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bearing $8\frac{1}{2}$ per cent. He suggested that this objection might be removed by a modification of the charter "providing for the repayment of that portion of the principal by a new subscription to the same amount in favor of citizens." Apparently Gallatin did not look far enough ahead to see that, unless foreigners were specifically forbidden to hold stock of the bank, a considerable portion of so good an investment would soon again be in the hands of foreigners. But he dismissed the matter of foreign holdings as trivial compared with the manifest public advantages to be derived from a renewal of the charter.

MODIFICATIONS RECOMMENDED BY GALLATIN.

By the time of Gallatin's report it had become quite popular for the States to exact bonuses from the banks chartered under their authority. Gallatin considered this possibility with respect to the recharter of the Bank of the United States. Assuming that the market rate of interest would continue at 6 per cent for the next twenty years, and that the dividends of the bank would continue to average $8\frac{1}{2}$ per cent, the profits arising from the banking privilege would be equal to an annuity of \$250,000 on the capital. That annuity payable semiannually would be worth almost \$2,890,000. Such a huge bonus no bank would, of course, be willing to pay for a charter. Gallatin thought that about \$1,250,000 would be the maximum which could be obtained as a bonus if it was deemed advisable to sell the renewal of the charter for a fixed sum of money. He believed, however, that there were other considerations much more important than the mere temporary aid that might come through the exac-

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tion of a bonus. His chief suggestions may be briefly summarized. The bank should pay interest on government deposits in excess of \$3,000,000. It should be obligated to lend the Government a sum not to exceed three-fifths of its capital at a rate not over 6 per cent, the amount of such loans to be advanced by the bank in monthly installments and to be repaid at the pleasure of the Government. The capital should be increased to \$30,000,000, as follows: \$5,000,000 to be subscribed by citizens of the United States in such a way as to make an equitable apportionment among the several States and Territories; \$15,000,000 to be subscribed by such States as might desire to enter, and a branch to be established in each subscribing State if applied for by the State; all subscriptions to be in specie or stock of the United States; state subscriptions to be payable in ten annual installments or sooner, their shares of bank stock to be nontransferable. Both the general and the state governments should have some share in the direction of the bank, the general government appointing a few directors for the parent bank, and the state governments appointing a few directors in their respective state branches.

Gallatin urged in support of this plan that by requiring interest on the public deposits the Government might in times of peace and prosperity accumulate a fund sufficient to meet periods of war and calamity. Further, the Government could always rely upon a loan of \$18,000,000. Payment of the greater part of the proposed increase of capital, in ten annual installments, would be gradual and keep pace with the steady progress of the country, and,

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finally, the bank itself would form an additional bond of common interest and union among the several States.

INDECISIVE ACTION BY CONGRESS.

The memorial of the bank for renewal was presented to the House March 26, 1808, and referred to the Committee of the Whole, but it got no further during the session. It was presented in the Senate April 20, 1808, and referred to the Secretary of the Treasury for consideration and report at the next session. On March 3, 1809, Gallatin's report was communicated to the Senate.

The memorial of the bank was presented to the House again January 29, 1810, and referred to a committee, which made a report, February 19, in favor of renewal. Agents of the bank had appeared before the committee authorized "to make compensation, either by loans at a rate of interest, or by a sum of money to be agreed upon, or by an increase of the capital stock, by a number of shares to be taken and subscribed for by the United States, to an amount adequate to the compensation to be agreed upon for such renewal." On April 2, 1810, Love, of Virginia, reported the plan of a national bank to be established at Washington with branches in such States and Territories as should apply for them. The States were to be allowed to subscribe an allotted number of shares. April 7, 1810, a bill was introduced to continue for twenty years the existing Bank of the United States, with the charter modifications suggested by Gallatin. The bank was to pay a bonus of \$1,250,000; it was to loan the Government, upon three months' notice, any sum not to exceed \$5,000,000 at not over 6 per cent; and

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it was to pay 3 per cent on all government deposits above \$3,000,000 remaining for a whole year. This bill was debated in Committee of the Whole April 13, 1810, but it never got any further.

Upon the failure of the House of Representatives to act upon the memorial the bank contracted its discounts and the other Philadelphia banks followed its example. The resulting pressure produced great business distress throughout the city.^a The curtailments were applied particularly to accommodation paper, of which all the banks appear to have carried a considerable amount. It was said of the Bank of the United States that it met its contractions on accommodation paper by discounting an equal amount of real or business paper. Discounts on these accommodation notes were in the nature of permanent loans, the practice of the banks being to renew them every sixty days. The directors of the Bank of the United States, finding that their action in calling loans had caused so much distress, made an arrangement with the state banks that all should continue their discounts "until the last hour."^b

Carey, while admitting that money was scarce, says it had often been much more scarce without exciting nearly so much comment. For a long period past, except during the embargo, when the banks had difficulty in keeping their funds employed, there had been a scarcity of money two or three times a year. Brokers were now discounting good notes at 9 and 12 per cent, while in other times the rates had been as high as 1½ and even 2 per cent a month.

^a See testimony of Philadelphia delegations—Clarke & Hall, pp. 323-327.

^b *Ibid.*, p. 438.

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People then submitted to the high rates without complaining. But now that the charter of the bank was an issue, political capital was being made of the money pressure.^a

SECOND PETITION FOR RECHARTER.

Congress having failed to act upon the first memorial, the stockholders submitted a second one, dated December 10, 1810, only three months before the expiration of the charter. The memorial recited that a consideration of the stockholders' own convenience and security would have led them to prepare for dissolution, but, in the belief that the general interest required and would obtain a continuance of their charter, they had delayed taking this step, which would inevitably entail so much public as well as private distress. In general, the memorial claimed that the bank, by its early establishment, its extensive and combined operations, and its large capital, had become acquainted with and had materially advanced the trading interests of the entire country. Not being restricted to any particular district, it had acted as the general guardian of commercial credit, and had prevented the balance of trade in the different States from producing a deficiency of money in any of them. It had protected and aided the state banks when unexpectedly pressed, and generally they had the use of not less than one-tenth of its capital. It had been liberal but discreet in its loans to merchants and manufacturers, and by providing a fund sufficient to meet all reasonable accommodations it had repressed usurious lending. The memorial

^a Letters to Doctor Seybert, p. 19.

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laid great stress, again, upon its services and benefits to the Government, and concluded with a statement of the disastrous consequences that would inevitably attend the dissolution of the bank. Great and general injury would ensue from the depreciation in the value of property, the stagnation of business, and the check to commercial enterprise. To discharge the debts due to the bank, the resources of borrowers would be drained, while failure to do so would give an irreparable blow to commercial credit and punctuality. Heavy loss would result to the public revenues, charitable institutions, widows, children, and others interested in the stock.^a

The petition of the stockholders was presented in both bodies of Congress, December 18, 1810, and for the next three months the question of renewal was uppermost both in Congress and in the country at large.^b

Crawford, chairman of the Senate committee to which the petition for renewal was referred, wrote to Gallatin, requesting his opinion whether the renewal of the bank's charter would not greatly facilitate the collection of the revenue and promote the public welfare. Gallatin replied, January 30, 1811, that in a report to the Senate two years before he had expressed his opinion in favor of a renewal of the charter, and that his opinion remained unchanged. The advantages of banks in the fiscal operations of the Government were unquestionable. The only question was whether these services could be most conveniently performed by a national bank or by a number of state banks. State banks might be used, and in case

^a Finance, Vol. II, p. 451.

^b For detailed proceedings and debates, see Clarke and Hall, pp. 135-471.

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of nonrenewal of the charter must be used, by the Treasury, but surely with less convenience and safety. "If the Bank of the United States could be removed without affecting either its numerous debtors, the other moneyed institutions, or the circulation of the country, the ordinary fiscal operations of Government would not be materially deranged, and might be carried on by means of another general bank or of state banks. But the transition will be attended with much individual, and probably with no inconsiderable public injury." Adverting to the question of constitutionality, Gallatin wished to say that "the bank charter having, for a number of years, been acted upon, or acquiesced in, as if constitutional, by all the constituted authorities of the nation, and thinking, myself, the use of the banks to be at present necessary for the exercise of the legitimate powers of the general Government, the continuation of a bank of the United States has not, in the view which I have been able to take of the subject, appeared to me to be unconstitutional."^a

Many years after this memorable struggle over the renewal of the bank's charter Gallatin wrote to Nicolas Biddle, president of the second Bank of the United States: "In 1810 the weight of the administration was in favor of renewal, Mr. Madison having made his opinion known that he considered the question as settled by precedent, and myself an open and strenuous advocate. We had the powerful support of Mr. Crawford in the Senate, and no formidable opponent in either House but Mr. Clay, a majority of political friends in both Houses, and almost all the Federalist votes on the ques-

^a *Finance*, Vol. II, p. 480.

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tion, with no other untoward incumbrance but the *personal* opposition to Mr. Madison or myself of the Clintons, the Maryland Smiths, Leib, and Giles. The banking system had not yet penetrated through the country, extending its ramifications through every hamlet, and the opposition, due to the jealousy or selfishness of rival institutions, was confined to a few cities; yet the question was lost."^a

ATTITUDE OF BANKS AND TRADE ORGANIZATIONS.

In general, the banks and trade organizations of the country favored renewal. They apprehended loss to themselves and prostration of credit and confidence in all lines of business if such a large concern should suddenly be forced to liquidate. The directors of the Bank of New York sent a memorial to Congress in January, 1811, asking that the Bank of the United States be granted a renewal. They regarded it as highly useful to the state banks. From the extent of its capital, its numerous branches all over the country, and its government protection, it was able "to equalize the balance of specie capital among the different cities, and in case of any sudden pressure upon the merchants to step forward to their aid in a degree which the state institutions were unable to do."^b A meeting of the joint committee of the four state banks in Philadelphia—North America, Pennsylvania, Philadelphia, and Farmers and Mechanics'—held December 15, 1810, adopted resolutions declaring that "general distress and inconvenience will attend the cessation of so great a monied institution," and expressing

^aGallatin's Writings, Vol. II, p. 435. ^bDomett, Bank of New York, p. 64.

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the opinion that "it can not be injurious but advantageous to the state institutions."^a The Philadelphia banks sent a memorial to the state legislature, also, saying that the dissolution of the bank would be materially injurious to the state banks. The Chamber of Commerce of Philadelphia, in a memorial to the Senate, December 24, 1810, urged recharter and set forth many facts favorable to the bank based upon local experience. Citizens of Pennsylvania, they asserted, held \$1,000,000 of the bank's stock, nearly one-third of the total held in the United States, and had bought the stock at a premium through faith in its management and perpetuity. Some \$7,000,000 was held abroad, but there could be no valid objection to this; it was not prohibited in the charter, and the Government itself had but recently sold its own holdings to foreigners. The establishment of the bank had opened large sources of accommodation and insured punctuality in trade. As a result its stock had advanced and attracted a large amount of foreign capital, thus enabling the country to trade upon outside capital at an interest below its market value. The interest and concerns of other banks were interwoven with the existence of the national bank. From the collection of customs bonds at the Bank of the United States, it always held a large amount of paper of other banks. Its continuance, therefore, was "almost indispensable to their safety;" its liquidation would produce "all the evils of prostrated credit and general delinquency in which the other banks must largely share." As to the administration of the bank, these representative business men,

^a Philadelphia National Bank, p. 52.

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many of whom had had dealings with the bank, testified that it had extended its accommodations impartially and to the greatest extent compatible with safety. The foreign trade had for some time been generally embarrassed because of the embargo, and "during the past year merchants had labored under the pressure of a heavy sequestration of property abroad." Specie continued to be exported, and the demand for money was unusually great. They must needs fall back upon the bank to tide them over. Mercantile interests, therefore, looked with alarm to the suspension of the circulation of \$15,000,000, the average amount of its loans, to the accumulation of specie in the bank to the amount of its capital (in order to pay off the stockholders), to the withdrawal of \$7,000,000 of capital from the country, and to the payment of duties in specie instead of the notes of the bank.^a

MEMORIALS AND POPULAR DISCUSSION.

The friends of the bank in Philadelphia were active in its support. A petition signed by 868 Philadelphia citizens, dated January 31, 1811, recited the alarm with which they witnessed the opposition to renewal, and prayed that, if renewal were denied, the bank should be given time gradually to close its affairs.^b A flood of petitions flowed in from all sides, both for and against renewal. A memorial of Pittsburg citizens, dated February 4, 1811, attacked the bank memorial and everyone who had favored renewal. It stated that the bank had shown "a *studied* delay in its collections to gain a renewal under

^a Finance, Vol. II, p. 453.

^b Ibid., p. 470.

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stress of weather; a *studied* pressure on individuals and state banks to gain auxiliaries; a *studied* memorial, containing the most daring insults on the dignity and independence of a free people." In rebuttal of the bank's claim that, to accommodate the Government, it had established branches at places disadvantageous to its business, and from which no profit was expected, the Pittsburg petition exhibited a statement of the capital and loans at the several branches. According to this statement, all the branches, except Boston and Norfolk, had loans outstanding to more than twice the amount of their allotted capital. Washington, one of the two branches established at the request of the Government, had loaned \$485,285 on a capital of \$200,000, and New Orleans, the other, had outstanding loans of \$611,516 on a capital of \$300,000. The total capital of the eight branches was \$5,300,000; total loans, \$10,965,256. The memorial exclaims: "A serious disappointment to men who expected no profit."^a In a like spirit of bombast and bad reasoning, it belittled every claim and benefit urged in the memorial of the bank.

J. J. Astor, one of the wealthiest men in New York, sent a verbal message to Gallatin assuring him that if renewal were refused, all his funds and those of his friends to the amount of \$2,000,000 would be at the command of the Government, either in importing specie, circulating government paper, or in any other way that would prevent distress arising from dissolution. Astor, it was said,

^a *Ibid.*, p. 479.

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“would go great lengths, partly from pride, and partly from wish to see the bank down.”^a

The most direct and pertinent testimony to show the disastrous consequences of nonrenewal was that submitted to the Senate committee by two delegations from Philadelphia, one representing the manufacturers and mechanics, the other the merchants of the city.^b They were a unit in testifying to the impartiality of the bank, the desire for its continuance, the absence of party influence from its management, and the stagnation of business and prostration of credit which they believed would accompany dissolution. Some of the delegation of mechanics, all of whom were Democrats, had been customers of the bank for many years, and they united in contradicting the idea that the bank was partial or was influenced in the slightest by the politics of its customers. One of them said, explicitly, that in Philadelphia opposition to renewal was confined principally to the newspapers. The *Aurora*, the organ and mouthpiece of the Democratic party in Philadelphia, but a bitter enemy of Gallatin, in an editorial, November 8, 1810, offered 20 reasons why the bank's charter should not be renewed. Great stress was laid upon the fact that two-thirds of the stock was held by foreigners and that the bank was subservient to British interests. Duane, the editor, charged the bank with employing its influence in local elections, especially at Charleston and New Orleans. The most novel reason suggested for winding it up, however, was “in order that the public should know how far it has fulfilled or how

^a Gallatin to Madison, January 5, 1811, Writings, Vol. I, p. 495.

^b Leg. and Doc. His., pp. 325-328.

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far it has executed its trust; of which there are various opinions, which never can be reconciled but by a clear winding up.”

Among the ablest advocates of renewal in the pamphlet literature of the day was Mathew Carey. His experience as a director of the Bank of Pennsylvania for several years gave authority to his utterances on financial topics. He complained that “the obligation of secrecy in banking transactions” precluded him from the use of many of the most important documents necessary to a complete defense of the bank. Duane, in the *Aurora*, and other opponents of the bank, charged it with deliberate and malicious attempts to depress the money market and, by curtailing discounts, to cause general business distress in order to force Congress into renewing its charter. Carey, however, in a series of letters to the *Daily Advertiser*, attributed the distress and the scarcity of money to the multiplication of branch banks in Pennsylvania (the Bank of Pennsylvania and the Bank of Philadelphia each had four branches), and to the necessity, recently imposed on the mother banks by act of the legislature, of receiving the notes of the branch banks in payment.^a The notes of the branches were paid largely in Philadelphia for purchases, and when deposited in any except the mother banks acted as balances against them, drawing their specie. Only notes of the Bank of the United States were accepted in payment of duty bonds, so, in the spring and fall, there was a steady flow of specie to the bank from the four state banks, which compelled them to curtail their business somewhat. Moreover, the low rate of exchange on London

^a November 2, 1810.

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was an important factor. Exchange was at about five below par; recent extensive importations promised a rise, so a merchant having funds in England and who wanted money preferred to borrow from the banks at 6 per cent rather than to sell bills at the low rate. On the other hand, those who had remittances to make to England strained their credit at the bank to raise money to buy bills at the low rate. Hence both buyers and sellers of exchange, in unusual numbers, pressed the banks for additional loans.

In his letters to Doctor Seybert, Carey argued that, since the Government had sold to Sir Francis Baring \$1,287,600 worth of bank shares at a premium of 45 per cent it would disgrace American credit not to recharter the bank. He admitted that there was ground for complaint in the fact that the bank had not accepted the notes of its branches in payment from its customers. It owed that accommodation to the public. He tried to turn the point of the criticism by stating that the Bank of Pennsylvania and the Bank of Philadelphia refused, in the same way, to receive the notes of their branches at Pittsburg and Washington until they were compelled to do so by an act of legislature. Carey's chief argument for renewal was the terrible calamity that would overtake the business community if the bank should be compelled to wind up.^a

Dr. Eric Bollman was another ardent advocate of renewal. He estimated that the banks of the country had brought into use bank credits and bank notes amounting to \$70,000,000 and that they held not over \$15,000,000

^a Letters to Dr. Adam Seybert, p. 64.

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specie in their vaults. The winding up of the Bank of the United States would, therefore, involve the destruction of \$55,000,000 of circulating medium, which was only sufficient for the daily transactions of the country. He thought Congress would not dare to make so dangerous an experiment.^a

The state banks, though their note issues and discounts had been kept in check by the superior resources and power of the Bank of the United States, favored the extension of the charter, and memorialized Congress to that effect.^b

A large majority of both branches of the Pennsylvania legislature, however, were opposed to the bank, and resolutions were passed requesting the Pennsylvania Senators and Representatives at Washington to vote against the renewal of the charter. They likewise opposed the granting of a charter to any other bank without securing the consent of the legislature of the State where it was to operate.^c During the course of the debates on renewal, resolutions opposing renewal were presented from the legislatures of Virginia, Massachusetts, and Maryland.

DEBATE ON RECHARTER.

The debate on the bank renewal in Congress centered mainly around the two questions of the constitutionality and expediency of the bank.^d On the first point the arguments developed nothing new. The supporters of the

^a Paragraphs on Banks, p. 50.

^b See p. 79.

^c House Journal (Pa.), December 13, 1810.

^d For full debates, see Leg. and Doc. Hist., pp. 113-471.

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bank met the long-drawn arguments of those who still persisted that it was unconstitutional by submitting that its constitutionality was decided at the time the charter was granted. That decision had met with the general approbation of the States and the people. Branches had been established in several of the States and the bills circulated everywhere. For twenty years the bank had received the countenance and patronage of the Government, which originally owned two-fifths of its capital. It had received repeated sanction from the different administrations, and especially from Jefferson and the Democratic party, by authorizing the establishment of a branch at New Orleans and selling a million of the government stock to British subjects at a profit of \$400,000.

The debates on the expediency of the bank did throw some new light upon its methods and machinery and its relations to the Government, to the other banks, and to the general business public. In this connection it was argued that in proportion as the bank became a source of supply to the Government it ceased to be one to the merchants. Fisk, of New York, estimated that the exports of the country, which when the bank was established amounted to \$18,000,000, had risen by 1804 to \$76,000,000, an increase due in large part to the increased activity of capital created and promoted by the Bank of the United States. The bulk of the country's trade was conducted on a paper medium, specie having largely disappeared. By closing up the bank at least one-third of the \$50,000,000 of circulating medium in the country would be checked and all paper credit would receive a mortal wound. The estimated \$10,000,000 of specie in the country would,

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under dissolution, be collected by the bank. The result would be general embarrassment and distress.

It was generally conceded that the Bank of the United States, by virtue of its large capital and the amount of specie it always carried, had regulated the discounts and note issues of the state banks, compelling them to preserve a just proportion between their liabilities and actual funds. Senator Smith, of Maryland, a director of the state bank in Baltimore, and one of the most violent opponents of renewal, denied that the state banks either received or required any check by the Bank of the United States. He said the "trifling branch" of the bank in Virginia was located in a corner of the State with which the people of the State had very little intercourse. Their intercourse was with the banks of Richmond and Fredericksburg. The Bank of Virginia was capitalized at \$1,500,000; it had \$2,000,000 in its vaults and had recently declared a dividend of 10 per cent. He concluded that the Bank of Virginia received no check from the United States Bank, and instead of the branch of the latter keeping the state banks in check the fact was that the Bank of Virginia kept the branch at Norfolk in check.

Smith also denied the necessity or utility of the bank and its branches in the collection of government revenues, and contended that the bank had no instrumentality whatever in obtaining payment of the revenue bonds. He had been informed that nowhere was the revenue better collected than in the busy New England towns outside of Boston, the only place having a branch in the whole region. The Boston branch, then, was nothing more than a treasury chest, "an office where the Secretary of the

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Treasury keeps an account to know whether the state banks transmit the money properly to Boston or not." So, too, in Georgia, North Carolina, and South Carolina the duties were as well or better paid where there was no branch. At one time the Bank of Manhattan, in New York, held \$188,000 of government funds. The New York branch of the bank had refused to receive Connecticut or Rhode Island paper, and the Secretary was compelled to deposit it in the Manhattan Bank, which had agreed to accept the paper. Again, the branch bank at Washington had refused to accept Virginia paper from the collectors, "and refused to give any aid or assistance in the collection of the revenue, except that which went to their own emolument." But the Bank of Columbia opened its vaults to all, receiving on deposit the paper of Virginia, Maryland, or Pennsylvania, and gave checks on some of the banks of those States for the amount. This kind of accommodation could not be had from the branch bank. The revenues derived from the sale of public lands in Ohio and Kentucky were collected, not by the Bank of the United States, but by the Pittsburg branch of the Bank of Pennsylvania. The government deposits in the Manhattan Bank arose from the collection of revenues in Rhode Island and Connecticut. It was apparent, therefore, that the collection and transmission of public funds could be accomplished without the aid of the United States Bank or its branches.

Smith also denied that the notes of the bank formed a universal medium throughout the country. If a merchant in New York wanted to remit for a purchase of tobacco in Richmond, the New York branch could not aid him, but

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any of the state banks there would give him a draft on Richmond. Government funds would be transmitted in the same way. But the branch banks would not accept the paper of even the mother bank. Each branch was bound only to receive its own paper and not that either of the parent or any other branch. Recently the Baltimore branch had been called upon by the mother bank for specie. The branch applied to the Union Bank, which was in its debt, for \$50,000 specie. The Union offered to meet the balance with notes of the mother bank, of which it held \$100,000, but the branch would not accept them and demanded the specie. The Union was, therefore, compelled to send to Philadelphia for payment of the notes it held of that very bank. A similar transaction had occurred between the Mechanics' Bank of New York and the branch in that place. These cases showed that the paper of the Bank of the United States was "not a universal medium, not even payment to its own branches." In the interior the paper of the state banks, and of the state banks alone, was in circulation. Whether this were true or not, it is certain that the notes of no state bank possessed to anything like the same degree the quality of universality. One member declared the credit of any other bank in the country would be outridden in twenty-four hours.

Testimony as to the impartiality of the bank in granting loans, irrespective of party, was submitted both in committee and in Congress, but some of its opponents cited specific cases of partiality and political influence. Wright, of Maryland, asserted that Philadelphia merchants had been coerced into signing petitions to ratify Jay's treaty,

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against their convictions, under threat by the bank directors that if they refused they could get no more accommodation at the bank. Directors of the branch bank in Baltimore had been dropped from the directorate because they voted for General Smith. Evan Jones, who had been elected president of the branch bank at New Orleans to succeed a Republican, was a refugee Tory and was suspected of being "one of Burr's chosen band." Wright urged that "these directors, who by the charter have the right to establish as many branches in the United States as they please, say, one to each State, with the appointment of 13 directors, a president, and 7 officers to each branch, with as great accommodations as directors, and salaries to their officers averaging \$1,000 a year each, making upward of \$170,000 to their officers, and more to their directors," possessed a patronage larger than that of the President of the United States. "All the directors," he continued, "of the mother bank, at all times, have been Federal or worse—many of them Tories or Monarchists—so that being under such control, I have ever doubted the statement of its funds." This argument was met by the statement that an examination of the boards of the state banks would show that Federalists comprised a majority of the directors. Lloyd, of Massachusetts, testified that, though he had been unceremoniously dropped from the board of the branch bank at Boston a few years before, and so would not be accused of cordiality to the bank, he freely declared that from a personal knowledge of the management of that branch it was impossible for "any moneyed institution to be conducted with more correctness, integrity, and impartiality." Smith, of Maryland,

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read correspondence from New York to show that men employing large capital in importing had been refused accommodation by the branch bank there, "whilst the Manhattan Bank has freely discounted the paper which the branch rejected merely by reason of the contamination of passing through Republican hands." In Norfolk the conduct of the bank had never been considered impartial. Smith did not believe the statement which had been made that the Baltimore branch discounted as much for Republicans as for Federalists. He said also that for two sessions the Bank of the United States had its agents in Washington, intriguing with members of Congress to obtain a renewal of its charter.

Another member (Love) belittled the evils which it had been said would attend the dissolution of the bank. To prove their unreality he cited the discounts at the Boston and New York branches. At Boston the loans on a capital of about \$700,000 amounted to about \$1,000,000. Of these loans three-fourths were on real paper, which any bank or branch would be glad to take. There remained then only \$250,000 "from what is called the standing customers." The United States Bank, because of the advantages the government deposits gave it, always had the choice of customers. Give to any other bank in the vicinity these deposits and they would be glad to take those customers off its hands, and to four times the amount if necessary. New York had loaned \$4,175,000 on a capital of \$1,800,000, the largest proportion of any of the branches. This had been done, the report of the bank to the contrary notwithstanding, on the immense deposits of revenue collected there. Give them

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to the state banks and they would gladly accommodate the "constant customers, not only to the amount of one-fourth, but to the whole \$4,175,000."

Opponents of the bank admitted that its fate was a party question, and, since the Democrats had an assured majority in Congress, the friends to renewal recognized that the fate of the bank was sealed. Already agents of the state banks were in Washington fattening on the prospects of receiving government deposits. In the House of Representatives the renewal of the charter was indefinitely postponed, January 24, 1811, by a vote of 65 to 64. The vote in the Senate, February 20, stood 17 to 17. Vice-President Clinton, an enemy to both Gallatin and Madison, cast the deciding vote against renewal. Thus perished the first Bank of the United States.

TEMPORARY EXTENSION REFUSED.

After the final rejection of the bill to renew the charter, the bank memorialized Congress for an extension of two years to wind up its affairs. The memorial was presented simultaneously in the two Houses, February 25, 1811, and was referred to a select committee in each. Both reported against any extension. Clay, chairman of the Senate committee, reported that a majority held that, since the Constitution did not authorize Congress originally to grant the charter, any extension would be equally repugnant. There appeared to be no good reason for prolonging its political existence for the purpose of settling up its affairs. A trust could be created under existing laws by which liquidation could be effected. The committee had understood that the apprehensions

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as to the distress resulting from nonrenewal had not been realized in Philadelphia. The paper of the Bank of the United States was returning rapidly and the notes of the state banks were taking its place. Their ability to enlarge their accommodations would be increased by receiving the deposits held by the Bank of the United States. The injurious effects of a dissolution would "consist in an accelerated disclosure of the actual condition of those who have been supported by the credit of others, but whose insolvent or tottering situation, known to the bank, has been concealed from the public at large." The House committee made a similar report unfavorable to extension.

STATE CHARTER REFUSED.

The Bank of the United States closed its doors for business on the afternoon of March 3, 1811, and trustees were appointed to liquidate its affairs. But the bank was not ready to give up its existence. The trustees decided to petition the legislature of Pennsylvania for a state charter. On March 14, 1811, they sent a memorial to the legislature praying for an act of incorporation for the whole amount of the original capital, with permission to apply to other States for the privilege of establishing branches.^a The memorial urged that it was impracticable to reduce the existing capital owing to the difficulty of discriminating or designating the stock to be retained. Stress was laid upon the almost total stagnation of business that had been produced by the failure of Congress to renew their charter. Great sacrifices of

^aHouse Journal (Pa.), March 18, 1811.

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property were being made to support individual credit, money rates were ruinously high, and the state banks were unable to meet the demand for loans. It was pointed out that the amount of capital employed by the Bank of the United States in Pennsylvania amounted to about a half of the total banking capital in the country. The withdrawal of so large a proportion of capital would be disastrous. One of the newspapers urged that if Pennsylvania did not "seize the opportunity of continuing that truly useful bank New York surely would."^a It was reported that the bank offered to pay the State a bonus of \$40,000 a year for a charter.

This application was defeated, but was renewed in the next legislature. A second memorial, signed by David Lenox, president of the board of trustees, December 7, 1811, was sent to the legislature, and a strong lobby was maintained in Harrisburg. The memorial stated that though the bank had stopped all banking operations, they had continued "their exertions for the preservation of credit." They had authorized the trustees, in making collections, "to require payment of but small portions at a time, and to receive new securities from their debtors for the residue." Only a part of these loans had been called in; the worst was yet to come if liquidation had to continue. Already considerable distress prevailed, business was stagnant, and bankruptcies frequent. Had the bank been in a position to come forward with aid, as it had done in former times of depression, much of the distress could have been averted. The petition urged that a large part of the stock was held by citizens

^a Daily Advertiser, March 23, 1811.

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and institutions of Pennsylvania. The foreign holdings, which had lately been considerably diminished, should not weaken the claim of citizens to legislative favor. The constitutional question which came up in connection with the federal charter could not arise in a state charter. If Pennsylvania refused a charter the trustees must secure it from some other state or states.^a The trustees offered a cash bonus of \$500,000, to aid certain specified public works, for a twenty-year charter of a bank with \$5,000,000 capital, or proportionate amounts for any capital of \$3,000,000 or upward. In addition, they offered to loan the State any time during the twenty years \$500,000 at 5 per cent for internal improvements.^b These liberal offers were all refused. Their very liberality accomplished their defeat. The feeling spread that to warrant such bids the profits of the banking business must be enormous, and that they ought to be enjoyed not by one large bank alone but by many small ones.

CHARTER GRANTED TO NEW YORK STOCKHOLDERS.

In the spring of 1812 the stockholders applied to the New York legislature for a charter for a bank to be established in New York City, to be called the Bank of America. Charges of bribery and corruption were rife while the bill was under discussion in the house, and to prevent its passage in the senate Governor Tompkins prorogued the legislature March 27, 1812, for a period of sixty days "to give time for reflection." When the legislature assembled again a bitter struggle ensued

^a *Ibid.*, December 30, 1811.

^b House Journal (Pa.), 1811-12, p. 302.

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over the bill, but it finally passed by a vote of 16 to 15 on June 2, 1812. Under the terms of the charter the Bank of America was to have a capital of \$6,000,000, consisting of \$5,000,000 of the stock of the Bank of the United States and \$1,000,000 in cash, subscriptions to which were not open to stockholders of the bank. For every share in the late Bank of the United States stockholders were entitled to subscribe four shares of the new institution. Dividends on shares of the Bank of the United States were to be collected free of expense and applied to subscriptions in the Bank of America. If the sale of the United States Bank stock produced more than par, \$400, the surplus was to be refunded to subscribers; if less, subscribers would be required to pay the deficiency in money with interest at 6 per cent. The bank was to pay \$400,000 to the State, and was bound to loan the State at any time \$2,000,000, one half at 5 per cent, the other half at 6.^a Subscription books were opened in 10 States, from June 6 to August 26. Oliver Wolcott, former Secretary of the Treasury, was made president, and Jonathan Burrall, former cashier of the New York branch of the Bank of the United States, cashier of the new concern. The bonus and the loans to the State required by the charter were subsequently remitted on the stipulation that the capital should be reduced to \$4,000,000 and then to \$2,000,000.^b

^a The Merchants' National Bank (New York), p. 89.

^b *Ibid.*; advertisement in United States Gazette, April 15, 1812.

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GIRARD'S BANK.

When the charter of the Bank of the United States expired in 1811, Stephen Girard, then the foremost merchant and the wealthiest man in the country, was the largest stockholder. Believing that the commercial and financial interests of the country would compel Congress to renew the charter, he had bought bank stock heavily both at home and abroad. Girard's purchases of foreign holdings came about in this way. For years the proceeds of his extensive shipments to Europe had been collected through the Barings, of London, against whom he drew from time to time. On December 31, 1809, his balance with the Barings amounted to £116,701, and he instructed them to invest his funds in shares of the Bank of the United States. His orders were not carried out until the following year, when he sent a special agent to London, who purchased over a half million of stock at a figure considerably below the market of the year before. In 1811 the indebtedness of the Barings to Girard amounted to nearly \$1,000,000. The war between England and France made trade with Europe increasingly hazardous, and the Barings were on the verge of bankruptcy, so Girard sent two agents to London to extricate his immense funds from their hands. Part of the funds were invested in British goods, part in American 6 per cent stocks, and part in United States Bank shares, then at about \$430 $\frac{1}{8}$.^a It is said that Girard's purchases of foreign holdings cost him in all \$1,800,000.^b Had the charter of the bank been renewed as he expected,

^a Simpson, *Life of Girard*, p. 99.

^b Leach, *History of the Girard National Bank*, p. 19.

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Girard's profits upon this speculation would have netted him a fortune. In view of his very large holdings of the bank's stock, it might be easy to account for Girard's espousal of recharter on the ground of self-interest. Renewal would have materially enhanced the value of bank stock. But, though a strict Republican, Girard believed in the constitutionality of the bank, and, having been one of the largest borrowers, none knew better than he of its expediency and benefits to trade.

When renewal was denied by the federal authorities, Girard was active in the support of the movement for a state charter. This project having failed, he decided to establish a private bank of his own, thus becoming the foremost banker, as he was the foremost merchant, of the country. George Simpson, who had been for seventeen years the cashier, and, apparently, the real head, of the Bank of the United States was engaged to organize the bank, and when the work was completed Girard put him in charge as cashier and manager. He purchased the bank building and the cashier's house for \$120,000, less than a third of their cost, and on May 12, 1812, he opened his banking house, with a capital of \$1,200,000. On the 1st of January, 1813, the capital was increased to \$1,300,000. The business of the trustees of the Bank of the United States was immediately transferred to Girard's bank, together with \$5,000,000 in specie. The officers and clerks of the old bank were retained at the same salaries. Most of the customers of the Bank of the United States opened accounts with Girard's bank, which also retained a large part of the custom-house business.^a

^a Simpson, *Life of Girard*, p. 111.

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Girard did not use the notes of the old bank, but paid out the notes of state banks until his own were ready. These bore the device of an American eagle and a ship under full sail. They were signed by Girard and countersigned by his cashier, and, though some of the banks at first refused to accept them, they finally came to be accepted as freely as other bank notes. Redemption in specie was never refused. To give to his bank something of the permanence of an incorporated institution, and to insure to depositors prompt payment in the event of his death, Girard executed a deed of trust vesting in five prominent citizens all the property of the bank.^a

Undoubtedly the prompt establishment of Girard's bank did much to lessen the business distress which otherwise must have resulted from the liquidation of the Bank of the United States. It rendered invaluable aid to the Government in the financial difficulties of the next few years. "Girard's bank was the very right hand of the national credit, for when other banks were contracting, it was Girard who stayed the panic by a timely and liberal expansion, and frequent were the calls made upon him by the Government for temporary loans, which calls were invariably responded to immediately."^b

Girard's bank continued in successful operation until his death, December 26, 1831, when the trustees wound up its affairs, turning over to the executors money, securities, and property to the value of more than \$4,000,000. To occupy the field made vacant by the liquidation of Girard's bank, a group of capitalists organized a bank,

^a Leach, *History of the Girard National Bank*, p. 20.

^b *Ibid.*, p. 24.

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called the "Girard Bank," and secured a state charter in 1832. It continued as a state institution until 1865, when it entered the national banking system.

FISCAL OPERATIONS AFTER DISSOLUTION OF BANK.

As soon as it was ascertained that the charter of the Bank of the United States would not be renewed, Gallatin instructed the collectors of all the leading ports to stop depositing custom-house bonds for collection in the bank, to withdraw those falling due after March 3, 1811, and thereafter to deposit the bonds in state banks. The only condition imposed upon these depositories was that they should give a preference in discounts to those having duty bonds to pay. The public deposits in the Bank of the United States were gradually withdrawn, and the government account was closed September 2, 1811, with the exception of a balance of \$70,000 in the New Orleans branch, for which a credit had been given some months before to the agents of the War and Navy Departments and which had not yet been drawn upon. By this time the government deposits were divided among 21 banks. In December, 1811, Gallatin reported that there had been no difficulty in the transmission of public money, and that with the exception of Norfolk and Savannah the revenue had been as well collected as under the Bank of the United States. ^a

In his report, January 23, 1811, Gallatin expressed a doubt whether, in the event of the dissolution of the bank, its notes would continue to be receivable in payments to the United States. He suggested the propriety of some

^a Finance, Vol. II, pp. 516-522.

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legislation which would remove all doubt on the subject. Congress took no action on the question, but Gallatin instructed the collectors and receivers of public money not to accept any which the bank refused to take from the Government, or which they could not conveniently redeem. The circuit court of Virginia, however, had recently decided that the notes of the bank were everywhere a legal tender in payment of duties. Inasmuch as a considerable amount of the notes of the New Orleans, Savannah, and Charleston branches was outstanding and would be forced on the Treasury at considerable risk and expense to collect, Gallatin urged the immediate repeal of that part of the law which, according to the recent decision, was considered as being in force. Accordingly, on March 19, 1812, Congress passed an act repealing the section of the bank act providing that notes of the Bank of the United States were legal tender in payment to the United States. By the act of June 30, 1812, treasury notes were made legal tender to the Government.

Seybert states that on March 4, 1816, there were still \$217,160 of United States Bank notes outstanding, of which many had been destroyed or lost.^a In 1823 the amount of notes still unrepresented was \$205,000. By decree of the court the trustees were then released from further obligation to redeem outstanding notes. A fund of \$5,000 was reserved to meet cases of peculiar hardship. Up to 1839 the whole amount presented for redemption was about \$1,100, most of which had been in the hands of an invalid Revolutionary soldier. Niles reports the redemption of a \$10 note in 1839.^b

^aStatistical Annals (1818).

^bNiles Register, Vol. LVI, p. 273.

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LIQUIDATION.

The work of liquidating the bank was carried on with considerable dispatch and without the dire financial disturbances apprehended.

The following table shows the progress of liquidation in the first year after dissolution:^a

	Jan. 1, 1811.	Mar. 1, 1811.	Sept. 1, 1811	Mar. 1, 1812.
Loans and discounts.....	\$17,759,001	\$14,587,134	\$7,152,786	\$3,792,795
Specie.....	5,317,885	4,835,702	4,500,527	6,116,776
Public deposits.....	6,474,402	2,874,833	322,349	81,517
Private deposits.....	3,855,402	3,583,596	448,112	223,442
Notes in circulation.....	6,070,153	6,552,875	2,963,209	1,070,459

Thus it appears that in the first six months of liquidation the bank collected over \$7,000,000 of its loans and discounts; paid off practically all of its public and private deposits; and redeemed \$3,600,000 of its bank notes, yet its stock of specie fell only \$335,175. In the first year it paid over \$11,600,000, and its specie increased nearly \$1,300,000. The discounts were reduced nearly \$10,000,000 and the circulating notes \$6,500,000.

On June 1, 1812, the trustees declared a dividend of 70 per cent of the capital. Stockholders in the States where branches had been established were paid by draft on the respective branches. All others were paid at Philadelphia.^b October 1, 1812, another dividend of 18 per cent was paid, and a third one of 7 per cent on April 1, 1813, making 95 per cent within about two years after dissolution. Subsequent dividends were paid as follows: Five per

^a Minority report (Ways and Means Committee) on Renewal of the Deposits, March 4, 1834, 23d Cong., 1st sess., No. 313.

^b Advertisement, United States Gazette, April 15, 1812.

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cent, April 3, 1815; 4 per cent in 1817; $1\frac{3}{4}$ per cent in 1820; $2\frac{1}{4}$ per cent in 1823; $\frac{1}{2}$ per cent in 1830; $\frac{1}{2}$ per cent in 1834, making a total of 109 per cent on the original capital. Raguet calculated that if these dividends, made at such long intervals, were regarded as deferred payments, compounded semiannually, the actual return to stockholders was only 97 per cent on the day the charter expired.^a Some years before the stock had sold at 156.

In 1834 the city councils of Philadelphia appointed a committee to determine the best way to close the trust of the old bank in order to get possession of the house which had been willed to the city by Girard, but which was still occupied, rent free, by "the late cashier of Girard's Bank." The committee brought in a report February 12, 1835, showing that on June 25, 1812, Girard had executed a lease to the trustees of the old bank of parts of the bank and the cashier's dwelling until the affairs of the bank should be closed. The bank building had already passed to the city and was leased to the Girard Bank. Finding that possession of the dwelling depended upon the closing up of the trust, the committee procured a copy of the most recent statement of the trustees. This showed \$22,564 still in the hands of the trustees, after a recent dividend of \$51,250. There were still several debts due from estates in the hands of assignees. It was thought that most of the \$22,564 had been in the hands of the trustees unclaimed for nearly twenty years and that it would be difficult to reach those entitled to it. The unclaimed balance would be increased by every suc-

^a Gouge, *Journal of Banking*, p. 239.

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cessive dividend and the trust would be protracted indefinitely. The committee, therefore, recommended that the city take over the trust and have it administered by the commissioners of the Girard estate.

CONSEQUENCES OF DISSOLUTION.

Although the failure to renew the charter of the Bank of the United States was not followed immediately by the train of dire disasters predicted by its friends, the march of events was soon to bring the country and the Government to the edge of bankruptcy, which the perpetuation of the bank might have averted. No higher authority than Gallatin's need be presented upon this point. Writing in 1831, he said: "The dissolution of the Bank of the United States deprived the country of a foreign capital of over \$7,000,000, which was remitted abroad during the year that preceded the war. At the same time the state banks had taken up a considerable part of the paper formerly discounted by that of the United States. As the amount of this exceeded \$15,000,000, their aid was absolutely necessary in order to prevent the great distress which must have otherwise attended such diminution of the usual accommodations. The creation of new state banks to fill the chasm was a natural consequence. The expectation of great profits gave birth to a much greater number than was wanted. * * * From January 1, 1811, to January 1, 1815, 120 new banks went into operation, with a capital of \$40,000,000, adding about \$30,000,000 to the banking capital of the country. * * *

And as the salutary regulating power of the Bank of the

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United States no longer existed, the issues were increased beyond what was necessary.”^a

Gallatin made the following estimate of the banking facilities at the dates mentioned:

	Year.	Capital.	Notes in circulation.	Specie.
Bank of the United States.....	1811	\$10,000,000	\$5,400,000	\$5,800,000
88 state banks.....		42,610,601	22,700,000	9,600,000
		52,610,601	28,100,000	15,400,000
208 state banks.....	1815	82,259,590	45,500,000	17,000,000
246 state banks.....	1816	89,822,422	68,000,000	19,000,000

The Government was compelled to rely upon the state banks for aid during the war of 1812, and their universal suspension of specie payments in 1814 almost paralyzed the operations of the Treasury. The notes of the state banks did not pass current out of their own locality, and it became impossible to make transfers of funds, public or private, from one part of the country to another. In the essay quoted above, Gallatin expressed his deliberate opinion that the suspension of specie payments might have been prevented if the Bank of the United States had still been in existence. He believed that the enormous increase of banks occasioned by the dissolution of the bank would not have occurred. That bank would have restrained their issues within proper bounds, and, “through the means of its offices, it would have been in possession of the earliest symptoms of approaching danger. It would have put the Treasury Department on its guard; both acting in concert would certainly have been able at least to retard the event; and, as the treaty of peace was

^a Writings, Vol. III, p. 284.

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ratified within less than six months after the suspension took place, that catastrophe would have been altogether avoided."

BANK REPORTS.

In the early days of banking a veil of mystery was thrown over the operations of banks, and the general public knew but little of their nature or *modus operandi*. Even the Bank of the United States, semipublic institution though it was, published no reports. Under the terms of its charter it was required to make reports of condition to the Secretary of the Treasury when called for, but not oftener than once a week. There is indisputable evidence that reports were made regularly, but they were not given to the public.^a In the debates of 1811, after twenty years of the bank's contact with the public and the Government, the statement was made, and passed unchallenged, that "the nature of the loans, the deposits, and all the bargains, dealings, and contrivances between the Government and the bank are wholly invisible to the public." Even those friendly to the bank, and eager to defend it, were unable to procure the facts and figures necessary for an adequate defense.^b

The Treasury officials, during the entire time of its existence, gave out no statement of its affairs except when Congress called for information. Unfortunately, only two reports of resources and liabilities have been preserved. A careful search has failed to reveal any trace of the original books and records of the bank. The two surviving reports on the bank were made to Congress by

^a See Appendix E.

^b See p. 84.

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Gallatin, one in 1809, the other in 1811, while Congress was considering the bank's petition for a renewal of its charter.

The financial statement of the bank's condition in January, 1809, as stated in Gallatin's report of March 3, 1809, gives the actual amount of public stock, real estate, and undivided surplus, but loans, deposits, specie and notes are "average" amounts. The amount of specie on hand and the deposits at the time of this report were actually several million dollars in excess of this "averaged statement," both having been increased considerably above normal amounts by the embargo and by the unusually large Treasury balance which was principally on deposit in the bank.

Financial statement of Bank of United States.

	January, 1809. ^a	January, 1811. ^b
RESOURCES.		
Loans and discounts	\$15,000,000	\$14,578,294
United States 6 per cent stock	2,230,000	2,750,000
Other United States indebtedness		57,046
Due from other banks	800,000	894,145
Real estate	480,000	500,653
Notes of other banks on hand		393,341
Specie	5,000,000	5,009,567
Total	23,510,000	24,183,046
LIABILITIES.		
Capital stock	10,000,000	10,000,000
Undivided surplus	510,000	509,678
Circulating notes outstanding	4,500,000	5,037,125
Individual deposits	8,500,000	5,900,423
United States deposits		1,929,999
Due to other banks		634,348
Unpaid drafts outstanding		171,473
Total	23,510,000	24,183,046

^a Finance, Vol. II, p. 352.

^b See p. 112.

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The balance of \$510,000, the amount of undivided profits, commonly called the "contingent fund," was reserved "to cover losses which may arise from bad debts or other contingencies, and for extra dividends." Commenting upon this statement, Gallatin says: "The affairs of the bank, considered as a moneyed institution, have been wisely and skillfully managed."^a

In obedience to a House resolution, Gallatin submitted a statement, January 9, 1811, of debts due the Bank of the United States by individuals and by other banks, of the amount of notes of the bank and its branches in circulation, and of the Treasury cash in the different depositories.^b Gallatin notes again that the only statements which the Treasury could require of the bank, under the act of incorporation, were the amount of capital stock, debts due the bank, deposits, notes in circulation, and cash on hand. He had no right to ask for the accounts of private individuals or for any other than these general statements. The bank statement is as follows:

^a Report to Senate, March 3, 1809, Finance, Vol. II, p. 352.

^b *Ibid.*, p. 460.

A.—Debts due by individuals and banks.

	Date.	Due by individuals.				Due by banks.			
		Bills and notes discounted.	Bills and notes in suit.	Bonds.	Total.	Deposited in other banks.	Due to other banks.	Balance due by other banks.	Bank notes of other banks on hand.
Philadelphia	Jan. 1, 1811	\$5,123,690.00			\$5,123,690.00	\$175,766.00	\$28,982.00	\$146,784.00	\$191,895.00
Boston	Dec. 22, 1810	1,306,366.88			1,306,368.88	320,000.00	142,000.00	178,000.00	26,750.00
New York	Dec. 29, 1810	4,068,625.01		\$71,500.00	4,140,125.01	480,504.00		480,504.00	
Baltimore	Dec. 29, 1810	1,100,265.04			1,100,265.04	383,543.72	193,067.51	190,476.21	71,131.66
Washington	Dec. 29, 1810	390,911.64	\$21,982.20		412,893.84	160,426.06	3,057.03	157,369.03	31,142.40
Norfolk	Dec. 22, 1810	674,997.20	43,118.34		718,115.54	70,156.26		70,156.26	31,890.00
Charleston	Dec. 15, 1810	711,315.92	89,063.62	149,929.86	950,309.40	73,000.00		73,000.00	111,240.00
Savannah	Dec. 15, 1810	772,729.48			772,729.48				23,095.00
New Orleans	Nov. 24, 1810	601,689.85			601,689.85	21,734.00		21,734.79	24,765.00
Total		14,750,593.02	154,164.16	221,429.86	15,126,187.04	1,685,130.83	367,106.54	1,318,024.29	511,909.06

Bills and notes discounted, and bonds due by individuals, as above	\$15,126,187.04
Balance due by other banks	1,318,024.29
Bank notes of other banks on hand	511,909.06
Overdrawn by commissioners of loans (circumstances not explained)	32,579.07
Treasury drafts on collectors and other banks not yet collected	31,446.01
Converted 6 per cent stock, as per Treasury books	23,066.23
	17,043,231.70
Loan to the United States, December 31, 1810	2,750,000.00
	19,793,231.70

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B.—Notes in circulation.

	Date.	Issued.	On hand.	In circulation.
Philadelphia	Jan. 1, 1811	\$1,708,013	\$101,750.00	\$1,606,263.00
Boston	Dec. 22, 1810	451,435	207,036.34	244,398.66
New York	Dec. 29, 1810	1,223,300	179,421.00	1,043,879.00
Baltimore	Dec. 29, 1810	386,505	216,855.00	169,650.00
Washington	Dec. 29, 1810	288,880	33,114.83	255,765.17
Norfolk	Dec. 22, 1810	300,140	77,922.00	222,218.00
Charleston	Dec. 15, 1810	792,565	3,850.00	788,715.00
Savannah	Dec. 15, 1810	850,800	216,450.00	634,350.00
New Orleans	Nov. 24, 1810	192,140		192,140.00
Total		6,193,778	1,036,399.17	5,157,378.83

C.—Government deposits in various banks, January 7, 1811.

Bank of the United States (Philadelphia)	^a \$161,557.64
Office of discount and deposit at—	
Boston	^a 336,264.77
New York	^a 551,988.51
Baltimore	^a 272,293.77
Washington	^a 65,776.42
Norfolk	^a 14,006.36
Charleston	^a 29,084.99
Savannah	^a 46,841.63
New Orleans	^a 166,701.55
Bank of—	
Maine, (Portland)	^b 37,392.38
Saco	^b 26,409.53
Newport	^b 34,843.49
Roger Williams (Providence)	^b 43,382.79
Manhattan (New York)	^c 188,670.32
Pennsylvania (Philadelphia)	^d 92,628.17
(Pittsburg branch)	^d 137,442.11
Marietta	^p 11,242.25
Kentucky (Frankfort)	^d 75,137.88
Columbia (Georgetown)	^e 115,080.15
Alexandria	^f 86,917.90

While the debate on renewal was in progress in the House, Gallatin was requested to submit a statement giving

^a The collectors of Philadelphia, New York, etc., were directed by act of May 10, 1800 to deposit for collection in the Bank of the United States or one of its branches all revenue bonds.

^b The deposits in these banks arose from payments made by several collectors in Maine and Rhode Island.

^c This deposit arose from occasional collections of surplus revenue in Rhode Island and Connecticut.

^d Deposits by receivers of public moneys on account of sales of public lands.

^e This deposit due to occasional drafts on some collectors in Virginia, and from the receipt of moneys paid at the treasury for lands, patents, etc.

^f Due to payments made by the collector at Alexandria.

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ing a list of the directors of the bank and its branches, the amount of stock held by foreigners and by citizens, and the amount of specie on hand, distinguishing between that belonging to the bank, to individuals, and to the Government. The Secretary, in his report, January 24, 1811, again pointed out that he could require from the bank only general statements, which did not include either the names of directors or the residences of the stockholders.

His report included the following statement of the bank's resources and liabilities, the only complete, detailed report extant.^a Many of the figures, it will be observed, are for dates only a few weeks apart from those for which returns were given in the previous statement:

RESOURCES.		
Loans and discounts.....		\$14, 578, 294. 36
Loan to the United States.....	\$2, 750, 000. 00	
Funded debt.....	14, 338. 00	
Overdrafts by Charleston commissioner.....	31, 242. 48	
Treasury drafts not yet collected.....	11, 466. 01	
		2, 807, 046. 49
Due by other banks.....	894, 144. 77	
Notes of other banks on hand.....	393, 341. 15	
		1, 287, 485. 92
Specie.....		5, 009, 567. 10
Real estate.....		500, 652. 77
		24, 183, 046. 54
LIABILITIES.		
Capital.....		10, 000, 000. 00
Circulating notes.....	\$5, 037, 125. 22	
Deposits:		
Government.....	\$1, 929, 999. 60	
Banks.....	634, 348. 01	
Individual.....	5, 900, 422. 83	
		8, 464, 770. 44
Outstanding drafts on bank and branches.....	171, 473. 17	
		13, 673, 368. 83
Undivided surplus.....		509, 677. 71
		24, 183, 046. 54

^a Finance, Vol. II, p. 470.

The following table shows in detail how these resources and liabilities were divided among the bank and the several branches:

	Date.	Discounts.	Due by banks.	Notes of other banks.	Specie.	Sundries.	Deposits.			Bank notes.		
							Treasury.	Banks.	Individuals.	Issued.	On hand.	In circulation.
Bank of the United States	Jan. 15, 1811	\$4,981,373.00	\$79,177.00	\$137,570.00	\$1,407,373.00	^a \$2,764,338.00	\$392,909.24	\$140,765.00	\$2,560,864.25	\$1,687,893.00	\$126,060.00	\$1,561,833.00
Boston	Jan. 5, 1811	1,138,923.59	61,000.00	45,610.00	474,497.38	^b 466.01	341,054.47	241,000.00	825,000.11	435,680.00	259,248.39	176,431.61
New York	Jan. 12, 1811	3,919,628.98	76,420.00	-----	571,520.42	-----	625,417.09	29,860.00	878,451.11	1,254,530.00	176,540.09	1,077,990.00
Baltimore	do	1,108,542.36	330,454.54	86,292.71	604,398.46	-----	199,201.28	215,991.23	84,057.38	371,865.00	210,822.56	161,042.44
Washington	do	412,161.60	146,376.86	16,465.84	297,615.83	-----	101,895.55	6,731.78	539,993.04	297,860.00	36,414.83	261,445.17
Norfolk	Jan. 5, 1811	713,724.40	3,300.34	28,362.60	307,596.40	^b 11,000.00	16,483.76	-----	112,303.28	283,900.00	77,232.00	206,668.00
Charleston	Dec. 29, 1810	935,713.92	186,000.00	24,000.00	459,181.62	^c 31,242.48	36,645.03	-----	491,678.93	802,735.00	12,500.00	790,235.00
Savannah	do	768,681.97	-----	21,225.00	602,879.41	-----	49,691.63	-----	196,854.86	825,950.00	216,610.00	609,340.00
New Orleans	Dec. 8, 1810	599,544.44	11,416.03	33,815.00	284,504.58	-----	166,701.55	-----	211,219.87	192,140.00	-----	192,140.00
Total		14,578,294.26	894,144.97	393,341.15	5,009,567.10	2,807,046.49	1,929,999.60	634,348.01	5,900,422.83	6,152,553.00	1,115,427.78	5,037,125.22

^a Loan to United States

Funded debt

Total

^b Treasury drafts not yet collected.

^c Overdraft by late commissioner of loans, Charleston.

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An analysis of these statements will serve to throw some interesting side lights upon the condition and operations of the bank and its branches. Of the total resources, aggregating over \$24,000,000, the chief items were loans, \$14,500,000; specie, \$5,000,000; and government indebtedness, \$2,800,000. The latter consisted chiefly of a 6 per cent loan of \$2,750,000 obtained in 1810. This loan had been at first negotiated, May 30, for \$3,750,000, but the treasury expenses having proved less than was anticipated, the loan was, by mutual consent, reduced in October to \$2,750,000. It was reimbursable on the last day of December, 1811, with a reservation that the bank might, in case of nonrenewal of its charter, demand earlier payment on giving three months' notice.^a The Government repaid this loan in March and September, 1811.

The following table, based upon the foregoing statement, shows the amount of loans of the bank and its branches with relation to capital, deposits, and notes in circulation:

	Capital.	Discounts.	Deposits.	Notes.
Philadelphia.....	\$4,700,000	\$4,981,373	\$3,094,538	\$1,561,833
Boston.....	700,000	1,138,923	1,507,054	176,431
New York.....	1,800,000	3,919,628	1,633,728	1,077,990
Baltimore.....	600,000	1,108,542	499,249	161,042
Washington.....	200,000	412,161	648,620	261,445
Norfolk.....	600,000	713,724	128,787	206,668
Charleston.....	600,000	935,713	528,323	790,235
Savannah.....	500,000	768,681	246,546	609,340
New Orleans.....	300,000	599,544	377,921	192,140
Total.....	10,000,000	14,578,294	8,464,770	5,037,125

^a Gallatin's annual report, December 10, 1810, Finance, Vol. II, p. 441.

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Of the total discounts, over three-fifths stood on the books of the Philadelphia bank. Boston and Baltimore each carried over \$1,000,000 of loans, and Charleston nearly as much, followed in order by Savannah, Norfolk, New Orleans, and Washington. In every case excepting Boston and Washington discounts exceeded deposits, and in New York, Baltimore, and Savannah discounts were slightly in excess of the combined capital and deposits. In this respect, the mother bank made the most conservative showing with discounts of nearly \$5,000,000 against capital and deposits of about \$7,800,000. This was due to the fact that the parent held itself responsible for all of the eight scattered branches, and limited its discounts carefully in order to be in a position to aid any of the branches if occasion should arise.

At the time of this report, the various state banks owed the Bank of the United States \$894,000, while their deposits in the latter amounted to \$634,000, leaving only a small balance in their favor. The Baltimore branch was the largest creditor of the state banks, which owed it about a third of a million. The bank also held \$393,000 of the notes of state banks. Of the \$5,000,000 specie on hand, the parent bank held nearly one-third, the Baltimore, Savannah, and New York branches having about one-half as much. Years later, it was said that at one time the New York branch had less than \$10,000 in specie in its vaults.^a

The aggregate deposits of \$8,500,000 consisted of government deposits, \$1,900,000; individual deposits, \$5,900,000; bank balances, \$600,000. New York held

^aGouge, *Journal of Banking*, p. 252.

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\$625,000 of treasury funds, about one-third of the total, followed by Philadelphia with \$393,000, and Boston with \$341,000. Of bank balances, Boston and Baltimore each had something over \$200,000; Norfolk, Charleston, Savannah, and New Orleans had none. The parent bank had individual deposits amounting to over \$2,500,000, nearly one-half of the total; New York stood second, and Boston third, with over \$800,000 each; Baltimore had only \$84,000, while the small Washington office had over half a million. At this date the undivided profits of the Bank of the United States amounted to \$509,677.

PROFITS AND DIVIDENDS.

On April 4, 1810, Gallatin submitted to the Senate a list of dividends declared by the bank down to January 1 of that year. In addition to the semiannual dividend of 4 per cent, some extra dividends were declared, making an average of $8\frac{1}{8}\frac{3}{8}$ per cent. At the date of this report, the bank had a surplus of \$409,410, made up of "general bank estate," \$125,000, intended as an offset against loss on the bank's real estate, which had been paid for out of the capital and not out of profits; and "contingent fund," \$284,410, to cover possible losses. As to the actual profits of the bank and its branches, Gallatin said: "The nominal profits resulting to the bank from each of its offices of discount and deposit could not be ascertained without an investigation of all the weekly returns made to this department; and there are no returns from which the actual loss sustained by each office can be known." Estimating annual expenses at \$125,000, "the losses must in the whole have amounted to about \$35,000 a year."

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The following table shows the capital and the loans of the parent bank and the several branches, according to the most recent returns at the time of this report, April 4, 1810: ^a

	Capital.	Notes dis- counted.
Boston	\$700,000	\$998,859
New York	1,800,000	4,175,874
Baltimore	600,000	1,349,550
Washington	200,000	485,285
Norfolk	600,000	880,170
Charleston	600,000	1,409,916
Savannah	500,000	1,054,113
New Orleans	300,000	611,517
Philadelphia:		
Balance due in account current by branches	750,000	
Capital reserved	3,950,000	4,572,586
Funded debt		1,411,627
Total	10,000,000	16,949,497

With these figures as a basis, Gallatin estimated the annual expenses and losses of the bank as follows: Six per cent on the \$17,000,000, the amount usually loaned on interest, amounted to \$1,020,000. The dividends on the \$10,000,000 at $8\frac{1}{8}\%$ per cent would be \$836,111, and the undivided profits (\$409,410 on January 1, 1810, divided by eighteen, the years of the bank's existence), \$22,745; subtracting these two sums there remained \$161,448, the annual amount of expenses and losses. Of this amount, Gallatin had estimated \$125,000 for annual expenses, which left \$36,448 a year for actual losses. This loss of less than one-half of 1 per cent per annum on bad debts speaks strongly for the conservative management of the bank's affairs. Long after the bank had disap-

^a Finance Vol. II p. 418.

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peared one authority estimated its average annual losses, during the twenty years of its existence, at sixty-one one-hundredths of 1 per cent.^a

In the debates of 1811, the accuracy of Gallatin's statement of the profits of the bank was challenged. It was contended that the bank had concealed its real profits under charges to the loss and contingency accounts, and that its actual net profit was over 11 per cent. It was argued that the branches had made a gross profit of more than 13 per cent. These had a total capital of \$5,300,000 and discounts of \$11,964,000, but the mother bank, which retained a capital of \$4,700,000, granted discounts of only \$4,572,000. It was well known, however, that bank capital had been as profitably used in Philadelphia as in any other city, and the state banks unaided by government deposits had yielded dividends so large as to send their stock to 35 to 50 per cent premium. It was thought, therefore, that "after the deduction for losses (that probably never happened) and contingencies never expected to take place," the net profit was more than 11 per cent instead of $8\frac{3}{8}$ per cent, as had been reported by the Secretary. (Love.) On the other hand, it was contended that the parent bank had to have at all times sufficient reserve to meet every emergency, and so could not extend its discounts too far. A branch that produced no profit but sometimes actual loss might be just as expensive to maintain as one that was productive. The experience of only the most profitable branches had been cited by the critic; others might show a considerable loss. (Finley.) The complete record of dividends shows

^a H. C. Carey: The Credit System.

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that Gallatin's estimate, based upon the report of the bank, was substantially correct.^a

The first few dividends declared by the Bank of the United States were quite low in contrast with those of the Bank of North America. Up to 1800, dividends at the rate of 8 per cent were paid, with an extra dividend of 1 per cent in January, 1798. In 1801, 10 per cent was distributed, 9 per cent in 1802, and 8½ per cent in 1803 and 1804. Thereafter 8 per cent was the regular dividend, excepting for the year 1807, when 10 per cent was declared.

The largest annual dividend of the Bank of the United States was 10 per cent in 1801 and in 1807; the lowest 7½ per cent in 1793. In 1792, the Bank of North America declared a dividend of 15 per cent; in 1793, 13 per cent; and from 1794 to 1799, inclusive, 12 per cent; 1800, 1801, 1802, 10 per cent; 1803, 9½ per cent; 1804 to 1810, 9 per cent. The Bank of Pennsylvania, established in 1794, started with 8 per cent, then rose to 10 for one year, dropped to 9½ for three years, then to 8 for six years, up to 9 for seven years, returning to 8 as the regular dividend. The uniform dividend of the Philadelphia Bank, established in 1804, was 8 per cent; also that of the Farmers and Mechanics', which opened in 1808.^b

TAXATION.

In 1797, a federal tax of 6 mills on the dollar was laid on the notes of all banks below \$50, with lower rates on the higher denominations. Provision was made that the tax might be commuted at 1 per cent on the dividends.

^a See Appendix C.

^b Carey's Letters to Seybert, Appendix D.

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The Bank of North America and probably other banks paid the tax by the latter method.^a

In 1805, the legislature of Georgia passed a law taxing the branch of the Bank of the United States at Savannah. The bank refused to pay the tax, whereupon the state officers seized two boxes of specie worth \$2,004. The bank brought an action for trespass in the circuit court, which rendered a decision in favor of the defendant on a demurrer. The case was appealed to the Supreme Court of the United States, where it became involved in technicalities. Georgia then desisted until it should be decided whether the bank was to be rechartered.^b The question of taxing the bank was mooted in the Pennsylvania legislature, but no action was taken.

CONSERVATISM, A CHARACTERISTIC.

Conservatism, verging at times upon extreme and unnecessary caution, characterized the management of the bank's affairs, restricting both its full usefulness to the business community and its returns to the stockholders. Soon after the establishment of the second Bank of the United States, in 1817, which was much more liberal in its general policies, President Jones, writing to William H. Crawford, Secretary of the Treasury, said: "I am not at all disposed to take the late Bank of the United States as an exemplar in practice; because I think its operations were circumscribed by a policy less enlarged, liberal, and useful than its powers and resources would have justified. * * * It had but few powerful competitors, and these were rendered harmless by the cau-

^a Minutes, Bank of North America, September 28, 1797.

^b Sumner, History of Banking in all Nations, p. 48.

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tious policy of its directors and the narrow sphere of its operation."^a

The bank adopted a system of permanent loans to both individuals and banks.^b These permanent accommodations were well-nigh universal in the practice of the early banks, and were even more stifling to progress and impartial service than in our own day because of the limited sources of loanable funds. The enormous permanent loans to the Government during the first few years of the bank's life prevented it from serving the business interests of the country as fully as it might otherwise have done, and were an incubus which it finally shook off only by making the most unqualified demand for payment. It would have been better, probably, had the bank taken the same firm stand with other accommodation borrowers. The charges of partiality in making loans, which were made against the bank in the debates of 1811, do not seem to have been well sustained. The Philadelphia delegations of mechanics and manufacturers who went to Washington to urge a renewal of the charter testified that the bank was impartial in its accommodations.^c

There is some ground for the belief that, in the case of the parent bank, at least, large importers and traders of the type of Stephen Girard were accommodated before the needs of the retailer and shopkeeper were served. Because of the additional resources arising from the government deposits the bank had "the choice of customers." The New York branch was accused of refusing accommodations to importers who were perfectly acceptable to

^a Finance, Vol. IV, p. 807.

^b *Ibid.*, p. 774.

^c See p. 83.

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the Manhattan Bank there, and the Norfolk and Baltimore branches were charged with similar partisan partiality.^a These refusals, however, may have been based upon perfectly good and sufficient business circumstances. In the main, the bank as far as its resources and the exigencies of the times would permit, met all the reasonable demands of borrowers at a fair rate of interest. It was largely instrumental, therefore, in repressing the practice of usury, which had long preyed upon legitimate business.

It was estimated in 1811 that the total specie supply of the country amounted to only \$10,000,000. Of this sum the Bank of the United States held more than \$5,000,000, which gave it a powerful influence over all other banking institutions. In some sections the state banks had much larger resources and conducted a much more extensive business than the branch in that section, yet behind the branch there always loomed the shadow of the big bank, whose enmity no other institution willingly incurred. But, though the powerful Bank of the United States tended to restrain the smaller banks, compelling them to keep within the limits of conservative business, yet it was always friendly and ready to aid them when unexpectedly pressed, and "generally they had the use of not less than one-tenth of its capital."^b By virtue of its large resources and its numerous branches it was able to equalize the benefits of large loanable capital throughout the country and to relieve any sudden pressure in trade much more effectively than the state banks were able to do.^c

^a See p. 92.

^b Second petition for renewal, p. 76.

^c Memorial of the Bank of New York, p. 79.

APPENDIX A.

ACT OF INCORPORATION.

(February 25, 1791.)

AN ACT to incorporate the subscribers to the Bank of the United States.

Whereas, it is conceived that the establishment of a bank for the United States, upon a foundation sufficiently extensive to answer the purposes intended thereby, and at the same time upon the principles which afford adequate security for an upright and prudent administration thereof, will be very conducive to the successful conducting of the national finances; will tend to give facility to the obtaining of loans for the use of the Government in sudden emergencies; and will be productive of considerable advantages to trade and industry in general: Therefore—

SECTION 1. *Be it enacted, etc.*, That a Bank of the United States shall be established, the capital stock whereof shall not exceed ten million dollars, divided into twenty-five thousand shares, each share being four hundred dollars; and that subscriptions toward constituting the said stock shall, on the first Monday of April next, be opened at the city of Philadelphia, under the superintendence of such persons, not less than three, as shall be appointed for that purpose by the President of the United States (who is hereby empowered to appoint the said persons accordingly), which subscriptions shall continue open until the whole of the said stock shall have been subscribed.

SEC. 2. *And be it further enacted*, That it shall be lawful for any person, copartnership, or body politic to subscribe for such or so many shares as he, she, or they shall think fit, not exceeding one thousand, except as shall be hereafter directed relatively to the United States; and that the sums respectively subscribed, except on behalf of the United States, shall be payable one-fourth in gold and silver and three-fourths in that part of the public debt which, according to the loan proposed in the fourth and fifteenth sections of the act entitled "An act making provision for the debt of the United States," shall bear an accruing interest at the time of payment of six per centum per annum, and shall also be payable in four equal parts, in the aforesaid ratio of specie to debt, at the distance of six calendar months from each other, the first whereof shall be paid at the time of subscription.

SEC. 3. *And be it further enacted*, That all those who shall become subscribers to the said bank, their successors and assigns, shall be, and are hereby, created and made a corporation and body politic by the name and style of the president, directors, and company of the Bank of the

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United States, and shall so continue until the fourth day of March, one thousand eight hundred and eleven; and by that name shall be, and are hereby, made able and capable in law to have, purchase, receive, possess, enjoy, and to retain to them and their successors lands, rents, tenements, hereditaments, goods, chattels, and effects of what kind, nature, or quality soever, to an amount not exceeding in the whole fifteen millions of dollars, including the amount of the capital stock aforesaid; and the same to sell, grant, demise, alien, or dispose of; to sue and be sued, plead and be impleaded, answer and be answered, defend and be defended, in courts of record, or any other place whatsoever, and also to make, have, and use a common seal, and the same to break, alter, and renew at their pleasure; and also to ordain, establish, and put in execution such by-laws, ordinances, and regulations as shall seem necessary and convenient for the government of the said corporation, not being contrary to law or to the constitution thereof (for which purpose general meetings of the stockholders shall and may be called by the directors, and in the manner hereinafter specified), and generally to do and execute all and singular acts, matters, and things which to them it shall or may appertain to do; subject nevertheless to the rules, regulations, restrictions, limitations, and provisions hereinafter prescribed and declared.

SEC. 4. *And be it further enacted*, That for the well ordering of the affairs of the said corporation there shall be twenty-five directors, of whom there shall be an election on the first Monday of January in each year by the stockholders or proprietors of the capital stock of the said corporation and by plurality of the votes actually given; and those who shall be duly chosen at any election shall be capable of serving as directors by virtue of such choice until the end or expiration of the Monday of January next ensuing the time of such election and no longer. And the said directors at their first meeting after each election shall choose one of their number as president.

SEC. 5. *Provided always, and be it further enacted*, That, as soon as the sum of four hundred thousand dollars in gold and silver shall have been actually received on account of the subscriptions to the said stock, notice thereof shall be given, by the persons under whose superintendence the same shall have been made, in at least two public gazettes printed in the city of Philadelphia; and the said persons shall, at the same time in like manner, notify a time and place within the said city, at the distance of ninety days from the time of such notification, for proceeding to the election of directors; and it shall be lawful for such election to be then and there made; and the persons who shall then and there be chosen shall be the first directors and shall be capable of serving, by virtue of such choice, until the end or expiration of the Monday in January next ensuing the time of making the same, and shall forthwith thereafter commence the operations of the said bank, at the said city of Philadelphia: *And provided further*, That, in case it should at any time happen that an election of directors should not be made upon any day when pursuant to this act it ought

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to have been made, the said corporation shall not, for that cause be deemed to be dissolved; but it shall be lawful on any other day to hold and make an election of directors in such manner as shall have been regulated by the laws and ordinances of the said corporation: *And provided, lastly,* That, in case of the death, resignation, absence from the United States, or removal of a director by the stockholders his place may be filled up by a new choice for the remainder of the year.

SEC. 6. *And be it further enacted,* That the directors for the time being shall have power to appoint such officers, clerks, and servants under them, as shall be necessary for executing the business of the said corporation, and to allow them such compensation for their services respectively as shall be reasonable; and shall be capable of exercising such other powers and authorities for the well governing and ordering of the affairs of the said corporation as shall be described, fixed, and determined by the laws, regulations, and ordinances of the same.

SEC. 7. *And be it further enacted,* That the following rules, restrictions, limitations, and provisions, shall form and be fundamental articles of the constitution of the said corporation, viz:

I. The number of votes to which each stockholder shall be entitled shall be according to the number of shares he shall hold, in the proportions following: That is to say, for one share, and not more than two shares, one vote; for every two shares above two, and not exceeding ten, one vote; for every four shares above ten, and not exceeding thirty, one vote; for every six shares above thirty, and not exceeding sixty, one vote; for every eight shares above sixty, and not exceeding one hundred, one vote; and for every ten shares above one hundred, one vote. But no person, copartnership, or body politic shall be entitled to a greater number than thirty votes. And, after the first election, no share or shares shall confer a right of suffrage, which shall not have been holden three calendar months previous to the day of election.

Stockholders actually resident within the United States, and none others, may vote in election by proxy.

II. Not more than three-fourths of the directors in office, exclusive of the president, shall be eligible for the next succeeding year; but the director who shall be president at the time of an election may always be reelected.

III. None but a stockholder, being a citizen of the United States, shall be eligible as a director.

IV. No director shall be entitled to any emolument unless the same shall have been allowed by the stockholders at a general meeting. The stockholders shall make such compensation to the president for his extraordinary attendance at the bank as shall appear to them reasonable.

V. Not less than seven directors shall constitute a board for the transaction of business, of whom the president shall always be one, except in case of sickness, or necessary absence, in which case his place may be supplied by any other director, whom he, by writing under his hand, shall nominate for the purpose.

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VI. Any number of stockholders, not less than sixty, who together shall be proprietors of two hundred shares or upwards, shall have power at any time to call a general meeting of the stockholders, for purposes relative to the institution, giving at least ten weeks' notice, in two public gazettes of the place where the bank is kept, and specifying, in such notice, the object or objects of such meeting.

VII. Every cashier or treasurer, before he enters upon the duties of his office, shall be required to give bond, with two or more sureties, to the satisfaction of the directors, in a sum not less than fifty thousand dollars, with condition for his good behavior.

VIII. The lands, tenements, and hereditaments which it shall be lawful for the said corporation to hold shall be only such as shall be requisite for its immediate accommodation in relation to the convenient transacting of its business, and such as shall have been bona fide mortgaged to it by way of security, or conveyed to it in satisfaction of debts previously contracted in the course of its dealings, or purchased at sales upon judgments which shall have been obtained for such debts.

IX. The total amount of the debts which the said corporation shall at any time owe, whether by bond, bill, note, or other contract, shall not exceed the sum of ten million dollars over and above the moneys then actually deposited in the bank for safe keeping, unless the contracting of any greater debt shall have been previously authorized by a law of the United States. In case of excess, the directors under whose administration it shall happen shall be liable for the same, in their natural and private capacities; and an action of debt may, in such case, be brought against them, their or any of their heirs, executors, or administrators, in any court of record of the United States, or of either of them, by any creditor or creditors of the said corporation, and may be prosecuted to judgment and execution, any condition, covenant, or agreement to the contrary notwithstanding. But this shall not be construed to exempt the said corporation, or the lands, tenements, goods, or chattels of the same, from being also liable for and chargeable with the said excess. Such of the said directors who may have been absent when the said excess was contracted or created, or who may have dissented from the resolution or act whereby the same was so contracted or created, may respectively exonerate themselves from being so liable by forthwith giving notice of the fact, and of their absence or dissent, to the President of the United States, and to the stockholders, at a general meeting, which they shall have power to call for that purpose.

X. The said corporation may sell any part of the public debt whereof its stock shall be composed, but shall not be at liberty to purchase any public debt whatsoever; nor shall directly or indirectly deal or trade in anything, except bills of exchange, gold or silver bullion, or in the sale of goods really and truly pledged for money lent and not redeemed in due time, or of goods which shall be the produce of its lands. Neither shall the said corporation take more than at the rate of six per centum per annum for or upon its loans or discounts.

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XI. No loan shall be made by the said corporation for the use or on account of the Government of the United States to an amount exceeding one hundred thousand dollars, or of any particular State to an amount exceeding fifty thousand dollars, or of any foreign prince or state, unless previously authorized by a law of the United States.

XII. The stock of the said corporation shall be assignable and transferable, according to such rules as shall be instituted in that behalf, by the laws and ordinances of the same.

XIII. The bills obligatory and of credit, under the seal of the said corporation, which shall be made to any person or persons, shall be assignable by indorsement thereupon under the hand or hands of such person or persons, and of his, her, or their assignee or assignees, and so as absolutely to transfer and vest the property thereof in each and every assignee or assignees successively, and to enable such assignee or assignees to bring and maintain an action thereupon in his, her, or their own name or names. And bills or notes which may be issued by order of the said corporation, signed by the president and countersigned by the principal cashier or treasurer thereof, promising the payment of money to any person or persons, his, her, or their order or to bearer, though not under the seal of the said corporation, shall be binding and obligatory upon the same, in the like manner, and with the like force and effect, as upon any private person or persons, if issued by him or them, in his, her, or their private or natural capacity or capacities; and shall be assignable and negotiable, in like manner, as if they were so issued by such private person or persons—that is to say, those which shall be payable to any person or persons, his, her, or their order, shall be assignable by indorsement, in like manner, and with the like effect, as foreign bills of exchange now are; and those which are payable to bearer shall be negotiable and assignable by delivery only.

XIV. Half-yearly dividends shall be made of so much of the profits of the bank as shall appear to the directors advisable; and once in every three years the directors shall lay before the stockholders, at a general meeting, for their information, an exact and particular statement of the debts which shall have remained unpaid after the expiration of the original credit, for a period of treble the term of that credit; and of the surplus of profit, if any, after deducting losses and dividends. If there shall be failure in the payment of any part of any sum, subscribed by any person, copartnership, or body politic, the party failing shall lose the benefit of any dividend which may have accrued prior to the time for making such payment and during the delay of the same.

XV. It shall be lawful for the directors aforesaid to establish offices wheresoever they shall think fit, within the United States, for the purposes of discount and deposit only, and upon the same terms and in the same manner as shall be practiced at the bank, and to commit the management of the said offices and the making of said discounts to such persons,

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under such agreements and subject to such regulations as they shall deem proper, not being contrary to law or to the constitution of the bank.

XVI. The officer at the head of the Treasury Department of the United States shall be furnished, from time to time, as often as he may require, not exceeding once a week, with statements of the amount of the capital stock of the said corporation and of the debts due to the same; of the moneys deposited therein; of the notes in circulation, and of the cash in hand; and shall have a right to inspect such general accounts in the books of the bank as shall relate to the said statements: *Provided*, That this shall not be construed to imply a right of inspecting the account of any private individual or individuals with the bank.

SEC. 8. *And be it further enacted*, That if the said corporation, or any person or persons for or to the use of the same, shall deal or trade in buying or selling any goods, wares, merchandise, or commodities whatsoever, contrary to the provisions of this act, all and every person and persons, by whom any order or direction for so dealing or trading shall have been given, and all and every person and persons who shall have been concerned as parties or agents therein, shall forfeit and lose treble the value of the goods, wares, merchandises, and commodities in which such dealing and trade shall have been; one-half thereof to the use of the informer and the other half thereof to the use of the United States, to be recovered with costs of suit.

SEC. 9. *And be it further enacted*, That if the said corporation shall advance or lend any sum for the use or on account of the Government of the United States to an amount exceeding one hundred thousand dollars; or of any particular State to an amount exceeding fifty thousand dollars; or of any foreign prince or state (unless previously authorized thereto by a law of the United States), all and every person and persons, by and with whose order, agreement, consent, approbation, or connivance, such unlawful advance or loan shall have been made, upon conviction thereof, shall forfeit and pay, for every such offense, treble the value or amount of the sum or sums which shall have been so unlawfully advanced or lent, one-fifth thereof to the use of the informer and the residue thereof to the use of the United States, to be disposed of by law and not otherwise.

SEC. 10. *And be it further enacted*, That the bills or notes of the said corporation, originally made payable, or which shall have become payable on demand, in gold or silver coin, shall be receivable in all payments to the United States.

SEC. 11. *And be it further enacted*, That it shall be lawful for the President of the United States at any time or times, within eighteen months after the first day of April next, to cause a subscription to be made to the stock of the said corporation, as part of the aforesaid capital stock of ten million dollars, on behalf of the United States, to an amount not exceeding two million dollars, to be paid out of the moneys which shall be borrowed by virtue of either of the acts, the one entitled "An act making provision

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for the debt of the United States;" and the other entitled "An act making provision for the reduction of the public debt;" borrowing of the bank an equal sum, to be applied to the purposes, for which the said moneys shall have been procured, reimbursable in ten years, by equal annual installments, or at any time sooner, or in any greater proportions, that the Government may think fit.

SEC. 12. *And be it further enacted,* That no other bank shall be established by any future law of the United States during the continuance of the corporation hereby created, for which the faith of the United States is hereby pledged.

APPENDIX B.

ORDINANCE AND BY-LAWS FOR THE REGULATION OF THE BANK OF THE UNITED STATES.

SECTION I. The charter of incorporation granted to the Bank of the United States, amongst other rights, privileges, and abilities therein conveyed, having empowered the stockholders at general meetings, legally convened, to make, ordain, establish, and put in execution, such by-laws, ordinances, and regulations, as shall seem necessary and convenient for the government of the said corporation: *Be it ordained*, By the president, directors, and company of the Bank of the United States—

SEC. II. That the bank shall be open for the transaction of business every day in the year (Sundays, Christmas Day, and the Fourth of July excepted) during such hours as the board of directors shall deem advisable.

SEC. III. That the books and accounts of the bank shall be kept in dollars and cents, and shall be regularly balanced on the first Mondays in January and July in each year, when the half-yearly dividends shall be declared and published in at least four of the public newspapers.

SEC. IV. That the bank shall take charge of the cash of all those who choose to place it there (free of expense) and shall keep it subject to their order, payable at sight; and shall receive deposits of ingots of gold, bars of silver, wrought plate, or other valuable articles of small bulk, in the same manner, and return them on demand of the depositor.

SEC. V. That the bank shall receive all specie, coins according to the rates and value that have been or shall hereafter be established by Congress.

SEC. VI. That until offices of discount and deposit shall be established, there shall be at least two days in every week, when meetings of the board of directors shall be assembled. Discounts shall be made at a rate not exceeding 6 per cent per annum on notes or bills of exchange that have not more than sixty days to run, and with at least two responsible names, and under such modifications, as the board of directors in their discretion shall deem satisfactory and expedient.

SEC. VII. That the president shall have power to convene the directors on special occasions, and with the approbation of the board of directors, to assemble and affix the seal of the corporation to all conveyances or other instruments, and sign the same in behalf of the corporation—the said seal shall always remain in the custody and safekeeping of the president.

SEC. VIII. That a committee of the board, consisting of at least three members to be elected monthly by ballot, shall visit the vaults in which

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the cash and other effects shall be deposited at least once in every month, and make an inventory of the same, to be compared with the books, in order to ascertain whether they perfectly agree therewith.

SEC. IX. That no notes of the bank shall be struck or signed, or bank paper made, but by the direction of the board.

SEC. X. That in case the board of directors shall at any time make a dividend exceeding the profits of the bank and thereby diminish capital stock, the members assenting thereto shall be liable in their several individual capacities for the amount of the surplus so divided.

SEC. XI. That the board of directors shall, previous to the first day of December in every year, call a general meeting of the stockholders to be assembled, within three days after each annual election.

SEC. XII. That the board of directors are hereby empowered to demand and receive from the commissioners appointed to superintend the subscriptions to the capital stock of the bank, all moneys which have been paid to the said commissioners on account of the first specie payment, together with the original book of subscription.

SEC. XIII. That the board of directors are hereby authorized to ascertain and determine in what manner the remaining portions of the capital stock, due on the shares subscribed, consisting of specie and public debt, shall be paid and received, and they are hereby further authorized and empowered to receive into their possession the certificates of said public debt, and demand and receive by their president, or in such other manner as they shall think proper, the interest that shall accrue and become due on the same, and to give receipts therefor in behalf of the said corporation.

SEC. XIV. That the board of directors are hereby authorized and empowered to fix and establish requisite, safe, and convenient forms for transferring bank stock; for receiving half-yearly dividends; for conveying a right to proxies to represent stockholders at any general meeting after the second Monday of January next; for the certificates of capital stock of the bank; for the circulating and post notes of the bank; and for the oath or affirmation of the officers of the bank, previous to their entering on the execution of their respective duties.

SEC. XV. That the board of directors are hereby authorized and empowered to establish a common seal, with suitable devices; to ascertain and mark out the various duties and employments of the officers, clerks, and servants of the bank, and to direct them accordingly—as well as to determine the amount of securities they shall respectively give for the faithful discharge of their duties; to assign to the president such additional functions as are not already designated by law; and to reissue or renew at their discretion the notes in circulation.

SEC. XVI. That the directors shall have power to make loans to the Government of the United States, or of any State, to such extent, and on such terms as they shall deem expedient, not contrary to law; provided

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that a board consisting of not less than a majority of the whole number of directors shall be necessary to decide in all such cases.

SEC. XVII. That the board of directors are hereby authorized to lease or hire for a term not exceeding two years such suitable buildings as the administration of the affairs of the bank may require.

SEC. XVIII. That in case it shall happen that an election of directors shall not be made at a meeting of the stockholders for that purpose on the first Monday of January next, and on said day in each succeeding year, it shall be lawful for the stockholders to adjourn said meeting to any future day within five days from the said first Monday of January, and at said adjournment to make, complete, and finish said election.

SEC. XIX. That the board of directors are hereby empowered to form and establish all other rules and regulations that they may deem necessary for the interior management of the bank.

On motion, resolved, That it is the sense of the stockholders of the Bank of the United States, that the president and directors should turn their immediate attention to the establishment of offices of discount and deposit at such places in the United States as the interest and safety of the institution will admit.^a

Attest:

EDWARD FOX, *Secretary*.

^aDunlap's American Daily Advertiser, November 14, 1791.

APPENDIX C.

QUOTATIONS OF BANK STOCKS..

Date.	Bank of the United States.	Bank of North America.	Bank of Pennsyl- vania.	Bank of Phila- delphia.
August 22, 1792.....	150	130		
November 6, 1792.....	142	133		
January 3, 1793.....	135	130		
January 4, 1794.....	110	120	108	
January 2, 1795.....	126	140	126	
January 16, 1795.....	145	145	140	
February 15, 1796.....	130	146	130	
February 14, 1797.....	112	145	113	
January 10, 1798.....	^a 123	150	124	
January 1, 1800.....	124	150	124	
December 20, 1800.....	139	153	134	
January 17, 1801.....	133	147	126	
August 2, 1802.....	153	151	141	
January 1, 1803.....	147½	154	134	
March 10, 1804.....	148	143	125	113
May 18, 1805.....	132	135	130	96
January 4, 1806.....	131	131½	128½	104
December 21, 1807.....	123½	145	134	123
January 26, 1808.....	119	145	134	123
May 21, 1808.....	130	140	140	127
January 5, 1809.....	127½	145	145	136
January 22, 1810.....	127	147	141	136
April 2, 1810.....	111	146	140	133
December 19, 1810.....	115	149½	137	129
January 15, 1811.....	^a 113			
January 28, 1811.....	107			
April 2, 1811.....	90			
December 30, 1811.....	95½			
April 9, 1812.....	92			
June 8, 1812.....	94			

^a Dividend off.

APPENDIX D.

DIVIDENDS.

Year.	Bank of the United States.		North America.	Philadel- phia.	Pennsyl- vania.
	January	July.			
	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent</i>	<i>Per cent.</i>	<i>Per cent.</i>
1787			6		
1788			6		
1789			7		
1790			7		
1791			7		
1792		4	15		
1793	4	3 3/8	13		
1794	3 3/8	4	12		
1795	4	4	12		
1796	4	4	12		
1797	4	4	12		
1798	5	4	12		
1799	4	4	12		
1800	4	4	10		
1801	6	4	10		
1802	4 1/2	4 1/2	10		
1803	4 1/2	4	9 1/2		
1804	4 1/2	4	9	8	
1805	4	4	9	8	
1806	4	4	9	8	
1807	6	4	9	8	
1808	4	4	9	8	
1809	4	4	9	8	
1810	4	4	9	8	
1811	4	4			

^a The third dividend was 10 per cent; fourth, fifth, and sixth, 9 1/2 per cent; thirteenth to nineteenth, 9 per cent.

APPENDIX E.

RECORDS AND ACCOUNTS OF THE FIRST BANK OF THE UNITED STATES.

The scantiness of data relating to the first Bank of the United States, especially of reports of its condition, has long been regretted by historians and investigators. Though there are indisputable evidences that the bank made frequent reports to the Treasury Department, only two apparently have been preserved. The Treasury officials now in charge of the records and archives share the opinion expressed in Professor Dunbar's subjoined article that if any of these reports were in existence at the time of the fires in 1814 and 1833 they were probably destroyed.

In undertaking a study of the first Bank of the United States, however, it was hoped that a diligent search might reveal some old records, diaries, or other data, which would throw additional light upon its methods and practices. It was thought that the papers and documents of the bank, after its business and the bank building were purchased by Stephen Girard, might have passed into his possession and have been preserved either among his private papers, now in the possession of the Girard estate, or among the old records of the Girard National Bank, which was organized as a state bank in 1832 to fill the financial gap caused by Girard's death and the liquidation of his bank. These possible sources, however, proved fruitless. The Girard National Bank has no records relating to the old bank; while the superintendent of the Girard estate, who is having Girard's papers classified and catalogued, believes

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that the collection contains no material of value on this subject.

Through the officers of the Pennsylvania Historical Society inquiry was made to ascertain whether any of the old bank records had passed into the possession of, and had been preserved by, descendants of Willing, Simpson, and others directly connected with the bank. This line of inquiry, too, proved unfruitful. A careful reading of the newspapers and pamphlets for the entire period of the bank's existence furnished considerable new material, especially for the first few years of its history. The old minute books and records of the Bank of North America, which were made accessible through the courtesy of President Michener, contained some valuable data, but this is the only bank which was contemporary with the first Bank of the United States whose records have yielded much material for this study. Extensive use has been made of the Finance folios in the American State Papers, as well as the works and writings of Hamilton, Gallatin, Jefferson, and other public men of the time.

Professor Dunbar's article on the "Accounts of the First Bank of the United States" follows:

"The first Bank of the United States was obliged by its charter to report its condition to the Treasury Department as often as required, not exceeding once a week. It is well known that Mr. J. J. Knox, when Comptroller of the Currency, found that the existing records do not show that any formal reports were ever made. Two balanced statements were given to Congress by Mr. Gallatin, one in March, 1809, and the other in January, 1811; and it has sometimes been assumed that these were the only reports ever made.

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“That Mr. Knox’s search in the Treasury Department brought no reports to light proves but little. The Treasury Department, it will be recollected, was burned when Washington was occupied by the British forces in August, 1814; and it was burned again in March, 1833. The official statements made to Congress as to the documents and books lost and saved on these two occasions raise a presumption that any such reports, if in existence at the time of either conflagration, would not have been among the papers saved, the effort being made in both cases to save primarily what was needed for the current public service. The failure, therefore, to discover at the present time a set of papers, which even in 1814 had only an historical value, can not be regarded, under the circumstances, as having any weight.

“There are, however, many pieces of evidence scattered in the public documents tending to show that the bank was required by the Treasury Department to make frequent report of its condition, and that it did so in obedience to the law.

“The most complete account which we have is that which was sent to the House in January, 1811, as above stated, and is given in State Papers on Finance. (Vol. II, p. 468.) This statement, made in much detail, is said by Mr. Gallatin in the letter communicating it to be ‘extracted from the latest returns received at this office from the bank.’ It was then one of a series. The return of 1809 above referred to (*ibid.*, p. 352), although a balanced account, is given in round numbers and has been stigmatized as an account ‘trumped up;’ but Mr. Gallatin’s letter transmitting it states expressly that the amount of

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the principal items 'is taken on a medium'—that is, it is an averaged account, and no more 'trumped up' than the averaged accounts now published weekly by the clearing-house. Mr. Gallatin's language shows that he preferred to give an averaged account, because it better represented the ordinary condition of the bank than the actual figures at the date of his report; and, as the question before Congress related to a renewal of the charter, it was the ordinary condition of the bank which Congress most needed to understand. For the present purpose, however, the important point is that, in making a statement 'taken on a medium,' Mr. Gallatin probably had before him the various detailed statements of which this medium is the average. In one other instance we have direct evidence that an account of the bank was in possession of the Government. In Gallatin's Writings (Vol. I, p. 59), Jefferson writes to Gallatin, November 11, 1801, giving a comparative table of certain items in the accounts of the Bank of the United States and of banks in several of the principal cities. If we take the items relating to the Bank of the United States and arrange them in their proper form, we find that they make up an account as follows:

Liabilities.	Resources.
Capital..... \$10,000,000	Discounts..... \$12,150,000
Undivided profits..... 40,000	Six per cent and advance to
Notes..... 5,200,000	Government..... 5,460,000
Deposits:	Due from banks..... 1,450,000
Government..... 3,560,000	Specie..... 5,000,000
Individual..... 5,240,000	
24,040,000	24,060,000

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“It is sufficiently evident that Jefferson in this case had a balanced account of the bank which he simplified by throwing off the thousands, this process causing the discrepancy which appears in the totals of debit and credit.

“Besides these references to other statements than those now known to exist, there are numerous significant allusions to be found in Gallatin’s correspondence and in the debates in Congress upon the proposed renewal of the charter. Thus, in Gallatin’s ‘Writings’ (Vol. I, p. 80), we have Gallatin in June, 1802, comparing the condition of the Bank of Pennsylvania with that of the Bank of the United States. To cite only one passage from the debates, we find Mr. Finley, on April 30, 1810, saying in the course of his speech that ‘the Secretary of the Treasury has, for the time being, had authority by law to inspect the directors of the bank, and did do it, and obtained weekly returns of its situation.’ In Gallatin’s communication to the House, January 10, 1811, in ‘State Papers on Finance’ (Vol. II, p. 460), there are significant references to ‘the returns made to the Treasury,’ and ‘the official statements transmitted in conformity with * * * the charter,’ and the like. And in Mr. Gallatin’s well-known ‘Considerations on the Currency and Banking System,’ published in 1831, we find him making a general statement as to the proportion which the loans made and stocks owned by the bank bore to its capital for the whole of its existence—a statement which a man of his caution never made without full documentary evidence. In short, there is ample reason to believe that when the stockholders declared in their petition

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for a renewal of the charter, in April, 1808, 'that the confidence of the Government (was) founded upon a constant knowledge of the interior management and condition of the bank,' they told the truth. Indeed, it is inconceivable that they should have made this statement to a Congress in which their opponents had the majority, if there had been any possibility of a denial.

'That the accounts given to the Treasury Department were not made public, as they would be in our own day, is not surprising when we see the different views then commonly held as to giving publicity to such statements. For example, in Jefferson's letter of November, 1801, referred to above, it will be observed that he suggested that statements from the state banks should be generalized, and the total of the yearly average should be presented to Congress. 'It would give us,' he says, 'the benefit of their and of the public observations and betray no secret as to any particular bank.' And it will be recollected that at that period the Bank of England, on which the Bank of the United States was closely modeled, made no publication of its accounts, and that it was not until 1834 that even a quarterly statement was required to be made. In the earlier part of the century the public could learn nothing as to the condition of the bank, except the selected facts cautiously given out in parliamentary investigations. Mr. Tooke, in his evidence before the committee of 1832, in 'Parliamentary Documents,' 1831-32 (Vol. VI), described the accounts thus given of the cash held by the bank at some critical periods as 'mystical;' and some important witnesses,

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even in 1832, maintained that to give the bank accounts to the public, especially to state the amount of bullion held, might be a mischievous practice. It is not surprising then that the accounts of the first Bank of the United States down to 1811 were regarded as confidential. That under the seal of confidence they were regularly made from an early period and probably for the whole of the bank's existence seems to be more than probable." ^a

^aQuarterly Journal of Economics, Vol. VI, p. 471.

The Second United States Bank

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THE SECOND UNITED STATES BANK.

PREFACE.

In the following report on the Second Bank of the United States, I have not attempted to present a complete history or to cover every phase of the bank's activity. This has been most satisfactorily achieved by Professor Catterall; his monograph, "The Second Bank of the United States"^a is based on a collection of material, including Biddle's private papers, hitherto inaccessible, and is characterized by searching analysis and sober judgment. Professor Sumner has also treated the subject at length in his "Life of Jackson," and in Volume I of "History of Banking in all Nations." I wish, therefore, at the outset, to express my indebtedness to these two writers, and more particularly to the former, who enjoyed the use of sources unavailable to the latter. Although personally I have examined with care all the Congressional documents which relate to the bank, including reports and debates, a large part of this labor has necessarily been of a perfunctory character, because the trail had been previously so carefully blazed by Professor Catterall.

An especial effort has been made to set forth the reasons for the establishment of the bank, the mistakes which it made at the beginning of its career, its operations under more conservative guidance, the reasons for its downfall, and more particularly at every stage the kind of work which it performed in the general field of banking. Espe-

^a Published by the University of Chicago Press, pp. xiv, 538 (1903).

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cially have I endeavored to include those operations which might be concerned in the discussion of a central bank at the present time.

Although a preface does not ordinarily present conclusions, it may not be improper to advise the reader in advance that the circumstances which gave rise to the establishment of the Second Bank were altogether different from those which have brought about a discussion of the question of a central bank at the present juncture; that the bank in its final operations was nothing more or less than a large commercial bank with practically the same functions as other banks established under state charters, and differed from them in little save size and enjoyment of a few special privileges; that the bank began its operations during a period of commercial demoralization and developed its practice during a period of crude banking methods, as measured by current standards; and finally, that the bank in its closing years, was subject to a political attack, violent, indiscriminating, and even unscrupulous in its character. It is difficult, therefore, to find in the experience of this institution, any lessons of importance which may be of special service in the preparation of a plan for a large national central bank at a later period, when business methods have been transformed by the railroad, the telegraph, and by the development of corporate enterprise, to say nothing of the change in banking law through the general substitution of national supervision for state control.

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DEBATE ON PLANS.

The embarrassments of the money market in less than three years after the dissolution of the First United States Bank in 1811 revived a demand for the establishment of a similar institution. On January 4, 1814, a petition from New York was presented "praying for the incorporation of a national bank, with a capital of \$30,000,000."^a The Committee on Ways and Means reported adversely, on the ground that it was unconstitutional to "create corporations within the territorial limits of the States without the consent of the States."^b Discussion, however, did not die out, and proposition after proposition followed in rapid succession. Calhoun proposed the establishment of a bank in the District of Columbia;^c but this was open to the objection that it would not furnish a national currency unless branches in the several States were permitted; nor was this indirect method of extending the operations of the bank over the whole country acceptable to the advocates of strict construction in favor of state supremacy.^d When Congress met in special session in September, 1814, the situ-

^a Annals of Congress, 13th Cong., I, 844.

^b Ibid., I, 873.

^c Ibid., I, 1235.

^d Catterall, 8.

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ation had been aggravated by the suspension of specie payments in the previous month. A new and more vigorous Secretary of the Treasury, Dallas, succeeded Campbell, and announced without delay that a national bank was "the only efficient remedy for the disordered condition of our circulating medium."^a

The Committee on Ways and Means thereupon promptly reported a bill for the establishment of a bank founded on specie and government war stock. Among its provisions was the grant of power to the President of the United States to suspend specie payments when such suspension seemed necessary.^b "Opposition came from three quarters: From the strict constructionists, a meager band; from the Federalists, able, noisy, persistent, and bitterly aggrieved by the provision to limit stock subscriptions to war stock; and from those members of the Republican party who were willing to charter a bank, but wished one of a different character. This party was respectable in size, most ably led by Calhoun and Lowndes, and supported by Speaker Cheves."^c Calhoun consequently introduced a bill providing for a bank with a capital of \$50,000,000 founded on specie and treasury notes, with no authority for the suspension of specie payments. At first, this plan prevailed over that of the administration,^d but further divisions soon appeared among the Republicans. Some wanted a bank with less capital, and Dallas argued that the nation's credit under Calhoun's plan would not be

^a Annals of Congress, 13th Cong., III, 400-409.

^b Ibid., III, 404-406.

^c Catterall, 11.

^d Annals of Congress, 13th Cong., III, 613.

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strengthened.^a Efforts to pass a bill consequently failed in the House. The Senate thereupon passed a bill in harmony with the proposals of Dallas. Again the House took up the discussion, but, by the Speaker's vote, the bill was lost.

Dallas, however, insisted upon action and the bill was reconsidered.^b A compromise measure was the result, providing for a bank with a capital of \$30,000,000—\$5,000,000 in specie, \$10,000,000 in war stock, and \$15,000,000 in Treasury notes. No provision was made for suspension, and the Government did not participate.^c This bill passed the House and was forced through the Senate. It now met the disapproval of President Madison, who returned a veto on the ground that the proposed bank would not revive the public credit, provide a national medium of circulation, or aid the Treasury by facilitating anticipations of revenue, or afford more durable loans.^d Fortunately at this juncture the war came to an end, and as there was no longer need of founding a bank for the main object of procuring loans, the grounds for opposition between Calhoun and Dallas were largely removed.

“The prime necessity now was to settle the currency, which remained in the utmost disorder, and to resume specie payments. Had it been possible to persuade the state banks to take steps looking to resumption, it is conceivable that the administration's advocacy of a national bank would have ceased. But this was not possible. Dallas, therefore, again proposed that a national bank be

^a Annals of Congress, 13th Cong., III, 652-654.

^b Dallas, *Life of Dallas*, 138-139; Catterall, 15.

^c Annals of Congress, 13th Cong., III, 1039-1040; Catterall, 15.

^d Messages and Papers, I: 555.

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established.”^a Once more he maintained that the state banks could not successfully be employed to furnish a uniform national currency, for the attempt to associate them for that purpose had failed; another attempt to use their agency for the circulation of Treasury notes had been only partially successful, and a proposed plan to fix public confidence in the administration of the banks by curtailing their circulation and to give each bank a legitimate share in the circulation was not likely to receive the general sanction of the banks.^b The Government was not in a position to force the banks. A refusal on its part to receive bills of non-specie paying banks would be “to visit the sins of the banks upon the great mass of unoffending citizens, unless the Government was prepared to furnish a sufficient legal currency to meet the indispensable demands of the community.”^c President Madison also, in his annual message, favored a bank.

On January 8, 1816, a new bill was reported providing for a bank with charter provisions similar to those of the First Bank. The capital was increased to \$35,000,000, but the proportion of government subscription remained the same. After a few amendments the measure passed in the House by a vote of 80 to 71 and in the Senate by 22 to 12.^d

In brief, the charter included the following provisions:
Capital, \$35,000,000, in shares of \$100 each, one-fifth, or

^a Catterall, 17.

^b Report of Secretary of Treasury, Dec., 1815; summarized by Gallatin, Amer. Quart. Rev., Dec., 1830, p. 483.

^c Letter of Crawford to Jones, Nov. 29, 1816; Finance, 3: 316.

^d Dewey, Financial History of the U. S., 145-150.

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\$7,000,000, to be subscribed by the Government, and four-fifths, or \$28,000,000, by individuals, companies, or corporations; no one individual, company, corporation, or State to subscribe for more than \$300,000, and such subscription to be made payable in installments extending over one year, one-fourth in specie and three-fourths in specie or funded debt of the Government.

The charter ran for twenty years, and gave the bank power to hold property "of whatsoever kind, nature, and quality," not exceeding \$55,000,000, including the capital. The management was placed in the hands of 25 directors, 5 to be appointed annually by the President of the United States, of whom not more than 3 were to be resident of any one State, and 20 were to be elected annually by the stockholders under a system of qualified or restricted voting whereby no person could have more than 30 votes. No director could be director in any other bank; and not more than three-fourths of the directors elected by stockholders and not more than four-fifths of those appointed by the President were to be reeligible for election for the next succeeding year; this restriction however, was not to apply to the president. Not less than 7 directors should constitute a board for the transaction of business, and no director was to receive any emolument; 60 stockholders—holders of at least 1,000 shares—should have power to call a special meeting of the stockholders; the cashier to give bond for at least \$50,000. The holding of real estate was limited to that requisite for the transaction of business, and such as shall have been mortgaged for security or conveyed in

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satisfaction of debts. Indebtedness, excluding deposits, was not to exceed \$35,000,000; in case of excess, the directors to be liable in their private capacities. The bank could deal only in bills of exchange, gold or silver bullion, or in the sale of goods pledged for loans, and not to purchase any public stock. No loan was to be made on account of the Government of the United States for more than \$500,000, or of any particular State for more than \$50,000. All bills and notes under \$100 were made payable on demand, and larger bills for a term not exceeding sixty days; no note to be issued for less than \$5. Offices of discount were to be established in the District of Columbia or upon application of the legislature in any State in which 2,000 shares were held, or in any place wheresoever the managers might deem fit. For such branches the boards of directors and presidents were to be appointed by the directors of the central bank. Periodical statements not exceeding once a week were to be made to the Secretary of the Treasury, who should also have power of inspecting the books of the bank. Every three years the bank should make an exact statement of unpaid debts and surplus profits. Notes issued payable on demand were receivable in all payments to the United States unless otherwise directed by Congress. The bank was obliged to furnish facilities for transferring public funds without charging commission or claiming allowance on account of difference in exchange. Deposits of public funds were to be made in the bank or branches, "unless the Secretary of the Treasury at any time otherwise order and direct;" in which case the Secretary must

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lay before Congress the reasons for such action. The bank could not suspend specie payments, and in case of refusal to redeem obligations in specie it must pay 12 per cent interest until the demand was satisfied. The bank was called upon to pay a bonus to the Government of \$1,500,000 for the franchise.^a

It will be observed that the control of the Government over the bank was confined to the appointment or removal of five of the directors, the withdrawal of public deposits, the exaction of weekly statements, and the inspection of its general accounts.

In providing for a subscription of Government stock or Treasury notes to the capital, the basic principle was similar to that later incorporated into the national banking system. The essential difference between the earlier and later systems lay in the treatment of state banks. The national banking system was given a monopoly of note issue, and the problem of restoring bank-note currency to a sound condition was, at least, simplified. In 1816 no attempt was made to eliminate local bank issues. It was believed that a federal bank could not only aid the Government, but also assist the state banks to recover their stability. Jefferson had suggested that local banks be deprived of this privilege to issue notes; not, however, to give free play to the issues of a national bank, but in the interest of a greater circulation of Treasury notes.^b The task of controlling the banks was, however, well-nigh impossible to accomplish. The experience of the First

^a 3 Stats., 266.

^b Letter to Cooper, Sept. 10, 1814, Works, 6: 375.

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Bank, which began its operations with only \$400,000 of specie in a total capital of \$10,000,000, could not be relied upon as a precedent, for it must be remembered that in 1791 there were but few banks, that their circulation was prudently curtailed, and that later, when state banks multiplied, the First Bank confined its operations within narrow limits.

The history of the bank, in brief, was as follows: The bank was chartered April 10, 1816, and on April 30 Congress ordered that resumption of specie payments go into effect on February 20, 1817. The bank was quickly organized under the presidency of Jones and began operations in January, 1817. Owing to mismanagement Jones was forced to resign in 1818, and Langdon Cheves became president. He held office until 1823, when he was succeeded by Nicholas Biddle. In June, 1829, Senator Woodbury of New Hampshire brought complaints against Jeremiah Mason, manager of the Portsmouth branch; in the following December President Jackson, in his annual message, questioned the constitutionality of the bank and accused it of failing to establish a sound currency. On April 30, 1830, a committee of the House of Representatives reported at length on the points raised by Jackson, its conclusions being entirely favorable to the bank. A Senate report was likewise friendly. In 1831 Senator Benton supported a resolution against rechartering the bank. In January, 1832, the bank petitioned for recharter, and this was favorably acted upon by committees of the Senate and the House. A bill for recharter was passed, but vetoed by Jackson July 10, 1832. In the

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autumn of this year Jackson was reelected president, and interpreted the vote as an endorsement of his opposition to the bank. In December, 1832, Jackson raised the question whether the funds of the Government were safe in the custody of the bank. An investigation was ordered by the House, and a majority report of the Committee on Ways and Means upheld the bank. This report was adopted March 2, 1833, by a vote of 109 to 46. Notwithstanding this the President determined to remove the deposits, and in order to accomplish his purpose on September 23 dismissed Duane, Secretary of the Treasury, who objected to removal, and appointed Taney in his place. The latter on September 26 ordered that deposits henceforth be made in certain state banks. On December 3, 1833, Taney reported his reasons for removal to the Senate. In 1836 the charter of the bank expired.

RELATION TO STATE BANKS IN RESUMING SPECIE PAYMENTS.

The history of the bank and the development of public opinion in regard to this institution can not be understood without a careful consideration of its relation to local banks during the struggle for resumption of specie payments in 1817. Seeds of dissension, jealousy, and hostility were then sown which the bank was never able to eradicate. During the period of expansion after 1811 and the speculative profits which attended suspension and unwise legislation, state banking had assumed proportions which were beyond control. If the bank had been organized when commercial operations were normal and banking methods were sound, the United States bank

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would undoubtedly have had a different history. Established, however, at the time it was, after local banks had enjoyed a free license for their operations, it was well-nigh impossible for it to do its work without clashing with local and selfish interests. The First Bank was organized to aid public and private credit; the Second, to restore to the country an orderly currency through the resumption of specie payments. The burden was placed upon the bank. Dallas had in vain attempted to hasten the local banks toward resumption, setting the date at February 20, 1817; and Congress in April, 1816, had passed a joint resolution declaring that after the date mentioned all payments to the United States ought to be made either in gold or silver or in treasury notes, or in the notes of the Bank of the United States, or in notes of banks payable and paid on demand in specie.^a The banks refused, postponing the date to July 1, and as the Government could not compel the banks to resume, Secretary Crawford, who succeeded Dallas, urged the bank to use its power.^b Crawford also proposed to the banks, which were at that time public depositories, that if they would resume on the date set, the public funds, as far as possible, would not be transferred to the bank until July 1.^c The replies were again discouraging.

The situation was full of embarrassment. The bank complained of the local institutions; the latter were suspicious of the new establishment, and the Treasury was

^a Annals of Congress, 14th Cong., 1 sess., I, 440, 919; 3 Stats., 342; other references in Catterall, 23.

^b Crawford to Jones, Nov. 29, 1816; Finance, 3:317.

^c Dec. 20, 1816; Finance, 4:283.

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not sure of the disinterestedness of either in working for the public welfare. Jones, the president of the bank, complained "that the state banks, instead of putting their shoulders to the wheel, indulged in the most extravagant expectations of relief in the operations of the bank and calculated upon replenishing their vaults by transferring to it their debtors, and by this ingenious kind of transmutation convert their paper into solid coin."^a Crawford, on the other hand, referred to the "unexpected taciturnity of the directors of the Bank of the United States upon every subject which has been presented to them by the Treasury Department."^b

Jones then proposed that the Treasury should transfer all of its balances to the bank and its branches, thus bringing a pressure upon the local institutions which might induce them to resume.^c He declared that the principal banks were rich in surplus funds and resources which were abundantly sufficient to relieve them from the reproach of delinquency^d and that they were withholding from circulation the coin which they had accumulated in their vaults. Crawford, however, would not give the bank this power. As the bank had declined to accept state bank notes as cash, but only as a "special deposit,"^e he could not indorse such a course without qualifications, and consequently declined to transfer this unlimited privilege to the bank.^f The bank had good reason for declining to receive local notes as cash, for if it accepted such currency it would be liable for specie

^a Jan. 1, 1817; Finance, 4:764.

^b Jan. 6, 1817; Ibid., 4:495.

^c Jan. 9, 1817; Ibid., 4:779.

^d Ibid., 4:765.

^e Ibid., 4:764.

^f Ibid., 4:496.

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when called upon by the Treasury, and would subject itself to the heavy penalty prescribed in section 17 of the charter if it should refuse thus to pay.^a

The serious question at issue was whether there would be a sufficient amount of current legal money if the bank should attempt resumption alone. Crawford believed that unless the local banks could be brought into an arrangement by which their paper would be received in payment of taxes there would not be a large enough volume of medium on January 20, in which dues could be paid.^b The bank, however, did not take this view and was willing to attempt the enterprise single-handed. By a vote of January 9 it agreed to discount from February 20 to July 1 sixty-day bills made payable in specie or notes of the bank, or of specie paying local banks on account of revenue arising from imports in the principal commercial cities.^c

Finally, on February 1, after a conference was held with representatives of the banks of New York, Philadelphia, Baltimore, and Richmond, the institutions in those cities agreed to resumption at the earlier date. For this, however, certain concessions had to be made by the bank. The bank agreed not to force the actual payment of the Government balances which were soon to be transferred to its custody until July 1; and after that it would not call for the payment of balances which might thereafter accumulate against these institutions until discounts had been made at the Bank of the United States to the amount of \$6,000,000. Mutual pledges of good faith and friendly

^a Finance, 4: 768.

^b *Ibid.*, 4: 497.

^c *Ibid.*, 4: 766.

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offices to contribute their resources in case of emergencies were also interchanged.^a As Catterall observes, this was a one-sided agreement, with the advantages largely in favor of the local banks. The bank assumed at once the responsibility of paying on a specie basis all drafts which might be drawn by the Government on its deposits, and yet the bank could not draw specie from the local banks by the presentation of their notes for redemption until July 1. Moreover, it forced the bank to make large loans on the supposition that the local banks would reduce their discounts in order to be enabled to pay over the public funds. By making these loans the bank endangered its own specie reserve, since the local banks could, in accumulating the bills of the bank, drain it of its specie.^b

Although the bank thus promptly cooperated to establish a sound monetary medium, it did not manage its own affairs with discretion. There were three strong reasons why it should have exercised caution: (1) There was an unfavorable balance of trade due to large importations from England at the close of the war; (2) specie was scarce, due to its hoarding and disappearance through the period of suspension; (3) the unstable position of many local banks. The bank, however, followed a short-sighted policy. The country had suffered so keenly from the varying rates of depreciation of local bank bills that public attention was concentrated on the benefits to be derived from the equalization of exchange. The bank accepted the theory of the Treasury, that all evils would

^a Finance, 4:451.

^b Catterall, 25-26.

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be cured if resumption were once obtained. There was, however, a wide difference between nominal and real resumption, between temporary and permanent resumption. Real and permanent resumption could only be secured by contraction of loans and a reduction of bank-note circulation. The bank, on the contrary, accepted the extraordinary commercial expansion which occurred after the establishment of peace as a normal and healthy condition. It loaned freely, particularly in Philadelphia and Baltimore, and it allowed the branches, especially in the South and West to extend discounts beyond the margin of safety.^a Moreover, it displayed favoritism in loans to its own stockholders and promoted the operations of speculators at its Baltimore branch.

The weakness of state banks and their ineffectiveness in accomplishing the task of resumption is well illustrated by the experience of the Maryland banks, as described by Bryan. Most of the country banks in that State had been chartered after 1812; their deposits were smaller than those of the city banks, and they had to depend more upon circulation;^b their resources were locked up in real estate, and although they resumed temporarily in February, 1817, they could not stand the strain.^c Throughout 1817-1820 their notes were below par, ranging in depreciation from 10 to 90 per cent, and brokers even refused to buy them. Thirteen of these banks in 1820 were obliged to wind up their affairs. During

^a Catterall, 33-34.

^b A. C. Bryan, *History of State Banking in Maryland*, 52.

^c *Ibid.*, 57.

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the inflation period of 1816-17 loans were made to farmers, and prices of agricultural products fell so that the farmers were unable to pay at maturity. In 1818 one of these country banks had one hundred and fifty suits at law against individuals for debt.^a The Baltimore banks suffered heavy losses due to maladministration, bad practice, and bad investments; renewals of notes were unwisely made and investments in internal improvements were not profitable.^b Loans were made too freely to officers of the banks, whose administration was largely in the hands of cashiers.^c It was common for paper to run four or five years without change in the indorsement. Indorsers, therefore, who were sound in 1814, were found to be without property in 1818. As the depreciation of bank notes varied, banks sought to buy in their notes at the lowest possible rates, and oftentimes special arrangements were entered into with note brokers. Demand for specie was in many cases the cause of unpleasant relations.^d Under such conditions the responsibility which was imposed upon the United States Bank in leading the way to resumption proved obnoxious to local banks.

COMPARISON OF CHARTERS OF THE FIRST AND SECOND UNITED STATES BANKS.

For purposes of comparison, the following summary is given, showing by points the principal provisions of the charters of the First and Second United States banks. A stands for the First and B for the Second Bank. When

^a A. C. Bryan, *History of State Banking in Maryland*, 66.

^b *Ibid.*, 60.

^c *Ibid.*, 67.

^d *Ibid.*, 69.

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no entry is made after the letter the charter is silent. It will be observed that many of the provisions are practically identical.

1. Size of capital:
 - A. \$10,000,000.
 - B. \$35,000,000.
2. Par value of shares:
 - A. \$400.
 - B. \$100.
3. Management of subscriptions:
 - A. Under superintendence of at least three persons appointed by the President; subscriptions to be opened at Philadelphia and continued until all the stock has been subscribed.
 - B. Under superintendence of five commissioners at Philadelphia, and of three other commissioners each at Portland, Me., Portsmouth, N. H., etc. (eighteen other places), appointed by the President.
4. State ownership or subscriptions by the Government:
 - A. \$2,000,000.
 - B. \$7,000,000.
5. Limitations in the number of shares to be subscribed by any one person:
 - A. Not exceeding 1,000 shares, or \$400,000.
 - B. Not exceeding 3,000 shares, or \$300,000.
6. Private subscriptions to be paid:
 - A. One-fourth in gold and silver, three-fourths in the public debt.

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6. Private subscriptions to be paid—Continued.
 - B. One-fourth in gold or silver coin of the United States, or in gold coin of Spain, or in other foreign gold or silver coin at prescribed rates, and three-fourths in the funded debt of the United States.
7. Length of time for payment:
 - A. Four installments, six months apart, the first to be paid at time of subscription.
 - B. Three installments: At subscription, \$5 in specie and \$25 in specie or government stock; in six months, \$10 in specie and \$25 in specie or government stock; in twelve months, \$10 in specie and \$25 in specie or government stock.
8. Maximum amount of property to be held:
 - A. \$15,000,000, including capital stock.
 - B. \$55,000,000, including capital stock.
9. Length of charter:
 - A. Twenty years.
 - B. *Ibid.*
10. Limitations in ownership of real estate:
 - A. Land, tenements, and hereditaments “only such as shall be requisite for its immediate accommodation in relation to the convenient transacting of its business and such as shall have been bona fide mortgaged to it by way of security, or conveyed to it in satisfaction of debts previously contracted in the course of its dealings, or purchased at sales upon judgment.”
 - B. *Ibid.*

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11. Beginning of business:
 - A. As soon as \$400,000 is received in specie, notice to be given in Philadelphia for election of directors, who shall forthwith commence operations. (Sec. 5.)
 - B. As soon as \$8,400,000 in specie and in public debt has been received, directors to be elected. (Sec. 9.)
12. Indebtedness:
 - A. \$10,000,000 over and above deposits "whether by bond, bill, note, or other contract," unless authorized by law of the United States.
 - B. \$35,000,000 over and above deposits "whether by bond, bill, note, or other contract," unless authorized by law.
13. Scope of business:
 - A. Shall not "directly or indirectly deal or trade in anything except bills of exchange, gold or silver bullion, or in the sale of goods really and truly pledged for money lent and not redeemed in due time, or of goods which shall be the produce of its lands."
 - B. *Ibid.*
14. Limitations in powers:
 - A. Could not purchase any public debt whatsoever.
 - B. *Ibid.*
15. Restrictions on sale of its government stock:
 - A. Could sell any part of the public debt whereof its stock was composed.

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15. Restrictions on sale of its government stock—Cont'd.
 - B. Could sell for coin or bullion, its government stock, limited, however, as follows:
 - (1) To \$2,000,000 in any one year.
 - (2) Could not sell within the United States without giving notice to the Secretary of the Treasury and offering the same to the United States "at the current price, not exceeding the rates aforesaid," that is, the rates at which the stock was subscribed.
(Sec. 3.)
16. Rate of interest:
 - A. Could not charge more than 6 per cent per annum upon its loans or discounts.
 - B. *Ibid.*
17. Loans to Government:
 - A. No loan to the United States exceeding \$100,000, or to any particular State over \$50,000, or to any foreign prince or State, unless authorized by law.
 - B. To the United States, not over \$500,000, or to a particular State, \$50,000, or to a foreign prince or State, unless authorized by law.
18. Number of directors:
 - A. Twenty-five.
 - B. *Ibid.*
19. Government directors:
 - B. Five to be appointed by the President of the United States, by and with the advice and consent of the Senate, and not more than three to be resident in any one State.

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20. Election of directors:

- A. Annual, by stockholders, by plurality of votes actually given.
- B. Twenty to be elected annually by stockholders other than the United States.

21. Qualifications of directors:

- A. Must be stockholders and citizens of the United States; not more than three-fourths of the directors, exclusive of the president, shall be eligible for the next succeeding year; the director who shall be president may always be reelected.
- B. Must be stockholders and resident citizens of the United States; not more than three-fourths of the directors elected by stockholders, and four-fifths of the directors appointed by the president shall be elected or appointed for the next succeeding year. No director to hold his office more than three years out of four in succession, but the director who shall be president may be reelected.

22. Duties of directors:

- A. Have power to appoint officers, clerks, etc., and to allow them compensation and to exercise their powers for government as fixed by by-laws.
- B. *Ibid.*

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23. Compensation to directors:
 - A. No director to be entitled to any emolument unless the same shall have been allowed by stockholders at a general meeting.
 - B. A director other than the president shall not be entitled to any emolument. (The clause permitting the stockholders at a general meeting to allow compensation is omitted in the charter of the Second Bank.)
24. Quorum for business by directors:
 - A. Not less than seven.
 - B. *Ibid.*
25. Compensation to the president:
 - A. Stockholders may make compensation to the president for his "extraordinary attendance" at the bank, as shall appear to them reasonable.
 - B. *Ibid.*
26. Liability of directors:
 - A. In case of excess of indebtedness, directors under whose administration it shall happen shall be liable in their natural and private capacity, and an action of debt may be brought against them in any court of record in the United States. A director who may have been absent when the excess was contracted for, or who may have dissented, may exonerate himself by giving notice to the President of the United States and to the stockholders at a general meeting.
 - B. *Ibid.*

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27. Voting by stockholders:
- A. For 1 share and not more than 2 shares, 1 vote.
For every 2 shares above 2, not exceeding 10,
1 vote.
For every 4 shares above 10, not exceeding 30,
1 vote.
For every 6 shares above 30, not exceeding 60,
1 vote.
For every 8 shares above 60, not exceeding
100, 1 vote.
For every 10 shares above 100, 1 vote.
No person to have more than 30 votes.
 - B. *Ibid.*
28. Conditions in ownership of stock to qualify voter:
- A. Stock must be held for three months previous
to election.
 - B. *Ibid.*
29. Residence of voters:
- A. Stockholders actually resident within the
United States to vote by proxy.
 - B. *Ibid.*
30. Calling of meetings:
- A. Not less than 60 stockholders who own 200
shares, or \$80,000, of stock could call a
meeting, giving ten weeks' notice.
 - B. Not less than 60 stockholders holding 1,000
shares, or \$100,000, of stock could call a
meeting, giving ten weeks' notice.
31. Bills of credit under seal assignable by indorsement:
- B. No bill, obligatory or of credit or of other
obligation under its seal, to be made for the
payment of a sum less than \$5,000.

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32. Bills not under seal:
 - A. Binding upon the bank, etc.
 - B. Provided that notes not payable on demand might be made for sums not less than \$100 and payable to the order of some person or persons not exceeding sixty days. (Secs. 11 and 12.)
33. Denominations of notes:
 - B. No note for less than \$5.
34. Non-redemption of bills:
 - B. If the bank suspended or refused payment in specie, holder to be entitled to 12 per cent interest until demand is satisfied.
35. Branches:
 - A. Lawful for the directors to establish offices where they shall think fit, within the United States, for the purposes of discount and deposit only.
 - B. Shall establish an office of discount in the District of Columbia whenever Congress shall require; also an office of discount and deposit in any State in which 2,000 shares shall have been subscribed or may be held, upon application of legislature of such State, or of Congress; also bank could establish offices of discount and deposit wherever they thought fit, or they could employ any other bank approved by the Secretary of the Treasury to transact its business other than for the purpose of discount.

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36. Management of branches:
 - A. "Upon same terms and in the same manner as shall be practiced at the bank."
 - B. Not more than thirteen nor less than seven managers or directors of each branch to be annually appointed by the bank, to serve one year. These shall choose a president from their own number. Directors must be citizens of the United States and resident of the State. Not more than three-fourths can be reappointed for the next succeeding year, and no director to hold his office more than three years out of four, but the president could be reappointed.
37. Supervision by the Government:
 - A. Treasury Department to be furnished, as often as required, not exceeding once a week, with statements of the amount of capital, debts, deposits, notes in circulation, cash on hand, and to have the right to inspect the general accounts; not, however, the account of any private individual.
 - B. *Ibid.*
38. Right of Congress to investigate:
 - B. Committee of either House of Congress, appointed for that purpose, to have the right to inspect books and to examine proceedings of the bank and report whether charter has been violated. (Sec. 23.)

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39. Action in case of violation of charter:

B. Whenever a violation of charter was reported, or the president had reason to believe that the charter had been violated, it should be lawful for Congress to direct, or the President to order, a *scire facias* out of the District of Columbia, calling on the corporation to show wherefore the charter should not be declared forfeited.

40. Dividends:

A. Semi-annual dividends to be made as appear to the directors advisable.

B. *Ibid.*

41. Unpaid debts:

A. The bank once in three years to lay before the stockholders an exact and particular statement of debts which have remained unpaid for the period of treble the term of credit. If any subscriber shall be in arrears, he shall lose the benefit of the dividend.

B. *Ibid.*

42. Penalties for engaging in business contrary to the charter:

A. Every person concerned to forfeit and lose treble the value of goods, wares, merchandise, commodities in which the deal and trade shall have been. One-half to go to the use of the informer and the other half to the United States.

B. *Ibid.*

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43. Penalty for loaning money to the Government in excess of that permitted by charter:

A. Every person concerned in making such advance to forfeit treble the value. One-fifth to go to the informer and four-fifths to the United States.

B. *Ibid.*

44. Tender of notes to the United States:

A. Notes payable on demand in gold or silver coin to be receivable in all payments to the United States.

B. *Ibid.*, with the addition "unless otherwise directed by act of Congress."

45. Transfer of public funds:

B. Bank to transfer public funds within the United States and to distribute the same in payment of public debtors without charging commission or claiming allowance on account of difference of exchange. (Sec. 15.)

46. To act as commissioner of loans:

B. Bank to perform the duties of commissioner of loans for the several States whenever required by law. (Sec. 15.)

47. Bonus:

B. Bank to pay \$1,500,000.

48. Deposits of the United States:

B. Bank to receive the deposits of the United States "unless the Secretary of the Treasury shall at any time otherwise order and

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48. Deposits of the United States—Continued.
direct; in which case the Secretary of the Treasury shall immediately lay before Congress, if in session, and if not, immediately after the commencement of the next session, the reasons of such order or direction.” (Sec. 16.)
49. Monopoly of franchise:
A. No other bank to be established by the United States during the continuance of the bank.
B. *Ibid.*
50. Bonds of cashier:
A. Cashier to give bond with two or more sureties, not less than \$50,000.
B. *Ibid.*
51. Counterfeiting:
B. Penalties. (Secs. 18, 19.)
52. Object:
A. To be conducive to the successful conducting of the national finances; tend to give facility to the obtaining of loans for the use of the Government in sudden emergencies; and to be productive of considerable advantage to trade and industry in general. (Preamble.)

PAYMENT OF CAPITAL.

The charter called for the payment of (1) \$7,000,000 by the Government and (2) \$28,000,000 by individuals, companies, or corporations.

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Payment by the Government was to be made in stock; and by private subscribers one-fourth, or \$7,000,000, in specie; and three-fourths, or \$21,000,000, in government stock or specie.

The settlement of private subscriptions could be made in three installments, six months apart, the first being made at the time of subscription. The final payment was thus not called for until a year from the time the first steps were taken. Installments were to be paid as follows: First, at subscription, \$5 in specie and \$25 in government stock or specie; second, in six months, \$10 in specie and \$25 in government stock or specie; third, in twelve months, \$10 in specie and \$25 in government stock or specie.

According to the charter (sec. 9) directors could be elected as soon as \$8,400,000 in specie and in the public debt had been received. This obviously authorized the bank to begin operations when the first installment of \$1,400,000 in specie and \$7,000,000 in stock had been paid in. Subscriptions were made in July, 1816, and the bank authorized discounts to be made beginning December 31.

The bank was in a difficult position, for specie at this time was at a premium. In December, 1816, the premium amounted to 8 per cent. If there had been any unusual demand, it would have risen to at least 12 per cent.^a Individuals naturally would not deposit specie, and the government receipts, which were deposited with the bank, were still in depreciated paper. The only penalty

^aLloyd to Calhoun, Finance, 3: 153.

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attached to stockholders' failure to pay any installment as it became due was forfeiture of the dividend,^a a loss which would be trifling in comparison with the payment of a premium on specie in the bullion market. In December there were rumors that the management of the bank had countenanced arrangements by which the specie part of the second installment would be evaded or postponed. The bank was expected to begin operations before the resumption of specie payments, February 20, 1817. If, however, it should put its notes into circulation, they would be presented for redemption in specie, and thus its resources would be drained. Consequently, in December, when it voted to begin discounting sixty-day bills on the pledge of bank stock or United States stock, it demanded that notes should be made payable at maturity, either in specie or bills of the bank.

The bank, however, could not force the stockholders to pay specie on the several installments if they preferred to accept the penalty of forfeiting their dividends, and many stockholders were willing to take this alternative. As one of the directors of the bank observed, "any very strong reliance upon the constructive policy of moneyed men in opposition to their pecuniary interest and in the absence of any special agreement on their part would form a most fragile dependence for a great banking institution to bottom its operations upon."^b The president of the bank also, on January 1, 1817, stated that the punctual payment of the second installment was yet prob-

^aSec. 11, clause 13.

^bJames Lloyd to Calhoun, Jan. 9, 1817; Finance, 3: 153.

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lematical, for the act of incorporation did not provide the necessary means to insure punctuality. Moreover, "the premium demanded for the specie and the interest on the amount of the installments furnished stronger motives to delinquency than any hope of dividends from the bank during the first year does to observe punctuality."^a

Notwithstanding this apparent recognition of insecurity, the bank appears to have exerted no special pressure to force stockholders to pay specie. Indeed, it appears to have been more solicitous to provide shareholders with easy methods for paying for their stock rather than to establish a solid institution founded on specie which could withstand the attacks of fluctuating credit. Although the charter demanded payment in specie, there was no provision against the withdrawal of the specie, nor could there be as long as the bank redeemed its own notes. If the bank issued its bills, they could be presented for redemption in specie. That was practically the method followed in the organization of the state banks, where specie installments were nominally required, and its possible adoption in the present case was recognized in the congressional debates at the time of the charter.^b

The management of this new bank, to which had been committed the task of restoring the currency, weakly accepted the tolerant practice which was then in use; and

^a Jones to Crawford, Jan. 1, 1817; Finance, 4: 764.

^b Speech of Mason, Annals of Congress, 14th Cong., 1 sess., I: 236; Calhoun, Jan. 7, 1817, Annals of Congress, 14th Cong., 2 sess., 431; Annals of Congress, 15th Cong., 2 sess., III; Lowndes, 306-307, McLean, 1340-1343, Sergeant, 1389-1391; Catterall, 59.

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on December 18, before discounts of any character had been made, voted that on the 31st it would discount notes secured by a deposit of an equal amount of bank stock, and also authorized the branches at Boston, New York, and Baltimore to make similar loans, not exceeding, however, one-tenth of the amount of subscription of the capital of the bank at the respective places.^a On December 27 it was further voted that the loans should be made for the accommodation of stockholders exclusively, and "to the amount of their respective proportion of the payments in coin on account of the second installment of the capital of the bank."^b It would have been safer if the management had ordered the acceptance of state bank notes, for this would have enabled the bank to gain possession of local currency, and thus given it a lever to use in restoration of the currency. After resumption was accomplished the president of the bank in May, 1817, notified the several branches that for the third installment it was "not intended to exact from the subscribers the actual payment of the specie proportion in coin."^c Later it was frankly admitted that "the notes of and checks on the Bank of the United States and the notes of banks actually paying specie were indiscriminately received with the gold and silver in payment of the cash part of this installment."^d

Subscribers were also dilatory in meeting their payments. The first installment was promptly met, but on

^a Finance, 3:335.

^b Ibid., 3:336.

^c Ibid., 3:341.

^d Jones to Crawford, Nov. 11, 1818; Ibid., 3:288.

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the second only \$2,251,000 of the so-called "specie," according to the liberal interpretation accepted by officers of the bank, out of \$2,800,000 real specie demanded by the charter was turned in when due; and in stock only \$5,379,000 out of \$7,000,000. As the method of evasion became better understood, the "specie" paid in at the third installment was over the required amount, nearly meeting the deficiency of the second installment.^a

Another consequence of the subterfuge permitted by the board of management was that a smaller proportion of the capital than that contemplated by the charter was represented by government stock. The charter permitted \$21,000,000 of the capital subscribed by private individuals to be contributed in stock or specie. It was not, however, expected that the latter provision would be taken advantage of; but if so elected, the payment would naturally be made in coin. As notes of the bank and other specie-paying banks were accepted, and the bank made loans to stockholders on their stock, subscribers found it more profitable to make their payments in what was accepted as "specie," rather than in securities. The result was that only \$15,430,000 of government stock, instead of \$21,000,000, was turned in by private subscription. The capital was thus weakened, for United States stock was appreciating in value and was a safer investment than the stock notes of speculative shareholders.^b

^a Finance, 4:964.

^b Ibid., 3:291.

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FRICION IN TRANSFER OF PUBLIC DEPOSITS.

Aside from the bank's own errors of management and policy, there were two points of friction with the state banks: first, in the transfer of public deposits; and, second, in the credit to be given to the notes of state banks. On each of these points the Treasury was disposed to act leniently. Dallas, in July, 1816, gave notice that the transfer of the public funds from the state institutions to the national bank and its branches would be gradual, and that the notes of the state banks would be freely circulated by the Treasury and the bank.^a This anticipation was renewed by Crawford, in his circular letter of December 20, 1816^b when the depository banks were informed that if resumption were accomplished on February 20, between that date and July 1 only such withdrawals would be made as were necessary, and that even after the latter date funds would not be transferred except to sustain the bank against pressure. The proposition for resumption, however, was declined by the banks in general, and its accomplishment, as has been stated, was effected only by a special agreement between the bank and the local banks in New York, Philadelphia, and Baltimore. The bank, therefore, was under no obligations to banks in general to adopt the forbearing measures previously proposed. As the country banks, however, were not invited to be parties to the agreement which was made with the eastern city banks, they afterwards claimed, when the bank demanded a more summary transfer, that they were being treated with harshness, if not with insincerity.^c

^aFinance, 4: 1023.

^bIbid., 4: 266, 283.

^cIbid., 4: 787-788.

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On March 15, 1817, a convention of banks in the western part of Pennsylvania, Virginia, and the eastern districts of Ohio notified the bank that it was only equitable that they, as well as the eastern banks, should be aided in resumption before they opened their vaults for the withdrawal of specie. As western merchants were largely indebted to the East there was danger of a drain of specie to meet the demands for their notes which were held as a special deposit for the United States in the branch office at Pittsburg. They asked, therefore, that the banks be given until August 1 before the balance was withdrawn, and then only "in a manner as favorable to the bank as circumstances will warrant."^a These local banks even objected to the use of the branch offices in that section; they notified Crawford that it was a serious disadvantage to place these western institutions in the hands of a corporation the directors of which were not identified in feeling or interest with the western banks or country; it would be more advantageous to place the deposits in banks nearer to the land offices, thus creating a community of interest and avoiding a drain of specie.^b Crawford was disposed to regard such suggestions in a friendly spirit, for the Treasury could not afford to have the credit of these local institutions suffer.^c He also wrote Jones that the Treasury was under no obligation to order transfers in places where there were no branches of the bank; and if special terms were offered to these institutions the banks in the East would

^a Finance, 4: 788.

^b Ibid., 4: 994.

^c March 17, 1817; Ibid., 4: 509.

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have no cause for complaint. He therefore suggested that the country banks should not be required to pay interest on delayed transfers before April 1, and that in Kentucky and Ohio interest should not be demanded until branches were established in those States. Crawford also refused to withdraw the treasury funds from its local depository in Rhode Island until the bank had established an agency there, on the ground that it would have been impossible for merchants in that State to obtain means to pay their bonds when due, and this would have delayed the payment of the revenue.

The bank, however, treated the requests of the western banks in a summary manner. It demanded that, on condition of assuming at once the debt to the Government by the banks, the latter should pay over the whole amount on August 1, with interest from April 1, and that the banks should jointly and severally guarantee this payment.^a This reply so angered the western institutions that they curtly informed the bank that they saw no advantage which could result from accepting such a proposition, and that the requirement of a guarantee was of such a character that self-respect compelled them to decline any further correspondence on the subject.^b The bank, after advising with Crawford, who again counseled leniency,^c negotiated with each bank separately through a "conciliatory" agent. It expressed its willingness to defer the demand for interest on balances, but it refused to credit the Treasury with cash until interest did begin.^d

^a Finance, 4: 739, April 3, 1817.

^b *Ibid.*, 4: 788.

^c *Ibid.*, 4: 524, 787.

^d *Ibid.*, 4: 791.

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An illustration of the difficulties, which is typical of many others, is disclosed in the correspondence between the bank and the Cincinnati banks in August, 1818. The bank, hampered by a long delay in settling the balances, which amounted to \$721,000, notified the three local banks that they must reduce their debt by the payment of 20 per cent during each of the succeeding months, and that 6 per cent interest would be charged at the expiration of every thirty days. The banks viewed this demand for so rapid a reduction with astonishment and no small degree of alarm.^a Their funds were loaned to manufacturing and commercial establishments, to public, literary, and charitable institutions, on the supposition that they could be redeemed. Those expectations were disappointed, due in great measure to the establishment of the branches of the bank, which withdrew the notes of the local banks from circulation and did not issue their own or a substitute. The banks did not have an adequate amount of specie; what they formerly held had been drawn upon to supply the needs of the newly established branches and the new banks in Kentucky. Nor was it possible to secure eastern funds. The banks also objected to the payment of interest as "an unprecedented grievance" and a practice not usual between banks. They consequently refused to accede to the terms of the bank, contenting themselves with a proposal to reduce the debt as fast as they could conveniently.

The bank regarded this reply as "an appeal to popular prejudice and delinquent sympathy" rather than "the

^a Finance, 4: 859.

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frank and manly exposition of a candid debtor.”^a It admitted that the charge of interest between banks was unusual, but so was it unusual for banks to decline to redeem their notes. There was also good reason to believe that one of the banks had funds in Philadelphia used for the purpose of drawing specie from the bank. The bank therefore notified the branch at Cincinnati to refuse the notes of these banks and to demand in legal form the payment of the debt. This summary action precipitated a run on the banks, so that they suspended specie payments, and attempts were made to excite public indignation against the bank.^b

The Bank of Muskingum complained that the branch refused to receive anything but specie or notes of the United States Bank, declining the notes of local banks of the town in which the branch was located, although these bills were received in ordinary transactions. The branch did not issue any notes of its own, but in making loans issued checks on the mother bank which were sold at a premium.^c The branch at Chillicothe was accused of declining to receive checks drawn on the mother bank, although these bore a premium of 1 per cent, and it was necessary to send a messenger to Philadelphia to collect them.^d The Bank of Steubenville, Ohio, declared that it was impossible to pay the third installment on its balance, for it had loaned its money to relieve settlers and had given extensive accommodations to persons embarking in manufactur-

^a Finance, 4:861.

^b Ibid., 4:864.

^c Ibid., 4:717.

^d Ibid., 4:718-719; also 737-738.

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ing. To press these for their loans would mean ruin.^a In Charleston, S. C., the demand for payment by the local banks of large sums which had been left by the branch office on temporary deposit, as its own temporary vault was inadequate for the safe-keeping of specie, aroused "unwarrantable excitement and hostility."^b But one further illustration need be given: The Bank of Washington, Pa., demanded delay on the ground that when the currency was depreciated it had received large sums on deposit from the Treasury which had been converted at a loss into funds advantageous to the Government; it had assumed, however, that the loss would be made good. Instead of that, it was now called upon to transfer its deposits in specie.^c Banks, moreover, did not hesitate to call upon the Treasury to support their credit, even when they had no direct and specific claim for consideration. The Franklin Bank in Alexandria asked Crawford for a government deposit, as it was in danger of suspending specie payments and thus subjecting itself to the penalty in the charter of paying 10 per cent interest.^d

Eastern as well as western banks felt the pressure. Even as strong an institution as the State Bank in Boston felt obliged to ask for indulgence. It had assumed heavy burdens in behalf of the Treasury, and had made large loans, amounting to \$800,000, to merchants to enable them to pay their bonds to the Treasury, on an agreement not to call for more than 10 per cent every sixty days, thus

^a Finance, 4:720.

^b Ibid., 3:323.

^c May 25, 1818; Ibid., 4:1023.

^d Aug. 23, 1819; Ibid., 4:1042.

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requiring twenty months for the liquidation of the loan.^a It therefore requested that not more than \$30,000 a month of the deposits be withdrawn. The Bath Bank in Maine also reminded Crawford that during the war it had received Treasury notes at par and that for a considerable time 60 per cent of its capital was so invested. For this it hoped that the Government might be disposed to indemnify them for loss by leaving portions of the deposits with the bank.^b The Bank of Pennsylvania called attention to the services which the bank had previously rendered to the Treasury, for which it had received the warm approbation of Gallatin and Dallas.^c For several years the business of the Government had been a losing venture and had been continued only from the hope of benefit after the restoration of peace. It was a hardship, therefore, that the deposits should be withdrawn as soon as the bank began to realize this hope. So, also, the Bank of Alexandria, August 3, 1819,^d asked that there might be a fair discrimination between those who had aided the nation and those who had withdrawn their cooperation. Moreover, the deposits which the bank had enjoyed for a long period of years had been employed in nourishing the commerce of the town and its withdrawal would contract business.^e The real difficulty was the inability of the local banks, which had been depositories of the Treasury, to meet their obligations to the Government. Some had overtraded in

^a Jan. 1, 1817; Finance, 4:974.

^b July 16, 1818; Ibid., 4:1026.

^e Ibid., 4:1038.

^c Ibid., 4:1006.

^d Ibid., 4:1041.

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government funds, while others had invested unwisely. The task of forcing a settlement was imposed upon the bank, and this institution consequently incurred the displeasure and unpopularity which more justly should have been directed against the Treasury Department.

The Second Bank was thus placed in a much more difficult position than the First. The earlier bank had no part in the arrangements which the Government made with local institutions, and consequently there was little opportunity for the collisions which its successor experienced.

THE CONFLICT OVER THE ACCEPTANCE OF STATE BANK NOTES.

The controversy over transfers was hardly begun when disputes arose in regard to the acceptance of notes of local banks in current payment on account of public revenues. In the eastern cities, where the banks were withdrawing circulation in order to effect resumption, there was a "vacuum which had not yet been filled by the bills of the Bank of the United States." Under these circumstances, the receipt of country money was held to be inevitably necessary. But it was in the West, where inflation had been carried to the greatest excess, that the most bitter disputes arose. The Treasury Department insisted that in the payments for public lands it was necessary to receive the bills of western banks in good credit; otherwise these sales would have been stopped, for settlers in that section had no other currency. The bank, however, discriminated against these notes by entering them as "special" instead of as cash. This practice

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Crawford declared could not be permitted; if it continued the Treasury would select its own banks for depositories and make independent arrangements.^a On this point the bank was not so complaisant. The receipt of paper of distant banks, which the collectors of internal revenue might deem of good credit in their local spheres, was regarded as hazardous, especially as the bank, from its experience in transfers of deposits, had not been inspired with the highest confidence in the disposition of many of the local banks to fulfill their obligations. Moreover, it was urged that as long as the notes of country banks were acceptable for the payment of taxes neither specie nor the bills of the Bank of the United States would be employed. It was held that specie was in reality more abundant in the West than in the East, and if the receipt of country paper was a necessity to the Treasury the burden of any loss or delay in redemption ought to be borne by the Government rather than by the bank.^b Crawford did not yield, but boldly announced that the Treasury could carry on its operations independent of the bank "without the slightest inconvenience."^c He would not permit the interest of the great body of the people to be sacrificed; after the direct tax had been paid, he was willing to accede to the wishes of the bank, and would direct that only notes of the branch offices and such local banks as made arrangements for their redemption would be received by the collectors.^d

The task, therefore, of securing the redemption of local bank notes was transferred by the Government to the bank,

^a May 6, 1817; *Finance*, 4:524.

^c May 19; *Ibid.*, 4:527.

^b May 13, 1817; *Ibid.*, 4:792.

^d *Ibid.*, 4:530.

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and the bank had to suffer the odium.^a In many instances the local institutions threw every obstacle possible in the way of redemption. The bank was thus engaged in a double contest,—with the Treasury Department as well as with the local institutions. During the years 1817–18 the sales of public land were very large, and many of these were made on credit, when the notes of nearly all the western banks were receivable as good tender. Between the desire of the Government to obtain revenue and the unwillingness, if not inability, of local banks to redeem their notes the bank found it difficult to establish a stable policy. It is unnecessary to narrate the long and wearisome controversy with the Government or to describe the various plans proposed.^b This conflict with the banks was far more serious in its final results, for, as already intimated, it was responsible for much of the unpopularity which for many years attended the bank in its operations in the West.

Many of the local banks in the West actively opposed resumption if it involved contraction. Jones, in October, 1817, complained that the circulation of the banks in the interior of Pennsylvania had as little of the quality of money as it had twelve months previously^c and more impatient yet, a month later, he declared that in appointing agencies the difficulty was not in selecting from the multitude of small banks in the interior of Pennsylvania and the northwest of Ohio—those whose paper could be converted into specie or eastern funds—

^a Dec. 10, 1817; Finance 4:361.

^b Ibid., 4:848, 577, 845, 846, 583, 853, 854, 587, 588.

^c Ibid., 4:820.

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but in finding any banks at all which were able and willing to fulfill conditions.^a

Some of the local banks resorted to trickery, and some were forced to wind up their affairs. In May, 1818, representatives of the bank were sent out to hasten negotiations with certain banks in the West. The Virginia Saline Bank endeavored to meet its obligations by the collection of funds, and obtained judgments against its own debtors sufficient to pay the bank's balance. The clerk of the county, however, was among those against whom judgment had been obtained, and he refused to issue execution. At Smithfield the bank had nothing but eastern funds, and these they refused to exchange for their own notes. The German Bank refused positively to pay, without giving any reason. The Commercial Bank of Lake Erie, at Cleveland, after a sharp ruse, got possession of notes presented for redemption, and then, breaking an agreement to redeem, forced upon the agent a post note payable twenty days after date. Its president admitted that his action was deliberate, and claimed that the Bank of the United States had converted its offices into brokers' shops, and it was a duty owed to society to resist its encroachments, and that he would call upon other banks in coalition to act in like manner.^b

Disputes over the redemption of notes between the bank and local institutions continued after the settlements on account of the transfer of deposits had been made. The circulation of the bank came into competition with that of state banks. In many of the States

^a Finance, 4: 822.

^b Ibid., 4: 855-856.

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there was no effective penalty for non-redemption of notes and custom allowed bills to circulate at a discount. The United States Bank, however, could not enjoy any such privilege. Its responsibility for protecting the soundness of its credit extended, of course, to its notes, and the watchfulness of its rivals, who were quick to report any infraction of the provisions of its charter, made it imperative that it should at all times be in a position to redeem its bills. It was therefore necessary to demand the redemption of notes of state banks which came over its counter. This demand, however, in some sections was regarded as unreasonable. As intimated, in some parts of the country redemption was contrary to custom. Many banks, therefore, were disposed to regard this requisition as an unfriendly act, intentionally designed to cripple their activity. During the administration of Cheves, who adopted a policy of contraction, this difficulty was aggravated in the opinion of complaining banks in the South and West because the branches did not issue notes and thereby provide a currency which might, when it passed into the vaults of the local banks, be used as an offset for the claims presented by the bank. For example, the banks of Cincinnati complained that there were no branch notes in circulation in that section, but the notes of the local banks flowed into the branch through the medium of the land office. By this means a local note was returned in a few months after it was issued and "as we find none of the paper of the United States Bank in circulation here, we are compelled to create extraordinary resources to redeem it." Liquidation every

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thirty days was denounced as an unprecedented grievance.^a The Bank of Augusta, Ga., had the same complaint. It loaned its money to land buyers and, of necessity, the credit ran for a considerable length of time. The notes which thus went into circulation did not rest on ordinary commercial transactions which would be closed within brief periods. It had a sufficient amount of coin for all ordinary mercantile transactions, but it could not withstand the claims which might be made by any institution bent on obtaining specie.^b The State Bank of North Carolina also urged, in behalf of indulgence, that it was necessary to loan a larger proportion of its funds to farmers and country merchants than was the case with banks which transacted business by running accounts and checks.^c The Planters' Bank and the Bank of Georgia declared that the demand for daily cash settlements was without example in the intercourse of banks in that quarter of the Union.^d The Bank of Savannah denounced the requirement of such settlements as a hostile act.^e So great was the opposition aroused that the bank finally consented to weekly instead of daily calls.

The friction occasioned by the demand of the bank on the state banks for the redemption of notes in specie persisted throughout the history of the institution. In a report of McDuffie's Committee of Ways and Means,

^a Finance, 4: 860.

^b June 30, 1819; *Ibid.*, 4: 1040.

^c Sept. 15, 1819; *Ibid.*, 4: 1044.

^d June 21, 1821; *Ibid.*, 4: 1055.

^e *Ibid.*, 4: 933; Sumner, *History of Banking in All Nations*, 1: 113-115.

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April 13, 1830, reference is made to the complaint then existing—that the bank made heavy and oppressive drafts on the local banks for specie, which compelled them to curtail their own discounts. While conservative bankers in the East recognized the useful service of the bank in thus controlling local circulation, opinion was adverse in those sections which claimed that their progress was held in check because of a lack of currency. The bank in the West and South exercised to a considerable degree the same function as the Suffolk Bank did in New England. The making of currency was easy; legislatures, in spite of penalties for non-redemption, were tolerant; and the burden of keeping the currency sound fell in a considerable measure on the bank. If the issue of notes of state banks had been restricted, as it is at the present time or as under the free banking law of New York, the bank would have fared better.

BRANCHES.

The provisions of the charter of the Second Bank in regard to the establishment of branches were more explicit than those to be found in the act of incorporation of the First bank. In the first, the power to establish offices was permissive; in the second, their organization was, under certain conditions, required. The charter demanded that the bank should establish an office in the District of Columbia whenever Congress should require it; also an office in any State in which 2,000 shares were subscribed or held, upon application of the legislature of that State or of Congress. The bank was also permitted

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to establish offices wherever it thought fit. If the bank preferred, it could employ a state bank, approved by the Secretary of the Treasury, to transact the Treasury business.^a

The charter also planned for the control of the branches by the parent bank. All the directors of the offices were to be appointed by the board of the central bank; each branch board had the right to select a president from its own number, but the power of the selection of the directors practically gave the central board the control of this officer. It was also provided that the central bank could make such regulations for the business of the offices as it deemed just and proper. Consequently, under the rules and regulations for the government of the offices of discount and deposit, "it was provided that the central board should appoint the cashiers of the offices."^b

The bank did not delay in the establishment of its branches. In October, 1817, 19 had been designated, as follows:

Portsmouth, N. H.
Boston, Mass.
Providence, R. I.
Middletown, Conn.
New York, N. Y.
Baltimore, Md.
Washington, D. C.
Richmond, Va.
Norfolk, Va.
Charleston, S. C.

Savannah, Ga.
New Orleans, La.
Cincinnati, Ohio.
Chillicothe, Ohio.
Lexington, Ky.
Louisville, Ky.
Pittsburg, Pa.
Fayetteville, N. C.
Augusta, Ga.

Fourteen States thus came within the direct operations of the bank. The organization of the office at Augusta

^aSec. 11, clause 14.

^bArt. iv; Catterall, Appendix X, 509.

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was abandoned.^a Later, the branch at Middletown was transferred to Hartford and that at Chillicothe was discontinued. Eight others, as business developed, were established, as follows:

Mobile, Ala.....	1826	Buffalo, N. Y.....	1829
Nashville, Tenn.....	1827	Burlington, Vt.....	1830
Portland, Me.....	1828	Utica, N. Y.....	1830
St. Louis, Mo.....	1829	Natchez, Miss.....	1831

Every State on the Atlantic seaboard, except New Jersey and Delaware, thus had a branch, and in the interior every district except Indiana and Illinois was provided for. Many applications were received to establish other branches, but the bank declined, being compelled to "resist the importunities of applicants from about every State in the Union."

Cheves in 1819 told Crawford that there were too many branches: "For a time we must bear with them, but I hope they will be reduced." In 1822 the stockholders at their triennial meeting recommended the withdrawal of some.^b The losses due to the branches in proportion to their capital were ten times greater than that of the mother bank. In 1831 there were under consideration applications from at least thirty cities.^c At the outset commercial considerations had less weight in the selection of places, and the needs of the Treasury Department were an influential factor. Unfortunately, fiscal necessities were the most urgent in the newly settled sections where local banks were under less control and where sound business practice had not yet been estab-

^a Finance, 4: 820.

^b House Report No. 460, 22nd Cong., 1st sess., p. 15.

^c Report of Triennial Meeting of Stockholders; Niles, 41: 112.

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lished. For this reason the bank did not start under fair auspices; it was bound to come into collision with local institutions and to tolerate methods of administration which injured its prestige. The pressure of the Government did not stop with the initial organization, for later the branches at Portland, Mobile, and St. Louis were established at the urgent request of the Treasury Department.^a The Treasury Department also asked for a branch at Detroit, and the bank compromised by placing one at Buffalo.

The bank, at the beginning of its operations, did not think it wise to give a definite capital to its respective offices. According to Jones, the bank was "integral in its organization, but indivisible in its interest. Its offices, though distantly located, have no analogy to institutions established by local authority, and the apparent interest of any particular office must necessarily be subordinate to the general interest."^b As a result of this policy, an excessive amount of the capital was transferred to the South and West. As the investments of these sections, and particularly the latter, were not so safely made, the capital became tied up and imperiled. The Baltimore branch, which nominally had a large capital, invested a considerable portion of it in loans which became doubtful and in stock discounts which could not be made active. When Cheves succeeded Jones as president, he undertook a policy of transferring the capital from the western and southern offices to the northern branches. It was also thought best that definite capitals should be assigned to

^aSenate Doc. No. 17, 23d Cong., 2d sess., p. 225.

^bDec. 5, 1817; Feb. 6, 1818; Finance, 3:335.

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the several branches.^a Under the old system of unassigned capitals, the capitals of the offices varied with the daily transactions, resulting in frequent conflict of interests; if definite capitals were assigned, it was believed there would be greater freedom of action on the part of the management of the different offices. It was recognized, however, that it would be difficult at the outset to determine just what proportions should be assigned, since the capitals of the western offices could not be reduced without a severe and injurious pressure on the debtors. The distribution, therefore, went into effect November 1, 1819. The following table shows the distribution of capital at different dates:

[Finance, 4: 907, 477]

	1.	2.	3.
Portsmouth.....	\$118,000	\$200,000	\$200,000
Providence.....	335,000	300,000	350,000
Middletown.....	256,000	200,000	200,000
New York.....	245,000	1,500,000	2,500,000
Baltimore.....	5,646,000		
Washington.....	556,000	500,000	500,000
Richmond.....	1,761,000	1,000,000	1,000,000
Norfolk.....	862,000	500,000	500,000
Fayetteville.....	678,000	500,000	500,000
Charleston.....	1,935,000	1,500,000	1,500,000
Savannah.....	1,421,000	1,000,000	1,000,000
New Orleans.....	1,666,000	1,000,000	1,000,000
Lexington.....	1,502,000		
Cincinnati.....	2,401,000		
Louisville.....	1,129,000		
Chillicothe.....	650,000		
Pittsburg.....	769,000		
Philadelphia.....	13,046,000		24,245,000
Boston.....		500,000	1,500,000

Column 1: May, 1819, before the assignment went into effect.

Column 2: Proportions assigned by the bank for November, 1819.

Column 3: December, 1822, at which time certain modifications had gone into effect.

^a Finance, 4: 906.

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It will be observed that in the capital assigned to Philadelphia is included all the property and debts due the bank, including debts due by the state banks and the \$7,000,000 of 5 per cent stock subscribed by the Government.^a Here again the bank was open to criticism, for the capital was not distributed according to the commercial importance of the respective localities.

At the beginning of its operations, Baltimore did by far the largest amount of business, largely due to speculative operations of its officers. Its loans in 1818 nearly equaled those of the central bank at Philadelphia. Each of these two made approximately one-fourth of the discounts at that time. The following brief table shows the loans of the principal offices in June, 1818:

Philadelphia.....	\$10,832,000
Baltimore.....	9,289,000
Richmond.....	3,041,000
Charleston.....	2,786,000
New York.....	2,016,000
Cincinnati.....	1,825,000
Lexington.....	1,620,000
New Orleans.....	1,441,000
Norfolk.....	1,403,000
Washington.....	1,392,000

Between Baltimore and its nearest competitor, Richmond, there was a wide gap. The business of the four New England offices did not equal that of Cincinnati, which was sixth in order. Boston was thirteenth in the total number of nineteen, including the parent office; even New York was fifth. Baltimore quickly lost its preponderating influence, and the activities of the bank were

^aFinance, 3:593; for distribution in 1832, see H. R. No. 460, 22d Cong., 1 sess., p. 316.

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shifted to the South and West. In 1825 the loans of the several offices were as follows:

	Loans.	Bills of exchange.
Portsmouth	\$437,000	\$5,000
Boston	1,790,000	221,000
Providence	440,000	159,000
Middletown and Hartford	536,000	82,000
New York	4,895,000	223,000
Philadelphia	3,723,000	784,000
Pittsburg	730,000	85,000
Baltimore	4,031,000	250,000
Washington	1,294,000	41,000
Richmond	1,226,000	90,000
Norfolk	696,000	-----
Fayetteville	457,000	92,000
Charleston	2,428,000	367,000
Savannah	626,000	150,000
New Orleans	2,455,000	1,017,000
Louisville	1,069,000	128,000
Lexington	1,002,000	60,000
Cincinnati	1,329,000	149,000
Chillicothe	450,000	11,000

Here, again, it is seen that instead of taking a position of leadership in the banking operations of the whole country, the bank adopted a policy of supplementing banking facilities in those sections where there was weakness. Biddle admitted that large amounts of the capital were given to those sections where there was a deficiency, because the production of the great staples seemed to require most assistance in order to get them into the market.^a As Catterall points out, one result of the branch system was the supplying of loans to the South and West at a cheaper rate than could have been possible without them.^b

^aH. R. No. 460, 22d Cong., 1 sess., p. 316.

^bCatterall, 401.

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Thus the bank undoubtedly was a powerful factor in the development of the South and West.

Although by its fundamental regulations the bank apparently had the power to supervise and restrict the branches in their operations, it did not effectually exercise this right during its early management. Southern and western offices sold an excessive amount of drafts which were sent to the eastern offices, as Boston and New York. Baltimore, in particular, engaged in this practice. When these drafts were sold, the bills of the Baltimore branch were issued and remitted at the same time to the northern offices. This process continually drained specie from the Boston office and so restricted its operations that it could not, even if it wished, make discounts of its own. Although the parent bank cautioned the Baltimore office, the latter continued selling its drafts, "and such was the want of firmness or of foresight in the parent board, that after finding its repeated remonstrances disregarded, it never removed one of the offending directors or took any effectual steps to control them," until on August 28, 1818, the offices were^a forbidden to draw on each other.^a Until this was done the branches were "made tributary to Baltimore."

In Baltimore the president and cashier were for a time permitted to purchase or discount drafts and bills payable from sight to sixty days without reference to the discount committee of the directors, and large overdrafts were permitted.^b At Richmond an improper delegation

^a Report of Spencer's Committee, Jan. 16, 1819, Finance, 3:308; Cheves's Exposition.

^b Report of Committee of Stockholders of Bank, Nov. 5, 1819; Niles, 17:165.

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of power to the cashier was granted, in authorizing him to discount notes on stock at sixty days and then at four months, but after three weeks the practice was abandoned.^a

OWNERSHIP OF STOCK.

Under the act of incorporation the number of shares which could be subscribed by any one person was 3,000, calling for \$300,000, or less than 1 per cent of the entire capital. This was a stricter limitation than that laid down in the charter of the First Bank, which permitted a single subscriber to take 1,000 shares, each of a par value of \$400, or 4 per cent of the total. Deceit, however, entered into the subscriptions of the stock for the Second Bank; there was an "illegal and reprehensible division of the stock." Although the charter provided that no person should have more than 30 votes, when subscription was made, shares were divided into small parcels, varying from 1 to 20 shares to a name, held in the names of persons who had no interest in them, so that votes could be given for the pretended proprietors. The object of this arrangement was to influence elections; in Baltimore 1,172 shares were taken in 1,172 names by George Williams as attorney, all of which in reality he owned himself. One-seventh of the shares owned in Baltimore gave one-fourth of all the votes; and Philadelphia, which owned nearly one-third, controlled two-ninths of the votes. In Baltimore 15 persons had command of three-fourths of the stock held in that city.^b The bank at the

^a Finance, 3:313.

^b Report of Spencer's Committee, *Ibid.*, 3:314.

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outset thus fell into the hands of speculators. Moreover, it is to be noted, that in not insisting rigidly upon the payment of installments when due, speculative stockholders were able to hold shares which otherwise would have reached the hands of solid capitalists who would have held only what they could pay for.^a The charter was therefore defective in not defining more precisely the duties and powers of the judges of elections, for there was no way by which these officials could hinder violations of the law.^b As a result of this experience, corrective legislation was subsequently enacted, which made it impossible for a stockholder to cast more votes than he was entitled to.^c

The speculative character of the holdings in 1817 is evidenced by the statistics of shareholdings. In 1817 there were recorded 31,349 stockholders; in 1820, however, this number was reduced to 2,720; in 1831, there were 4,145. In this latter year the largest number of names is to be found in Pennsylvania, namely, 937; there were 466 foreign against 3,679 domestic stockholders. The foreign stockholders owned 79,159 shares; of the 3,679 domestic stockholders, about one-fifth (766) were holders of 5 shares and under. More than one-fourth of the total stock was owned by females, trustees, executors, and by religious, benevolent, and other associations.^d Ownership by this class became marked as early as 1820.^e

^a Report of Spencer's Committee, Finance, 3:310.

^b Annals of Congress, 15th Cong., 2 sess., 3:1344-1345, 1391, 1392.

^c Ibid., 4:2522.

^d Niles, 41:112.

^e See Memorial of the Bank, Jan. 12, 1821, Finance, 3:591.

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The following table shows, in brief, the concentration of ownership at successive dates in the States of Pennsylvania, New York, Maryland, and South Carolina. It also shows the ownership of stock by the Government of the United States, by the bank itself, and by foreigners. It will be observed that the latter greatly increased their holdings after 1828:

	1820.	1821.	1822.	1823.	1828.	1831.	1832.
Pennsylvania.....	37,334	36,231	37,268	37,269	70,763	52,638	51,028
New York.....	23,543	28,116	44,200	40,289	46,638	32,903	30,881
Maryland.....	41,528	42,702	37,748	38,490	34,262	34,503	34,235
South Carolina.....	47,458	40,199	33,444	29,685	35,495	40,674	40,242
Total.....	149,863	147,248	152,660	145,733	187,158	160,718	156,386
United States.....	70,000	70,000	70,000	70,000	70,000	70,000	70,000
In other States.....	62,770	66,173	61,369	66,011	46,820	40,123	39,559
Bank of the United States.....	38,079	36,179	37,654	38,239	5,610	-----	-----
Foreigners.....	29,288	30,400	28,317	30,017	40,412	79,159	84,055

As a result of the failure of debtors of the branch at Baltimore and other places to the number of 37,954 shares, there was a forfeiture of stock and the capital of the bank was decreased by \$3,795,400.^a Efforts were made to persuade Cheves to sell this, but he thought that the capital was too large. In 1825, however, the bank sold its stock at 119 and the profits in the first six months of that year amounted to \$481,000.^b

LOANS ON BANK STOCK.

In regard to the business of loaning, the following charter provisions were laid down:

1. Not more than 6 per cent per annum could be charged as interest.

^aCheves, 29; Niles, 23:95.

^bH. R. No. 460, 21st Cong., 1 sess., pp. 252-255, 294.

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2. Loans to the United States were limited to \$500,000 and to any one of the States to \$50,000; no loan could be made to a foreign state unless authorized by law.

3. In case loans were made to the Government in excess of the above limitations, every person who was implicated in such approval or in such loan should forfeit treble the value.

4. Once in three years the management was ordered to lay before the stockholders a statement of debts which had remained unpaid for a period of treble the term of credit.

The above provisions were practically identical with those in the charter of 1791. The by-laws also provided:

1. That bills and notes for discount should be delivered on Mondays and Thursdays and laid before the directors on Tuesdays and Fridays.

2. Discounts should not be made upon personal security without two responsible names, but if stock of the bank, funded debt of the United States, or such other property as should be approved, be pledged, one responsible name might be taken.

3. It was also provided in the by-laws of 1816, but subsequently modified, that no accommodation notes should be discounted unless payment was secured by deposit of bank or government stock or other approved property.

4. On each application for discount every director who was present should give his opinion, and no discount was to be made without the consent of three-fourths present. All such notes were to be entered in a book in such manner as to discover to the board at one view on each discount day the amount for which any person is indebted to the bank, either a payer, discounter, or indorser. (Rule 5.)

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The principal characteristic of the discount business of the bank at the beginning of its operations was the making of loans to stockholders on the pledge of bank stock. On December 18, 1816, the directors agreed to discount sixty-day notes, secured by a deposit of an equal amount of the stock of the bank, and authorized the branches at Boston, New York, and Baltimore to discount in like manner, not exceeding, however, one-tenth of the subscription to the capital of the bank at their respective places. These loans, however, were limited to the amounts called for by the second installment. This practice of discounting on stock to the full amount paid upon shares was justified under by-law 4. Discounts were here authorized on only one responsible name, thus omitting the requirement of an indorser.^a On July 25, 1817, the board again authorized the granting of temporary loans to stockholders.^b

On August 26, because of the redemption of \$13,000,000 of the funded debt, the bank voted that as no better security could be offered than the stock of the bank at a safe and reasonable evaluation, as there was good reason to believe that the banks in New York and elsewhere had loaned upon the stock of the bank at the rate of \$120 a share, and as it was necessary to extend the discounts in order to earn a reasonable dividend, it was expedient that the loans on bank stock be extended at the rate of \$125 a share upon notes with two approved names. The construction given to this resolution was that the indorser was held liable only for the excess above the par value.^c The regulation that indorsers, on collateral security, be

^a Finance, 3:333.

^b *Ibid.*, 3:340.

^c *Ibid.*, 3:441.

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required on the excess above par, was moreover evaded by some of the largest borrowers who indorsed for each other.^a On September 30, 1817, it was voted that the president and cashier be authorized to renew notes on stock as they became due between discount days until otherwise directed.^b

The greater part of these loans were renewed from time to time, and the notes in many cases ran from four to six months. They were not temporary, therefore, as implied in the resolution of July 25, 1817. Such loans were frequently renewed, even by the president and cashier, without the intervention of the board. In August and September, 1817, by four successive votes, \$500,000 was placed in the hands of the president and cashier, without the intervention of the board, to loan on the pledge of bank stock.^c Out of stock loans for \$8,047,000, at least \$5,231,000 was constantly renewed.^d Although such loans were recorded, they apparently caused no comment, the directors thinking that they had no business to inquire into the loaning on stock. Discounts thus made were commonly to speculators and brokers and in many instances were excessive, amounting to single individuals to sums of \$365,000, \$400,000, and \$1,800,000.^e

From the opening of the bank to July 30, 1817, notes secured by the pledge of bank stock were discounted to

^a Finance, 3: 311.

^b *Ibid.*, 3: 341; for blank form used in obtaining such loans, *ibid.*

^c *Ibid.*, 3: 346.

^d *Ibid.*, 3: 337.

^e Annals of Congress, 15th Cong., 2 sess., 4: 1292, 1311; see also Finance, 3: 337.

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the amount of \$8,047,000.^a The amount which remained unpaid on the latter date was \$5,321,000. These loans were subsequently increased, running from \$9,913,000 in October, 1817, to \$10,335,000. The largest amount discounted in bank stock was in January and February, 1818, when it amounted to \$11,245,000. The parent board was responsible for this policy, as is seen in the returns, for on October 20, 1818, such loans were as follows:

Philadelphia.....	\$4,681,000
Baltimore.....	2,402,000
Charleston.....	897,000
Washington.....	299,000
Richmond.....	210,000

At each of the other offices the amount was less than \$100,000.^b

The directors avowed that they intentionally and uniformly gave preference to stock notes over business paper.^c As the capital in government securities, which had been relied upon by the "reasonable expectation of stockholders," had been lessened by the redemption of \$13,000,000 of government stock, the bank complained that it had been deprived of a profitable form of investment, and under these circumstances it did not appear wise to enlarge the general line of discounts until the course of exchange was determined and the currency had been established upon a sounder basis.^d Moreover, as the market price of the stock at this time was 140, its acceptance in pledge at that rate was justified. Nor was there a good supply of

^a Finance, 3: 337.

^b Ibid., 3: 312.

^c Ibid., 3: 311.

^d Ibid., 3: 361

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business paper, for the state banks took the best and rejected the less desirable.^a

In 1818 inquiry was made as to the legality of transfers of public debt to the bank to secure loans. The charter of the bank, like those in many state banks, restricted dealings in government securities, owing to a fear that state credit might be affected by speculative operations. A committee, however, decided that in the present case there was no occasion for concern or congressional action.

Although there was a reduction in loans on bank stock when a change in the administration of the bank took place in October, 1818, the general policy was not abandoned. A rule was established to reduce the discounts at Philadelphia, which had been granted on bank stock, at the rate of 5 per cent every sixty days, but this small reduction "was the subject of loud, angry, and constant remonstrances among the borrowers, who claimed the privileges and the favor which they contended were due to stockholders, and sometimes succeeded in communicating their sympathies to the board."^b For several years these loans amounted to about \$6,000,000, or about one-fifth of the total. Biddle discountenanced such loans, as they had a tendency "to lock up the funds" of the bank.^c During the crisis of 1825 he permitted some departure from his general principle on the ground that merchants who held bank or government stock should be favored,

^aOrigin and Progress of the Second Bank, by Friendly Monitor, 1819, p. 20.

^bCheves, Exposition, Goddard Edition, p. 110.

^cCatterall, 100.

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as there was at the moment no outside market for such securities.^a Between 1825 and 1831 there was contraction, until in the latter year there was less than \$1,000,000 of such loans.^b

CHANGE IN CHARACTER OF CAPITAL.

During the first two years of the operations of the bank its capital rapidly changed in form. At the outset a large proportion was in government securities; for example, in April, 1817, out of total funds of \$46,880,000, one-half was in government stock. One of the reasons originally assigned for large capitalization was the desirability of absorbing a large amount of the funded indebtedness, but the bank had hardly opened its doors before there was a favorable turn in the government finances which led to a surplus of receipts over expenditures and a consequent rise in the value of government securities. By the charter provisions the Government could redeem any part of its funded debt subscribed to the capital of the bank at the rates fixed at the time of subscription. The Treasury Department, therefore, determined that it was more profitable for the Sinking Fund commission to use its surplus by the purchase of the government stock lodged with the bank, since it could be bought in at a lower rate than that held outside.^c The bank did not favor this redemption, for the part to be redeemed was a productive portion of the funded debt of its capital, and there were no adequate means for the employment of so large an amount

^aCatterall, 107

^bNiles, 41: 117.

^cCrawford to Jones, May 18, 1817; Finance, 4: 525.

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in cash as would result from the sale.^a The Treasury Department, however, persisted in its intentions, and redeemed \$13,044,000 in July, 1817, and continued this policy, so that on September 30, 1818, the capital of the bank was represented by only \$7,431,000 of government securities.^b This practically left only the stock note of \$7,000,000 which had been originally subscribed by the Government, which was held until its redemption in 1831.

When Cheves became president in 1818, he thought it wise to make larger investments in government securities. The bank consequently, in 1820, purchased \$2,000,000 of government 6 per cent stock, and in 1821, \$4,000,000 5 per cent.^c Biddle also made a large purchase in 1824. The following table shows in brief the amount of government funded debt which the bank held from 1819 to 1831:

1819	\$7, 400, 000
1820	7, 200, 000
1821	9, 200, 000
1822	13, 300, 000
1823	11, 100, 000
1824	10, 900, 000
1825	18, 400, 000
1826	18, 300, 000
1827	17, 800, 000
1828	17, 600, 000
1829	16, 100, 000
1830	11, 600, 000
1831	8, 700, 000

GOVERNMENT DEPOSITS.

By the charter of the bank the public funds deposited in places where the bank or its branches were established

^a President Jones to Crawford, May 16, 1817; *Finance*, 4: 793.

^b *Ibid.*, 3: 292.

^c Cheves, *Exposition*, 22, 30; also Niles, 23: 91, 95.

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must be deposited in them unless there were urgent reasons to the contrary.^a In places where there was no branch this obligation to deposit the public money in the bank did not exist, and the Treasury could deposit in state banks according to its own arrangements. Crawford, however, desired that the bank should be the sole depository. The internal-revenue laws were still in force, necessitating collections in remote and sparsely populated districts, and the Government enjoyed large receipts from the sale of public lands. It was expected that the internal-revenue laws would be repealed within a year, and the sale of public lands fluctuated so widely at different points that no dependence could be placed upon this source of government business which would justify the bank in establishing an office in any particular place to meet this particular emergency. The bank, therefore, was not ready to organize an office of its own in every district simply because it would serve the convenience of revenue officers. From the Government point of view, however, it could not be expected that a collector who lived at a great distance from the branch should deposit in that office more than two or three times a year, and, on the other hand, it was unwise to expose the collector to the temptation of keeping large sums for long periods.^b

It was therefore agreed by the Treasury, as well as by the bank, that state institutions should be used as "intermediate" places of deposit. The selection of these agencies and the arrangements to be made with them was left to the bank by Crawford.^c In choosing the agencies the

^aSec. 16.

^bFinance, 4:506,530.

^cIbid., 4:498.

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bank moved with caution, for it was already involved in disputes with western banks because of the delays in the transfer of public funds which had previously accumulated and because of the depreciation of the notes in which the state banks were disposed to pay their balances. It consequently hoped that as few intermediate agencies as possible would be needed.^a When Crawford urged the prompt selection of agent banks in the interior of Pennsylvania and northwest of the Ohio, owing to the sale of public lands,^b the bank asked the Treasury to forego the use of state banks entirely in the northwest,^c but Crawford would not accede to this. It was desirable to secure places of deposit convenient to the land offices, and the public receipts were too large to be exposed to the dangers of distant transportation.

Under the arrangements which the bank made with the Treasury, all deposits received either at its own offices or at the banks employed as agents were passed to the credit of the bank for the use of the Government and corresponding credits were entered on the books of the bank to the Treasury.^d In other words, the Treasury did not concern itself with the character of the money in which the payments of its collectors were made to the bank and its agencies; the responsibility was left entirely to the bank. This agreement was made in April, 1817, before the bank clearly realized the struggle which it would have to make to enforce payments in legal currency, and apparently the bank did not understand how far its liability was likely to

^a Finance, 4: 775.

^b Ibid., 4: 553.

^c Ibid., 4: 821.

^d Apr. 17, 1817; Ibid., 4: 783

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extend in case depreciated currency was turned in. As the culmination of much correspondence between Crawford and Jones in June, 1818, the former notified the bank that it was responsible for all money which was deposited in the state banks selected for that purpose.^a The bank felt compelled in self-protection to abandon the agreement, and henceforth state banks in places where branches were not serviceable were selected directly by the Treasury Department. As a result, the use of a certain part of the Government deposits was lost.

The bank was still obliged to be on its guard in its receipt of government funds. In July, 1820, Crawford proposed a revision of the instructions as to the kinds of money to be received in payment of public lands; and among the notes receivable he included those of the banks in the District of Columbia with the exception of two.^b Cheves assented in the main to Crawford's suggestions but objected to crediting as cash to the Treasury the notes of the banks of the District of Columbia, if they were not punctually paid.^c He also added that it would be better for the government receivers to make a demand for acceptable currency, since no odium attached to requests made by the agents of the Treasury "unless the agent happened to be the Bank of the United States, which from the habit of railing against it, were the plague to visit the land, would not improbably be charged with having winged the 'Destroying Angel.'"^d Crawford assented to this and agreed that notes which were not punctually paid upon presentment should be charged to the Treasury.^e

^a Finance, 4: 587, 262.

^b Ibid., 4: 669.

^c Ibid., 4: 935.

^d Ibid., 4: 935.

^e Ibid., 4: 670.

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Although the government deposits, as a whole, were profitable to the bank, the relationship which was thereby involved was not without its drawbacks. At the beginning of its operations the bank was forced to establish branches, which proved unprofitable and difficult to manage, and later, at the request of the Treasury Department, because of its dissatisfaction with the services of state banks which were employed as agents, it organized offices to aid the Government rather than to meet commercial necessities.^a Crawford thought that the treasury deposits in the western branches was a positive injury to the bank, for it tempted these offices to make excessive discounts. This made exchange still more unfavorable, necessitating the transfer of specie to the East, and this withdrawal of specie caused irritation against the bank.^b

In 1828 the question was raised as to whether the bank should not pay interest on the government deposits. A Senate committee, however, reported that this could not be demanded without a direct violation of the charter: In the bonus and the services rendered by the bank the United States had been promptly paid for all the advantages derived from the deposit of its funds in that institution.^c The bank proved to be a safe depository; the Government did not lose a dollar from this connection. The total amount cared for during the existence of the

^a Portland, Mobile, Natchez, Buffalo, St. Louis; Rush to Biddle, Jan. 26, 1826; Sen. Doc., No. 17, 23d Cong., 2d sess., pp. 254-255.

^b Finance, 4:641.

^c Report of Senate Committee on Finance, Apr. 21, 1828; also report of same committee, Feb. 20, 1829.

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bank was \$410,000,000.^a For the period 1817-1836 the public deposits were as follows:

1817.....	\$10,200,000
1818.....	7,400,000
1819.....	2,900,000
1820.....	3,600,000
1821.....	2,900,000
1822.....	2,600,000
1823.....	4,300,000
1824.....	10,200,000
1825.....	6,700,000
1826.....	5,800,000
1827.....	8,900,000
1828.....	8,400,000
1829.....	10,700,000
1830.....	9,700,000
1831.....	9,100,000
1832.....	12,600,000
1833.....	12,800,000
1834.....	4,000,000
1835.....	2,600,000
1836.....	600,000

It will be observed that there were wide fluctuations, and if figures were supplied by months the changes would appear still more marked. Considering the total resources available for loaning, a change of \$5,000,000 within a few months meant a serious disturbance in facilities for discounts.^b

TRANSFER OF PUBLIC FUNDS.

Under the charter the bank was obliged to give the necessary facilities for transferring the public funds within the United States without charging a commission or claiming an allowance on account of difference in exchange.^c In the arrangements originally adopted it was agreed

^aCatterall, 465.

^cSec. 15.

^bGouge, Paper Money and Banking, 199.

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that the Treasurer of the United States could draw upon the bank at any place where the public money was deposited, whether there were public funds at the time at that place or not, with the understanding, however, that reasonable notice should be given. Difficulties immediately arose because of lack of sufficient notification. In August, 1817, the Treasurer of the United States drew upon the bank at Philadelphia for \$11,000,000. As there was not that sum to the credit of the Government at the mother bank, the cashier complained and asked that the draft should be made payable at the offices from whence the money was intended to be drawn, so that the bank could place the funds at the points desired.^a The Treasury, however, replied that it kept no account with the offices, only with the bank, and it was for the bank to transmit the funds when ordered.^b

Again, in November, a draft on the Richmond office for \$200,000 came back unpaid for lack of a treasury balance at that place. Crawford immediately notified the bank that all treasury drafts must be paid by the branches and the state banks employed as agents, without regard to the amount of public funds in their individual possession. He agreed that if large sums were to be expended in places where but little public money was collected, due notice should be given, but this could not be done in ordinary transactions.^c The bank, as already stated, increased its difficulties by making its branch notes payable at any office irrespective of the place of issue. In April, 1819, Cheves asked for a modification of the existing

^a Finance, 4: 813-814.

^b *Ibid.*, 4: 550.

^c *Ibid.*, 4: 560, 825.

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agreement, affirming that the bank could not henceforth engage to meet treasury drafts except at the points where the funds were collected or its notes were made payable.^a Later in the year the management proposed the following rules:

That the Treasury, when it desired to use its funds otherwise than where they were deposited, should direct the bank to transfer to the office where the funds were required from the specific office where they were deposited, with allowance in time as follows:

From the western offices to the Atlantic offices, respectively, and vice versa, four months.

From and to New Orleans, in all cases, four months.

From the offices south to the offices north of Washington, and vice versa, sixty days.

From the offices north of Washington to the offices north of Washington, thirty days.

From the offices south of Washington to offices south of Washington, thirty days.

That the Government should only draw on offices to the amount of its funds in those offices, respectively, except the office at Washington where it could draw at pleasure; and that when the Government should draw on a bank or an office not having funds to meet the draft it should simultaneously grant a draft in favor of the bank or the office on the bank where it had funds as the bank might designate, to cover such drafts.^b

To these proposals Crawford assented.^c The bank consequently abandoned the original policy of President

^a Finance, 4: 823; Niles, 17: 2. ^b Finance, 4: 909. ^c Ibid., 4: 640.

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Jones, which considered the bank as a unit, and provided that all the accounts of the Government be kept with the central office rather than with the several branches. In carrying out these new regulations the Treasury notified the bank weekly in regard to the transfers that would be needed, and in 1829 a daily statement was rendered.

Transfers for the Treasury during the period 1815-1827 averaged \$28,000,000 a year.^a When the bank was under attack there was a decided division of opinion as to the benefits of the services thus rendered to the Government, and Catterall notes that adherents of the bank were wont to magnify the advantages.^b "Its opponents on the other hand belittled the claims and asserted positively that it possessed no special virtues in this particular. Polk in his minority report of March, 1833, asserted that the bank rendered no special service in transferring government funds. Secretary Woodbury, in 1834, argued that the transfers were profitable to the bank, and Gouge, in a pamphlet issued in 1837, made an elaborate argument against the bank as a necessary or even a convenient treasury. He held that its services in this capacity had been greatly overrated, and that at those points where the transfers incurred risk or expense the Government was compelled to be its own carrier, and that a private merchant occupying a position similar to that of the bank would have made an immense fortune."^c

^aCatterall, 468.

^bGallatin's Writings, 3:328-329, 345; Colton, Works of Clay, 5:615; Webster's Works, 3:401-402; 4:201.

^cCatterall, 466.

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After analyzing the evidence, Catterall concludes that the transfer of the funds was a great convenience and saving to the Government. Even if a profit was made by the bank, it did not follow that the Government lost. Moreover, the bank possessed three very definite advantages over the state banks in performing this service: "Its notes, checks, drafts, and bills of exchange were willingly received everywhere from Montreal to the City of Mexico. A credit so extensive made possible a system of domestic exchange by means of which the funds of the Government were transported from place to place, always at a very low rate and frequently with a profit to the bank. In the third place all this was made easier and the system of exchange rendered of the highest efficiency by the organization of the bank with its twenty-five offices scattered through the Union."^a It is estimated that if a rate of one-fourth of 1 per cent had been charged the Government would have had to pay over \$60,000 a year. For the seventeen years which the bank was a public depository the Government thus saved a little over \$1,000,000.^b

CIRCULATION.

That the new institution would put an end to the evils of the depreciated local currency was the common expectation, and apparently the bank began its operations with a desire to meet this demand. The measures which it adopted, however, were ineffective; the management did not understand the principles upon which a sound note currency is based. It agreed to redeem the notes of the

^aCatterall, 467.

^bIbid., 468.

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parent office and all the branches north of Charleston, indiscriminately, at any other office. Although the capital of the bank was large, its specie holdings were small. Even if these had been larger, the bank began without an adequate experience from which it could determine the points at which the specie would be needed for purposes of redemption. The management either was ignorant of the facts in regard to the course of trade between the different sections of the country or failed to appreciate the superior power of economic law. As the notes of each office were payable at all the other offices and the office issuing them was not exclusively liable for their redemption, and as discounts were made without limit, regardless of trade conditions, an impossible situation was created. Moreover, the offices in the South and West were encouraged to make large loans.

The bank, indeed, criticised the branches for not increasing their circulation. When the branch at Lexington made use of local bank paper or specie, instead of its own notes, the president of the parent bank (Oct. 4, 1817) called the management to account, writing that "the wants of the country and the interest of the bank require an extensive circulation of its paper, and it is the policy of the parent board to encourage the indiscriminate use of the notes of the bank."^a As the balance of trade was against the West in particular, the notes of the branches were rapidly carried off to be presented at the northern offices, which were ill prepared to redeem them. As the influx of these bills was so sudden and

^a Finance, 3:321.

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of such magnitude, it was impossible to estimate at any time the amount or to comprehend the extent and direction of the circulation of the notes.^a Under such a system the bank was left to "vacillate between the hazards of rashness and the fruitless results of a torpid prudence." Often the northern offices which received the notes had to wait a turn in exchange before they could be reimbursed, and frequently had to curtail their discounts in order to provide means for redemption.^b Even without instructions, the Boston office, to save itself from failure, early in 1818, declined to receive the bills of southern branches.^c Moreover, the payment of these southern and western discounts when they fell due was generally made in the notes of local banks which thus became heavily indebted to the branch office. The bank aggravated the difficulty by not instructing the branches to demand settlements in specie with the local banks promptly. Large balances were allowed to accumulate until the local institutions became involved in an indebtedness which they in turn could not liquidate without inflicting hardship upon their own debtors.^c

The most that can be said in defense of the bank's policy is that indiscriminate redemption aided in the resumption of specie payments by forcing the state banks to improve the standing of their own bills; that it created an acceptable currency, coextensive with the limits of the Union;^d

^a Finance, 3:325.

^b *Ibid.*, 3:589.

^c *Ibid.*, 3:307.

^d *Ibid.*, 3:590.

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and that it "invigorated and confirmed public confidence and facilitated commercial intercourse."^a If this defense be accepted, it makes the bank a martyr in behalf of the general welfare of the country. Local bank-note circulation decreased from 1816 to 1819. Whether this was due to the operations of the bank or to the general contraction due to resumption it is difficult to tell, but for the disturbance and suffering caused by this contraction the bank was generally blamed. It thus had to accept the censure for revolutionary changes for which it primarily was in no way responsible.

From a financial standpoint the policy of the bank was so obviously illogical that little is to be gained for present instruction through the presentation of any detailed account of the complications in which it soon found itself involved. In 1818 the system broke down, and on August 26 the bank resolved that no branch should take the notes of other branches except in payments due to the United States.^b It was found impossible to provide for the indiscriminate redemption of the bills at nineteen distinct places, embracing the extremes of the Union.^c The bank had ample justification for this action; the twelfth section of its charter, which defined the nature and obligatory effect of the current notes, was a verbatim copy of the thirteenth section of the charter of the First United States Bank. The old bank did not pay or receive on deposit the notes of its

^a Finance, 3: 325.

^b *Ibid.*, 3: 326.

^c Jones, *Ibid.*, 3: 324.

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branches, nor did these pay or receive on deposit the notes of the parent bank or of each other, unless the state of exchange rendered it possible.^a The first bank bill which had received the attention of Congress during the discussion of 1814-1816 contained a clause which explicitly provided that the bank and all its branches should pay the notes of each other, but this requirement was not inserted in the charter as it was finally enacted;^b and Jones, the president of the bank, afterwards stated that the practice of making branch notes universally redeemable was never intended to be permanent. It had been introduced in the West because that part of the country was indebted to the Atlantic cities and had no other form of currency which it could send.^c

The restrictions of August 28, 1818, had some effect and the circulation was reduced from \$9,045,000 in July to \$7,286,000 in November of the same year. But this was not sufficient. When Cheves took office in March, 1819, the southern and western offices were issuing notes "most profusely." The offices were now ordered not to issue notes when exchange was against them.^d In October, new regulations were issued. It was ordered that the branches could reissue the notes of the parent bank and each other only when they were creditors, and then only when it appeared from the state of the exchanges that it was manifestly for the interest of the bank. When

^a Finance, 4:807.

^b Lowndes, *Annals of Congress*, 15 Cong., 2d sess., 1:330.

^c Origin, etc., by a *Friendly Monitor*, 1819.

^d Cheves' Exposition, Goddard's Edition, 115; Finance, 4:903.

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the notes of an office above \$5 were drawn from it to be used as a substitute for exchange, further issue of such notes should forthwith cease, unless their issue was necessary to sustain the credit of the office.^a These orders were mitigated by the welcome notice that the bank would receive at any office notes for \$5 issued at any other branch. Cheves also endeavored to secure concessions from the Treasury, and urged that the exception made in favor of payments due to the Government, by the indiscriminate use of branch notes, be abandoned.^b Crawford, Secretary of the Treasury, was therefore asked to give his approval to the rejection of foreign notes in the payment of dues.^c He declined,^d but in December, 1820, he admitted the embarrassments under which the bank labored, and suggested that the charter of the bank be amended so as to make the bills of all the offices of the bank "except that at the seat of government, receivable only in the States where they are made payable and in the States and Territories where no office is established. The effect of this modification would be to make the notes of the offices of the Bank of the United States, except the office in this district, a local currency which will enter and continue in the local circulation of the States in which they are issued." • Cheves also *f* turned to Congress, complaining that under the existing regulations the circulation of the bank was

^a Oct. 5, 1819; Finance, 4:908.

^b Catterall, 74.

^c April 6, 1818; Finance, 4:874.

^d See Exposition, pp. 59, *et seq.*

^e Finance, 3:552.

^f Jan. 12, 1821; *Ibid.*, 3:587.

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limited to those places where it was least wanted, and asked for relief.^a

Neither Crawford's recommendation nor Cheves's appeal were successful, and the bank again had to make its adjustment as best it could. When the bank imposed its new set of restrictions upon the branches in October, 1819, it agreed to increase the issue of \$5 notes.^b In this way a place could be made for at least a small volume of notes of the bank in the West which would otherwise be deprived of all circulation, and it also provided a universal currency in small denominations. The difficulty, however, was that the president and cashier did not have time to sign any large number of these notes.^c As early as January 13, 1818, the bank had petitioned for an amendment to its charter to relieve the officers named from signing the notes, and a bill of relief was passed by the Senate, but postponed in the House. In 1820 another application was made and again the Senate voted favorably, but no action was taken by the House. In 1822 the same procedure was repeated. In 1823 a House committee reported in favor of relieving the president and cashier of the exhausting manual labor in signing notes which disqualified them from applying their minds to the more critical and important concerns of the bank, but Congress delayed action. In 1826 the bank again renewed its petition and Congress with its usual procrastination neglected to legislate. These successive failures led the bank to invent the use of branch drafts.^d

^a Niles, 19:245.

^c *Ibid.*, 3:589.

^b Finance, 4:908.

^d H. R. No. 42, 23d Cong., 2d sess., pp. 5-6.

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There were three ways by which the bank could control or partially control its circulation and protect its reputation: First, by providing a specie reserve; second, by requiring prompt settlements with state banks; and third, by contracting its issues. Cheves chose the latter course. In January, 1820, the circulation stood at \$3,600,000 as against \$8,300,000 in 1818. As a result of this policy but few of the notes of the bank circulated in the South and West.^a This policy created much dissatisfaction: the bank was accused of creating an unnecessary scarcity of money; it denied the people an equalization of exchange; it left the currency at the mercy of local banks, nearly all of whose bills were at a discount except at the place where they were issued.^b

Biddle, who became president in 1825, changed this policy. He believed that notes might safely be issued notwithstanding the necessity of paying them everywhere on government account, provided the bank could put an end to the depreciation of state bank notes. He therefore insisted upon constant settlement of state bank balances and on the issue of the bank's own notes instead of paying out those of state banks. The latter were withheld and forced upon the state banks for redemption.^c The note circulation consequently increased. In 1825 it amounted to \$6,740,000 and in 1828 to \$9,856,000. At Philadelphia the notes of all branches were indiscrimi-

^a Finance, 3:552.

^b Niles, June 26, 1819; 16:290; 17:2; 18:274.

^c Report of Triennial Meeting of Bank of the United States in 1828, Niles, 35:72.

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nately taken. The following table shows the circulation of the bank in 1817-1836:

1817	-----	\$1,900,000
1818	-----	8,300,000
1819	-----	6,600,000
1820	-----	3,600,000
1821	-----	4,600,000
1822	-----	5,600,000
1823	-----	4,300,000
1824	-----	4,600,000
1825	-----	6,000,000
1826	-----	9,500,000
1827	-----	8,500,000
1828	-----	9,900,000
1829	-----	11,900,000
1830	-----	12,900,000
1831	-----	16,200,000
1832	-----	21,300,000
1833	-----	17,500,000
1834	-----	19,200,000
1835	-----	17,300,000
1836	-----	23,000,000

As the bank was unable to secure legislative relief, in order to put out a small note circulation it resorted to indirect methods and accomplished its end by the invention of bank drafts in 1827.^a Able legal advisers of the bank declared that since the issue of checks upon the bank by its branches was an original banking operation the proposed use was legal whether the checks were for small sums or more, signed by one officer or more, with or without the external appearance of a bank note. The bank authorized the issue of \$5 and \$10 drafts, signed by the branch president and cashier, drawn upon the principal cashier at Philadelphia, and transmitted to the offices, which resembled bank notes so closely that after a short

^a Catterall, 117.

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time but few could detect the difference.^a In form, the branch draft read as follows:

Cashier of the Bank of the United States:

Pay to Jas. L. Smith, or order, five dollars.

Office of discount and deposit in Utica.

The 3d day of September, 1831.

JOHN B. LEVING, *President.*

N. V. GRAZIER, *Cashier.*

This was then indorsed: "Pay to the bearer, Jas. L. Smith." Twenty-dollar notes were added in 1831. The Government accepted them as notes. Catterall states that technically the drafts differed from notes in the following particulars:

1. They were not signed by the president and cashier of the parent bank.
2. They were not drawn in the name of a corporation.
3. They were not subject to the supervision of the Secretary of the Treasury.
4. They were not legally receivable in payment of public dues.
5. They were not payable where issued.
6. They were not suable at the issuing branch.
7. They were not limited to the denominations of \$5 or above.^b

Seventeen of the branches issued these drafts, and in 1832 four-fifths were put out at eight offices, two in the South and six in the West and Southwest. In that year the proportion of drafts to the total circulation was less

^aCatterall, 117.

^bIbid., 123.

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than one-fourth, and at Pittsburg, Lexington, and Louisville the volume of drafts was greater than that of notes.^a

Practically these drafts became a part of the circulation, and in any complete study of circulation ought to be included.

SALE OF DRAFTS.

At the time the bank began its operations the commercial world was not in agreement as to whether it should sell drafts. Some thought that the new bank should be called upon to sell checks only when it was convenient and then only at par, for even if it sacrificed a premium which might be exacted it would receive its compensation in the increased confidence and support of the commercial community. On the other hand, it was contended that a system of gratuitous drafts would lead to favoritism.^b The practice involved a still larger question, namely, the establishment of a universal medium of exchange. Secretary Crawford, in July, 1817, upon learning that the bank intended to make charges on domestic exchange, vigorously objected. One of the objects of the bank, he declared, was to do away with inequalities in rates of exchange which had formerly existed between the different sections of the country and to put an end to the system of brokerage which had imposed unnatural and arbitrary rates which were not based upon the actual balance of trade existing between different sections. In his opinion, the exaction of one-fourth or one-half of 1 per cent on checks drawn on one office by another "without reference to the commercial relations which exist between the two places by a cap-

^aCatterall, 129.

^bFinance, 3: 309.

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italist who always sells and never buys, will as effectually convince the community of the prostration of its rights and interests at the will of the bank as the exaction of 10 per cent.”^a He warned the bank against arousing hostility which might prevent the renewal of its charter, and served notice that if any obstacles were placed in the way of “universality” the treasury would have to take steps to save the community from the cupidity of the bank. Although Crawford may have fairly interpreted the ill-defined anticipations of the public in regard to the advantages to be derived by the establishment of a bank and may have accurately measured the opprobrium which would attach to the bank if it should charge for drafts, it was clear that he confused the operation of domestic exchange caused by commercial factors and the exchange of currencies of banks at par. As Catterall points out, the phrase “equalization of exchange” was used in three senses: First, in that of putting an end to the depreciation of state bank notes; second, in that of real exchange; third, in that of putting an end to the discount of bank notes, which was due to their being at a distance from the place of issue and redemption. “This confusion of use led people to believe that the bank ought not to charge for making exchanges for the public.”^b Moreover, it was possible here as in state banking, in the sale of a draft, to make a charge whereby more than the legal 6 per cent interest could be obtained. For illustration of the confusion of thought on the subject of exchange abundant evidence may be

^a Finance, 4: 540.

^b Catterall, 137-138.

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found in Niles Register. When the cashier of the bank at Philadelphia, in 1818, gave notification that the notes of the bank of the United States which were made payable at its several branches would not be received except in payment of debts due to the United States Bank, Niles denounced the action because it destroyed the equalization of exchange; as the facilities of remittances were thus destroyed the discount paid on good bank bills must be advanced; and again, when the parent bank, in 1823, agreed to receive and deposit the notes of certain banks in the vicinity, Niles demanded that this accommodation should be extended to other places.^a

Jones, president of the bank, July 20, 1817, in his reply to Crawford, denied that the bank was under any legal obligation to furnish a national currency, nor did Congress in granting a charter require this. During the existence of the old bank no one imagined that it was bound to transmit the money of individuals from place to place without premium or compensation. Crawford's interpretation of the obligation to provide an absolute equality of exchange throughout the Union was the first intimation he had received of any such expectation on the part of the public.^b It was also claimed in defense of the bank that as there was a provision in the charter that the bank should not charge the Government anything for difference of exchange, it was expected that charges would be made in the case of private individuals.^c

^a Niles, 23: 322.

^b Finance, 4: 809.

^c Lowndes, Annals of Congress, 15th Cong., 2 sess., 1: 330.

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It is possible that the bank would have escaped some of the criticism if it had followed more uniform rules. The investigating committee, which reported in January, 1819, stated that drafts had been sold by the Philadelphia office on Charleston, New Orleans, and Savannah, within a few days of each other at very different rates, varying from 1 to 5 per cent on the same office. Without expressing a definite opinion as to the policy of such charges, it thought that if drafts were sold they should be delivered at fixed and permanent prices, not exceeding the expense of transportation of specie. Niles noted that at some of the offices premiums were charged for drafts; at others, the accommodation of drafts was refused; "that is, the equalization of exchange is denied to any except those who keep their accounts exclusively with such offices."^a In August, 1818, the bank found it necessary to restrict this business and forbade the branches to draw on each other or the parent bank unless a premium "equivalent at least to the expense, risk, and loss of time incurred in transmitting specie" was allowed.^b Under the reform administration of Cheves, the officers were ordered not to draw on each other, except on funds provided in advance to meet payments of drafts, unless there was some definite previous understanding.^c In the course of time the selling of drafts constituted a considerable part of the bank's business. In 1829 such transactions amounted to \$24,384,000.^d

^a Niles, Feb. 28, 1818; 14: 4

^b Finance, 3: 326.

^c Ibid., 4: 908.

^d Gallatin's Writings, 3: 344; in 1832 it amounted to \$45,157,000; S. Doc. No. 17, 23d Cong., 2d sess., p. 110.

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Rates, as a rule, were low, ranging from par to 1½ per cent, the most common being one-half of 1 per cent.^a The best financial opinion also justified the making of charges on such instruments; Gallatin gave it his commendation^b as well as Tucker.^c It was recognized that the bank must "on occasions of unusual disturbances, in the course of trade, be compelled to transmit specie from place to place," and it was just that the bank should be compensated for performing this office.

EXCHANGE.

The buying of bills of exchange by the bank, like the sale of drafts, was in the early years of its operations regarded with suspicion. Crawford's objections to exchange operations as a whole have been noted.^d Though it is probable that this criticism at that time was directed more against the sale of drafts than the purchase of bills, all operations in exchange were viewed with disfavor. Up to this period it was the practice of banks to discount notes payable on the spot, and if for accommodation they discounted a bill payable at a distance it was done on the same terms, no profit in the way of exchange being expected.^e

There were two possible evils in the practice of charging for exchange: First, the opportunity of fixing an excessive rate, which would practically make the discount on

^a Catterall, 142; Appendix, VII, p. 505.

^b Writings, 3: 345-346.

^c Theory of Money and Banks Investigated, 301.

^d July, 1817; Finance, 4: 540.

^e Raguet, Currency and Banking, 114-121; Summer, History of Banking, 185.

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usurious terms; and, second, it gave possibilities of expanding and contracting the circulation through the purchase or refusal to purchase such bills. During the period of maladministration under Jones' presidency, bills of exchange were dealt in which were not founded upon true commercial transactions. "Race horse" bills were common; that is, the payment of one bill of exchange was made by the purchase of a new one, which might or might not be based upon a real transaction.^a Although in the first few years the dealings in exchange were inconsiderable, Cheves, in enforcing his policy of contraction, found it necessary to impose stricter regulations and ordered the office not to buy exchange at longer periods than sixty days sight, nor to buy at more than the current rates, and in no case above par.^b In June, 1819, the bank did not own a single dollar of domestic bills.^c

Biddle undertook a development of this form of business. By 1825, when he became president, internal commerce had been established on a much sounder basis; state bank notes were also in better repute, and there was not the popular misunderstanding which had been provoked in the earlier controversies over the bank's duty to "equalize" exchange.

Up to 1820 there is no separate statement in the bank returns as to investments in bills of exchange. In that year, in the annual balance sheet, the amount was \$1,500,000, and, as will be noted in the following table, the

^a Catterall, 158.

^b Finance, 4: 808.

^c H. R. No. 460, 22d Cong., 1st sess., p. 312.

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amounts did not increase very much until 1823. Investments in bills of exchange, as shown in the annual balance sheets of the bank, from 1820 to 1836 were as follows:

1820.....	\$1,500,000
1821.....	1,500,000
1822.....	1,600,000
1823.....	1,900,000
1824.....	2,300,000
1825.....	2,700,000
1826.....	3,100,000
1827.....	3,300,000
1828.....	5,000,000
1829.....	7,700,000
1830.....	8,700,000
1831.....	10,500,000
1832.....	16,700,000
1833.....	18,100,000
1834.....	16,300,000
1835.....	17,200,000
1836.....	19,300,000

It will be observed that these investments at the date of the annual return selected in the foregoing table gradually increased under Biddle's administration until, in 1831, it amounted to \$10,500,000. The next year there was an increase of more than 50 per cent, a gain which was subsequently held. There are no returns which will show the total volume of the dealings in exchange by years for the whole period. In 1823 the total purchases were \$7,353,000;^a from July, 1827, to July, 1828, they were reported at \$22,000,000;^b and in the year ending June 30, 1831, the bank purchased \$44,000,000.

^aSen. Doc. No. 17, 23d Cong, 2d sess., p. 25.

^bReport of the Committee of Stockholders, Sept. 21, 1828, published in Niles, 35:74.

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Great pride in the development of this business was taken by the management in later years. It was claimed that not only was the capital of the several branches kept more stable,^a but commerce was benefited. Biddle declared that, next to the preservation of the currency, the most important service the bank could render was to facilitate the internal exchanges: Its object was to melt down into one uniform and healthy mass all the depreciated currencies with which some parts of the country were afflicted, thus bringing down exchanges to the least cost. The branches in the South and West were encouraged to purchase bills instead of discounting on personal security. The cashier of the mother bank, in advising the branch at Cincinnati, declared that the business of discounting local paper was peculiarly the business of the local state banks, while exchange business properly belonged to the branch.^b The proceeds from these bills provided a fund for the redemption of notes issued in the southern and western offices, and thus made it possible to make larger loans in those sections without running the risk of transferring capital to that section from the North and East. At this time trade with New Orleans in the West and Southwest was increasing. A large amount of produce was sent to that city and bills were drawn on the proceeds which were purchased by the several branches and remitted to the branch at New Orleans. Large funds, therefore, accumulated at New Orleans. When the notes

^aCatterall, p. 98.

^bH. R. No. 121, 22d Cong., 2d sess., p. 148; see also H. R. No. 460, 22d Cong., 1st sess., p. 517.

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of the western branches which were issued in the course of trade found their way to the East, in the purchase of eastern products, they were met in turn by drafts on the funds accumulated at the branch at New Orleans. These drafts were always available because of the purchases made in New Orleans on account of the northern merchants or manufacturers.^a

It is undoubtedly true that one of the chief services of the bank to the commercial world lay in its ability to furnish exchange at low and fairly uniform rates. Its connections were widely extended and its resources ample. And yet most contradictory statements were made in regard to the usefulness of the bank in undertaking this work. Some claimed that if it were not for the bank and its dealings in exchange planters and the agricultural interests in the South and West would be subject to the extortionate rates of private dealers. It was stated that before the bank went into operation exchange at Charleston was from 8 to 10 per cent, either for or against. McDuffie, chairman of the Committee on Ways and Means, in his report of 1830, went so far as to declare that the bank actually furnished a circulating medium more uniform than specie. On the other hand, because of the lack of a proper understanding of the subject of exchange, it was argued that the bank ought to make no charge. President Jackson, in his message of 1829, declared that the demand of a small commission for the transfer of funds of individuals from one part of the United States to an-

^aH. R. No. 460, 22d Cong., 1st sess., p. 316; Catterall, p. 406; Niles, 29:31-32; 35:74.

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other justified him in stating that the bank had "failed in the great need of establishing a uniform and sound currency." Because the bills of the mother bank were not redeemable at New Orleans it was held that they were not of equal value with silver to the merchant who wished to purchase cotton in the latter city, and that consequently the bills were depreciated. It was forgotten that the transportation of specie from Philadelphia to New Orleans could not be made without cost. By 1832, however, the bank no longer held its preeminent position in exchange operations. State banks entered the field; in 1834 three of these institutions in the West and Southwest carried on a business in domestic exchange of nearly a million dollars more than all the seven branches of the United States Bank situated in that section of the country.^a This was in part due to the necessity of contraction by the bank caused by the loss of the government deposits, but it also shows that the bank's service in this direction was not indispensable.

The bank, moreover, was charged with forcing its customers to purchase bills on their crops when they desired to discount notes. By doing this it would secure more than the legal rate of interest, for if the borrower paid 6 per cent on the loan and $1\frac{1}{2}$ per cent on exchange he would be obliged to pay for a ninety-day bill what amounted to 12 per cent per annum.

The rates of exchange, according to the summarized statement made by Catterall, varied from par to two and

^aSen. Doc. No. 13, 23d Cong., 2d sess., pp. 13, 63.

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a half. The rates from the East to the West and South were higher than the rates on the East from those sections; between the eastern offices the rate was low. The rates in the West on their western offices were high, in order to discourage bills drawn on western cities, since it was considered more advantageous that bills should be drawn on the East or on New Orleans. The rates, therefore, between the western offices were almost as high as the rates on the East, and sometimes higher. Again, according to Catterall, who has analyzed the exchange operations by sections, exchange on the Southwest and West in 1824 amounted to \$8,890,000, or less than 29 per cent of the bank's entire purchases. In 1827 they were 32 per cent; in 1829, 46 per cent; in 1830, 56 per cent; and in 1832, over 60 per cent.

In 1824 the western dealings were not as large as the South, and only a little over half as large as those of the North and East, while in 1832 they were in excess of other sections. The offices which did most of the business were only four or five. From 1829-1832, inclusive, the four offices in New Orleans, Nashville, Louisville, and Lexington did four-fifths of all the exchange business in the West and Southwest; during the remaining years of the history of the bank three of these, with the addition of Mobile and Natchez, did over four-fifths. New Orleans was the center. It was the branch where most bills were purchased and on which most offices drew the most bills.^a The profits of the bank from this source of business are

^aCatterall, 143; H. R. No. 460, 22d Cong. 1st sess., pp. 316-317.

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shown in the following table; profits from discounts are also given for purposes of comparison:

	Discounts.	Exchange.
1818.....	\$1,152,300	\$51,000
1819.....	988,200	142,200
1820.....	694,600	106,800
1821.....	620,500	44,900
1822.....	512,200	32,500
1823.....	573,700	49,800
1824.....	678,600	67,400
1825.....	558,600	78,800
1826.....	711,100	107,400
1827.....	721,600	101,400
1828.....	697,900	190,800
1829.....	823,200	274,000
1830.....	876,600	372,900
1831.....	889,900	401,500
1832.....	1,254,300	584,300
1833.....	1,234,500	676,100
1834.....	1,074,100	605,400

DISCOUNTS AND LOANS.

Among the early decisions of the directors was a vote, January 9, 1817, that between February 20 and July 1 of that year sixty-day loans would be made to those who had bonds to pay on account of revenue arising from imports.^a It is impossible to determine the volume of these loans, but when the bank was investigated in the latter part of 1818 it was reported that the bank and its offices had very little good business paper on hand.^b As previously noted, an excessive amount of the bank's capital was loaned to stockholders on pledge of stock; and it is, therefore, presumable that loans to merchants formed but a small part of the discounts. The bank thus placed beyond

^a Finance, 3: 342.

^b Ibid., 3: 312.

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its reach a large part of its resources, and when in July, 1818, it became necessary to curtail discounts the reduction, in almost all cases, fell on business paper. Nor is it possible to present very much information in regard to the details of the discount business in subsequent years. During the earlier years of Jones's administration, when the branches were encouraged to discount heavily, large loans were made on security which in the last analysis was real estate. As a result of this ill-advised policy there was a considerable volume of suspended debt in the South and West and a large amount of real estate was thrown back upon the bank. The total amount of doubtful indebtedness in 1822 amounted to over \$10,000,000, including that lost by the Baltimore branch, due to speculation of its officers.^a The suspended debt at the Cincinnati office alone amounted to \$2,528,000. Here, in particular, it was necessary to take real estate. When the loan was secured by mortgage and interest was regularly paid the debtor was not disturbed. If the security was insufficient, the mortgage was foreclosed and the property sold, usually to be purchased by the bank and then improved.^b

Biddle undertook to exercise stricter regulations, and ordered that discounts should be made for short dates and only on good commercial paper; loans on real estate and stock security were forbidden. In 1824 the New York office was instructed to loan only at sixty and ninety days,

^a Report of Stockholders, Oct. 1, 1822, in Niles, 3:87.

^b H. R. No. 460, 22d Cong., 1st sess., p. 523; Executive Doc. No. 118, 24th Cong., 2d sess., pp. 114-115; Catterall, 400.

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though it might increase the term to four months, if the loan was "beyond all exception and for a good customer."^a When asked by the president of the New York office to permit longer discounts in the interest of larger profits, Biddle replied: "Let us not, by the hope of doing better or getting more business, risk the property and safety of the institution;" and to the directors of the Baltimore office he wrote in like spirit: "Our great object is business men and business paper."^a The wisdom of this policy was seen during the crisis of 1825, when the bank was able to loan freely. During the spring of 1827, owing to the ease in the money market, Biddle relaxed the regulations for a short period, officers being allowed to discount on six months' paper. Large sums were consequently loaned on accommodation notes, and renewals became more common.^b For this liberality the bank had to pay the penalty, for during the pressure of 1828 it was obliged to refuse assistance to merchants.^c

After 1827 the West and Southwest received still more generous treatment. The rapid payment of the public debt deprived the bank of investments in government securities, and the development of the cotton industry invited an extension of credit. In 1828 the bank's discounts and bills of exchange in the West and Southwest amounted to \$13,700,000 out of a total of \$39,350,000; in 1832, the respective figures were

^a Catterall, 100.

^b *Ibid.*, 109, 390.

^c *Ibid.*, 110.

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\$36,400,000 and \$70,400,000. The proportion of about one-third arose to one-half.^a That the loaning policy of the United States Bank did not differ from that of local institutions was seen in 1831 and 1832. Its experience at that time is thus described by Catterall: In the West and Southwest "money was advanced to grow the crops, and the loan paid out of the proceeds when they came to market. The bills of exchange by which these loans were made were frequently six months' paper. * * * In 1831 and 1832 the crop was short. When to this was added importations and disturbances arising from a visitation of the cholera it will be readily supposed that the bank could not get its debts paid when they fell due. Nor could it secure foreign bills to send abroad in order to check specie drains, since foreign bills were drawn for the most part upon the cotton crop."^b Although the management of the parent bank at Philadelphia again and again counseled the western and southern branches to adopt more conservative methods, the advice was not heeded. Indeed, the branch officers defended their operations as wise and necessary. The central bank, however, must be held ultimately responsible for the mistakes which were made and which became so obvious during the critical experience of 1834; it had granted to the South and West a disproportionate part of the capital and thus tempted them to inflation. If reform had been earnestly desired, it could have been secured by a different distribution of the bank's

^a Catterall, 137.

^b *Ibid.*, 152.

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resources. In the valley of the Mississippi the amounts due the bank in the years 1829-1832 were as follows:

1829	-----	\$11,000,000
1830	-----	18,000,000
1831	-----	23,000,000
1832	-----	31,000,000

In May of the latter year it stood at \$37,500,000. The debt of the western country was thus more than trebled in a little more than three years, and was more than doubled in fifteen months.^a

In 1832 Biddle described in some detail before an investigating committee of Congress the general procedure of the bank in making loans. The length of ordinary discounts varied with the state of business—sometimes four months, sometimes six months. In 1830 the committee of exchange was authorized to “loan on collateral security and approved public stock large sums of money at a rate of discount not lower than 5 per cent,” and under these ample powers the length of loans was left entirely to their discretion. The committee was also authorized to make loans on stocks or other approved security at a rate not less than $4\frac{1}{2}$ per cent, and the length of their loans was left to the committee. Frequently discounts had been made where the drawer and indorser were partners in the same concern without any additional name. It was common for the parent bank to discount notes where both the drawer and indorsers resided out of the State without requiring the name of one responsible man in Philadelphia, but preference, though not exclu-

^a H. R. No. 121, 22d Cong., 2d sess., p. 37.

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sively so, was given to Philadelphia paper.^a Loans were made on stock of canal, turnpike, and bridge companies.^b In 1833 it was reported that accommodation paper did not cover more than 10 per cent of the total discounts, and what there was was of the best character.^c The following table shows the discounts for the bank in 1818-1836, distinguishing between loans on personal security, bank stock, and other securities. Loans on "other securities" were generally insignificant until 1832.

	Personal security.	Bank stock.	Other securities.
1818.....	\$29,600,000	\$11,200,000	\$300,000
1819.....	27,100,000	8,400,000	300,000
1820.....	21,000,000	7,000,000	1,900,000
1821.....	20,600,000	6,700,000	2,100,000
1822.....	20,300,000	6,100,000	100,000
1823.....	22,600,000	6,100,000	-----
1824.....	24,300,000	6,700,000	100,000
1825.....	23,200,000	5,700,000	300,000
1826.....	27,100,000	3,100,000	100,000
1827.....	24,300,000	2,900,000	300,000
1828.....	26,500,000	1,900,000	300,000
1829.....	29,900,000	1,400,000	300,000
1830.....	30,700,000	1,000,000	300,000
1831.....	32,800,000	700,000	100,000
1832.....	48,900,000	700,000	-----
1833.....	40,100,000	700,000	2,900,000
1834.....	33,700,000	900,000	4,000,000
1835.....	29,900,000	1,000,000	3,700,000
1836.....	22,300,000	3,500,000	14,200,000

^a H. R. No. 460, 22d Cong., 1st sess., p. 84.

^b *Ibid.*, 192.

^c H. R. No. 121, 22d Cong., 2d sess., p. 77.

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As a rule, the largest amount of discounts was made in the summer months. During the years 1820 to 1831 the months of maximum discount were as follows:

1820	June.
1821	June.
1822	July.
1823	July.
1824	July.
1825	May.
1826	June.
1827	June.
1828	June.
1829	May.
1830	June.
1831	October.

During the summer, in the interval between the old and the new crop, commercial operations and the loans founded on them declined. This is again illustrated in the reductions of the business of the bank between July 1 and October 1. For the years 1823 to 1833 these reductions were as follows:^a

1823	\$1,240,000
1824	2,119,000
1825	131,000
1826	3,012,000
1827	2,216,000
1828	1,474,000
1829	3,258,000
1830	2,711,000
1831	Increase.
1832	4,723,000
1833	3,276,000

^a Niles, 46: 127.

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PRESIDENT JACKSON'S OPPOSITION TO THE BANK.

President Jackson, elected in 1828, in his first annual message submitted to Congress in December, 1829, startled the country by an attack upon the bank. His references to this institution were confined to two short paragraphs, but in these he declared that both the constitutionality and expediency of the law creating the bank were well questioned by a large portion of his fellow-citizens and that the bank had failed to establish a uniform and sound currency. He also suggested the foundation of a fiscal institution, based upon the credit of the Government and its revenues, which would avoid all constitutional difficulties and at the same time secure the necessary advantages to the Government and the country.

“The President's reference to the bank was made the basis of inquiry in both Houses of Congress. The House committee, in its report of April 13, 1830, favorably discussed the bank from three points of view: First, its constitutionality; second, its expediency; and, third, in accordance with the vague suggestion made by Jackson in his message, the wisdom of founding a different institution upon the credit and revenues of the Government. The argument in favor of the expediency of the bank was practically a currency argument. It set forth that the dispute was not between an issue of paper currency and metallic currency, but between a national paper currency and a local paper currency. Since Congress had no constitutional power to forbid the issue of paper money by state banks, local bank notes would circulate,

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and it was not worth while to discuss the superior advantages of a specie currency. The question therefore arose, Is it not better to have a stable currency which by virtue of its uniformity of value will prevent local bank notes from circulating far from the place of issue? And the committee was convinced that the United States Bank, by its notes, did actually furnish such a circulating medium, more satisfactory even than specie. If the current medium were confined to specie, a planter in Louisiana who wished to purchase merchandise in Philadelphia would be obliged to pay 1 per cent for a bill of exchange on Louisiana, covering the transportation and insurance of the specie—an expense of which one-half was saved through the issue of drafts. Again, the bank was shown to have performed with most scrupulous punctuality its stipulation to transfer free of expense the funds of the Government to any point where they might be wanted.”^a

Jackson, however, did not give way. In his second annual message, December 6, 1830, he again renewed his criticism, but indicated more definitely the kind of an institution which he thought might be substituted. He suggested that a branch of the Treasury Department be established as a bank, based on public and individual deposits, but without power to make loans or purchase property. It might, however, sell bills of exchange at a moderate premium, and the profits thus derived might meet the expenses of remitting the funds of the Government. As it would not be incorporated, having no stockholders, debts, or property, it would avoid any objection

^a D. R. Dewey, *Financial History of the United States, 200-201.*

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on the ground of unconstitutionality, and it would not "operate on the hopes, fears, or interests of large masses of the community."

By insisting upon specie redemption of all notes issued by state banks, as a condition of deposit, such an institution could exercise an effective control on local issues. In 1831 Senator Benton introduced a resolution against rechartering the bank, and again President Jackson, in the message of that year, referred to his previous statements as expressing his opinion in regard to the bank.

Early in 1832 the bank determined that the time had come to secure a new charter. A bill was consequently introduced which continued the old bank for a period of fifteen years from 1836, subject, however, to certain changes, as follows:

1. Two officers to be appointed with authority to sign all notes of denominations less than \$100.
2. No branch bank draft or other bank paper in denominations less than \$50, not payable at the place where issued, to be put in circulation.
3. The notes which were made payable at one place only to be received at any office if tendered in liquidation or payment of any balance, by any other incorporated bank.
4. Unlawful for the bank to hold any real estate except that necessary for transacting business.
5. Not more than two branches to be established in any one State.
6. The bank to pay an annuity of \$200,000 per annum for fifteen years.

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7. The bank not to issue any notes of a less denomination than \$20.

8. The bank to report to the Secretary of the Treasury the names of stockholders who were not resident citizens, and on application of the treasurer of any State to transmit a list of stockholders residing in said State.

The petition for recharter was favorably reported upon by committees in the Senate and in the House, but the opponents endeavored to counteract this indorsement by securing the appointment in the House of a special committee to investigate the bank. Three reports were the result. Although the majority was adverse, these charges were regarded by the House as inconsequential and the bill for recharter was passed by both branches of Congress.

On July 10 President Jackson vetoed the measure. His list of objections covered a wide range:

1. The bonus paid by the bank was altogether too small; the passage of the bill was equal to a gratuity to the holders of the stock due to the increase in its market value. The stock would rise at once to 125 and ultimately to 150, and as about one-fourth of it was held by foreigners this meant a present to them. If the Government sold a monopoly, it ought to ascertain its value. In this case the value was estimated at \$17,000,000, for which the bank proposed to pay only \$3,000,000. The Government should rather sell the stock and put the premiums in the Treasury.

2. The bill gave to the existing stockholders a prescriptive right to government favor and did not open subscriptions to public competition.

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3. The measure discriminated against private citizens, inasmuch as notes of the branches were made legal tender if paid in by any incorporated state bank, but were not receivable except at the office of issue when offered by any private citizen. This did "not measure out equal justice to the high and low, the rich and poor."

4. The bill practically exempted from state tax that part of the stock which was owned by foreigners. According to Jackson's interpretation of the amendment proposed above under paragraph 8, "Only the stock held in the States, and not that employed without them, would be subject to taxation." As the names of foreign stockholders would not be reported to the treasurer of the State, the stock held by them would escape local taxation. In particular, the western States would be unable to obtain any adequate compensation for the drain of their money in exchange operations.

5. The management would fall into the control of a few citizen stockholders; as foreigners were excluded from the directorate, and as more and more stock was transferred abroad under the exemption from taxation, it would be easy for a few "designing men" to secure control by monopolizing the stock at home. If the influence of the bank were thus "concentered," there would be "cause to tremble for the purity of our elections in peace and for the independence of our country in war." The bank should be "purely American."

6. The bank as proposed was unconstitutional. Although two Congresses, one in 1791 and another in 1816, had decided in favor of a bank; two, one in 1811 and

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another in 1815, had decided against it. The expressions of legislative, judicial, and executive opinion of the States against the bank, as compared with those in favor, was practically in the proportion of 4 to 1. The decision of the Supreme Court of the United States in the case *McCulloch v. Maryland*, according to Jackson, did not limit the authority either of Congress or the Executive. That opinion did not define whether a bank was necessary or not, but held that a bank was constitutional only if held to be necessary; it was therefore inferred that if the legislative branch held that the bank was unnecessary, it was unconstitutional.

7. There was suspicion that the bank had violated its charter, but notwithstanding this the bank had declined to demand the severest scrutiny of its transactions.

The attack upon the bank by President Jackson, which has been briefly outlined, and the dramatic events which followed constitute a chapter in political history rather than an instructive commentary on banking methods and policy. The charges were for the most part inconsequential, and for this reason call for only brief consideration by the more special student of banking. Moreover, the history of this period of the bank's career has been repeatedly described by many competent investigators, who have so thoroughly traversed the points at issue that there is but little more to be said. The charges against the bank grew in number as the "war" progressed; at first they were confined to the two general accusations made by President Jackson in his first message of 1829—unconstitutionality and inexpediency. When Jackson's

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followers determined to make the bank an issue, a drag-net was thrown out and every act of the bank which could possibly be construed unfavorably was seized upon and magnified into a distinct reason for the non-renewal of the charter. By 1832 the list, as presented by Senator Clayton,^a covered seven main and fifteen minor points. Later the operations of the bank, as witnessed in its procedure in the monetary crisis of 1834 and in the withholding of dividends on government stock because of the dispute over the French indemnity bill, whether due to resentment or to force of circumstances on account of uncertainty as to the future, gave rise to new and distinct charges which should be considered apart from the indictment drawn up at the earlier period, when the business of the bank was of a more normal character.

In brief, the charges against the bank may be summed up under the following general headings: First, that the bank exercised an improper influence in politics; second, that some of its banking operations were ill-advised and violations of the charter; third, that the bank was unconstitutional; and fourth, that it was a monopoly and thus undemocratic in character.

CHARGES AGAINST THE BANK—POLITICAL ACTIVITY.

1. Political opposition at the time of Jackson's election had become bitter and many personal animosities had been aroused. The disposition of every public question was influenced by intense partisanship. It was only natural, therefore, that the bank should have to suffer

^a February 27, 1832; see Summary in Niles, 42: 28.

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in common with other questions of public policy. It is hardly fair, therefore, to hold the bank too strictly to account or to decide adversely against a national or central bank at the present time on the ground that it may exercise improper political influence because of incidents which occurred eighty years ago.

But even if the bank be put to the test, the central management will stand exonerated. Catterall, who has made a most exhaustive investigation of this charge, having at command, beside the usual sources, Biddle's letter-books and papers, declares that "it may be said at once that there has not been any evidence produced to show that the bank as a national bank ever spent a dollar corruptly."^a Though Biddle did not believe in creating branch directorates in which political parties were evenly balanced, pains were taken to appoint members of the various parties, subject, however, to fitness for office.^b "The safety of the bank lies in its complete estrangement from politics." The bank, however, was unfortunate in "that the vast majority of the bank's officers and directors were drawn from the ranks of the party hostile to Jackson, not because the bank supported this party, but because most of the business men were unfriendly to Jackson, and the officers and directors had to be selected from the ranks of business men."^c Considering that there were 25 branches, each with its own board of directors, scattered throughout the country and that questions involving banking practice excited much political attention and frequently came before state legislatures,

^a Catterall, 243.

^b *Ibid.*, 246.

^c *Ibid.*, 174.

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it was to be expected that some of the directors and officers of the branches would take sides on one or more of these questions. Particularly was this so in Kentucky, where the agitation for stay and relief laws was a burning political issue for many years.

In detail, the charge of political activity of the branches covered the following specifications:

1. That the president of the Washington branch, though incompetent, was retained in office because of his influence with the Monroe administration. For his efforts to secure election, however, he was criticised by Biddle in 1824: "The Bank of the United States can preserve its usefulness to the country only while it maintains its independence, its entire uncontrolled exemption from every influence and every motive except the interest of the stockholders and the service of the country."^a

2. It was asserted that bank officials in Louisiana endeavored to influence elections. This charge, however, was admitted by President Jackson to be without foundation.^b

3. Bank officials in South Carolina engaged in politics. It was true that the president of the branch was an active politician and Biddle found it necessary to caution him to abstain from politics.^c

4. The Portsmouth bank was a "party engine." This charge was prompted by the appointment of Jeremiah Mason, a Federalist and friend of Webster, who showed

^a Sen. Doc. No. 17, 23d Cong., 2d sess., p. 297.

^b Catterall, 188.

^c September 27, 1830; Sen. Doc. No. 17, 23d Cong., 2d sess., p. 308.

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little tact in dealing with customers of the bank. For years Mason had been opposed to Hill, one of the ardent supporters of Jackson in New Hampshire.

5. The president of the Norfolk branch had been politically opposed to Jackson. This was explained as limited to personal activity without involving the bank in any way.^a

6. The cashier of the Lexington office in 1831 asked Biddle to provide loans to help the anti-Jackson candidate. Biddle, however, again restated his conviction that officers should abstain from any connection with what was called politics, "to abstain not in appearance merely, but entirely, candidly, and honestly."^b

After the bank was attacked it did exercise certain pressure upon legislative bodies in order to support its cause. It maintained lobby agents and endeavored to secure the election of its advocates. For this it should be criticised, but in justice it must be remembered that this action was subsequent to the original attack and was prompted by the special plight in which the bank found itself.

Under Biddle's administration the bank was also accused of selecting new branches from political considerations, "but there is not a grain of evidence to support these charges. Had such motives swayed the directors, they would certainly have established many more offices, for they had most tempting inducements in the applications made by the Secretary of the Treasury, the governors of territories, state legislatures, statesmen, Con-

^a Catterall, 250.

^b *Ibid.*, 251.

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gressmen, politicians, state officials, and prominent business men." ^a

In conclusion, therefore, it may be said that until a political attack had been made upon it the central management of the bank kept itself singularly free from political activity. The branch management in some places was open to criticism, but any defect here could have been remedied in a great measure by a different relationship between the mother bank and the branches, and criticism on this point might well be directed against the plan of organization rather than against the principle.

CRITICISM OF BRANCH DRAFTS.

A second class of objections dealt more particularly with the operations of banking. The most important of these was directed against the use of branch drafts as a means of supplying the smaller denominations of currency. In the first place, it was claimed that their issue was contrary to law, and secondly, that they were harmful because they contracted the circulation of state banks. As to their legality, the bank rested on the opinion of able lawyers, Webster, Wirt, and Binney, secured in advance of the use of the drafts. ^b This opinion was confirmed by a decision of the circuit court of the United States, 1831, which held that while the charter did not expressly authorize the officers of the bank to draw on the branches, it did not prohibit them from doing so. ^c Moreover, from the beginning of their use, branch drafts had

^a Catterall, 398.

^b H. R. No. 460, 23d Cong., 1st sess., p. 51.

^c 1 Baldwin, 370; Catterall, 120; for opposing view, see correspondence between Woodbury and Biddle, H. R. No. 42, 23d Cong., 2d sess.

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been received by the Treasury Department in payment of public dues on an equality with the notes of the bank. To a certain extent, therefore, they had thus received the sanction of use. In McDuffie's minority report of May 11, 1832, it was held that branch drafts were nothing more nor less than bills of exchange drawn by the branch upon the mother bank and that the charter expressly authorized the buying and selling of bills of exchange. If these drafts were used as circulation, it was not a ground of complaint against the bank; that was the affair of the community; the bank could not be made responsible for the use which the public made of the drafts.^a Senator Benton, who followed up every attack on the bank with unwearying pertinacity, took direct issue with the court's decision, and Secretary Woodbury declared that the bank, in view of the failure of Congress to pass any one of the several bills introduced at successive sessions to permit the issue of small notes on easier terms than permitted by the charter, had acted in "derogation of the spirit of the laws and in direct hostility to the views and policy of Congress." This was "but another admonitory lesson against the danger of continuing a corporation with such ability and inclination to disregard the wishes and restraints of legislative authority."^b

As to the influence of these drafts upon local circulation, Gouge declares that the bank was thus able to throw out of circulation the notes of the Cape Fear Bank of North Carolina, and that it displaced the notes of other local

^a H. R. No. 460, 23d Cong., 1st sess., p. 298.

^b H. R. No. 42, 23d Cong., 2d sess., p. 23.

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banks. To this was attributed a great part of the difficulties of the year 1828.^a And Catterall concludes that the employment of branch drafts did reduce the note issues of local banks and helped to give the bank a larger part of the exchange business.^b It was also held that through their use the bank lost control of its circulation and that their issue tended to inflation. To this, however, may be answered that the parent bank prepared all the drafts and distributed them to the several offices. While it might not know at a given moment just how many had been put out, it had a final check. In 1832 the proportion of drafts to circulation was less than one-fourth.^c

Whatever may be the merits or demerits of the use of branch drafts, there is no doubt that their employment was unfortunate for the bank; it gave the opposition a definite point of attack and undoubtedly increased the hostility of state institutions, which found their activity contracted. The bank, moreover, lent itself indirectly to an indorsement of the use of notes of small denominations, as low as \$5; this was a mistake for at that time, earnest efforts were made in many of the States to abolish all notes under that sum. The bank, of course, could not issue these smaller notes, because of the charter prohibition, but in throwing into circulation so large a number of \$5 drafts it apparently showed a lack of sympathy for the movement which was supported by the most conservative element in the country; it sacrificed a possible position

^a Gouge, *Short History of Paper Money and Banking in the United States*, 201.

^b Catterall, 131.

^c For examination of conflicting opinions, see Catterall, 120-127.

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of leadership in a needed reform for its own individual profit.

CRITICISM OF OTHER BANKING OPERATIONS.

Other accusations involving illegal practices were: The charging of usury, sale of coin, trading in public securities, and speculation in real estate. The indictment on these points is in its final analysis of little importance, for, as a rule, the accusation under each heading referred to but a single action, which, if true, might well be regarded as exceptional. The bank had charged discount and exchange on domestic bills, thus obtaining in some cases more than the 6 per cent interest allowed by the charter. It was difficult, however, to prove that this device, which was openly used by state banks in many sections to evade the usury laws, had been intentionally employed by the bank for illegal purposes. The bank did endeavor to develop its business in exchange, even though discount operations were contracted. This was particularly so in the West. As there was a strong prejudice against charges for exchange, the bank had to suffer in public estimation for operations which of themselves were entirely justifiable.

The bank was accused of selling coin when the charter limited it to dealings in bullion. In all, the sales of American gold coin amounted to \$84,734; an excuse for this might be found in the fact that until 1834 gold coin was underrated at the mint and did not circulate as money.^a Another charge related to speculation in public stocks. In 1834 the Treasury wished to pay off a part

^aSumner, Jackson (revised edition), p. 303.

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of the government indebtedness represented by the 3 per cent stock. The bank was consequently notified that deposits would be withdrawn, but the demand came at an unfortunate time. Previous withdrawals for the retirement of the public debt had been large, and the bank had been taxed to the utmost to make the necessary contraction in its business in order to meet the plans of the Treasury. Biddle, therefore, offered to pay a quarter's interest on the stock, provided its retirement was postponed. The Treasury agreed to this. Unfortunately the agent, General Cadwalader, who was sent to London in order to secure from the holders of the 3 per cent stock, which was largely owned abroad, their consent to delay retirement and accept the responsibility of the bank for the payment of interest, permitted the banking house of the Barings, which carried through the negotiations, to deviate from this plan. The Barings bought outright the 3 per cent stock, and thus the bank indirectly became responsible for the purchase of government securities. Although the arrangements made by Cadwalader and the Barings were disavowed by Biddle, the negotiations, coming at a time when the bank was under fire, gave critics ample opportunity for charging the bank with trickery and a high-handed purpose of defeating the Government in its efforts to extinguish the debt.

The dealings of the bank in real estate admit of easy explanation. During the earlier and more speculative period of the bank's operations, the branch at Cincinnati was obliged to take a large amount of real estate in settlement of indebtedness; the sale of this was slow and the bank found it necessary to improve some of the property

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in order to secure any sale at all. For many years, therefore, the bank was both landlord and purchaser. All the evidence, however, goes to show that the bank made every possible effort to get rid of this dead asset and convert it into more active funds.

Additional charges against the bank reflected upon the judgment of the management. The bank was accused of establishing too many branches, making excessive expenditures, which were charged up to the contingency account, of favoritism to Thomas Biddle, a cousin of the President, of refusing to give to the state officials of Connecticut a list of stockholders resident in that State to be used by the taxing authorities, of making loans to Congressmen, and of putting the control of the bank in the hands of the exchange committee of which Biddle was the head. For the most part, these were trivial reasons to justify a refusal to recharter the bank if its general policy was otherwise advantageous. The last accusation is the most serious one, but it concerns the personality of one man, the president of the bank rather than the merit of the system. Biddle was a large figure in the contest. Catterall's characterization is accurate and instructive: "Nicholas Biddle was a man of intense energy, autocratic in temper, and possessing supreme confidence in his own judgment. It was inevitable that he should rule and not merely reign, and the proofs that he did rule are observable everywhere. He appointed the committees of the bank after 1828, though the rules giving him this power were not adopted until 1833; he does not want the bank's books examined by the gov-

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ernment directors and he gives orders that the books must not be examined by them, though only the board could rightfully do this."^a Biddle became the bank executive at a time when its business was small and dividends in doubt. He devoted his whole heart to the service of the bank; his directors, as is often the case in like circumstances, accepted his leadership without critically reviewing his acts. The quarterly committee of examination provided for under the by-laws did its work in a perfunctory manner, and as a consequence the responsibility for every act had to be shouldered by Biddle.

Aside from these specific criticisms, opposition to the bank was inspired by political intrigue and by selfish jealousy of state banks. Many were convinced that Clay, who was a candidate for the Presidency in 1832, was behind Biddle in forcing the bank question to the front, in order to secure political capital. There is reason to believe that Clay foresaw a veto from Jackson, and on that issue thought he could successfully appeal to the country in the autumn elections. Biddle was also of this opinion and declared that Jackson's veto exhibited "all the fury of a chained panther biting the bars of his cage."^b

Clay mistook the temper of the voters. Aside from the opposition to the bank, there were other qualities in Jackson's administration which commanded the confidence of the people. There was a general approval of his position on the tariff and monopolistic corporations. Jackson was reëlected and interpreted this as a popular

^a Catterall, 275.

^b Meigs, *Life of Ingersoll*, 177.

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indorsement of his position on the bank. The next step was the removal of the deposits, even at the cost of dismissing a Cabinet secretary. The bank, on its side, was provoked into imprudent acts, which added to the bitterness of feeling; compromise was impossible, and the contest became a war of extermination. The history of this later period therefore is a record of recrimination and counter recrimination; of investigations which settled nothing; and finally of denunciatory resolutions and efforts to expunge resolutions. Biddle, the successful bank president, engaged in daring and imprudent speculations, and the bank, in order to continue its existence, secured a charter from the State of Pennsylvania under terms which meant either legislative corruption or a most astonishing ignorance of the fundamental conditions of sound banking.

A second source of hostility to the bank is to be found in the opposition of local banks; this was not universal, but it was strong enough in some States to be an important factor. Especially was this so in New York; a considerable part of the national revenue was paid into the branch of the bank at New York City, and was consequently under control of the mother bank at Philadelphia. The state banks naturally desired these deposits and used their influence to arouse antagonism to the bank and indorsement of Jackson's policy.

APPENDIX A.

ACT OF INCORPORATION.

[Fourteenth Congress, first session, chapter 44. 1816.]

CHAPTER XLIV.—*An act to incorporate the subscribers to the Bank of the United States.*

Be it enacted by the Senate and House of Representatives of the United States of America, in Congress assembled, That a bank of the United States of America shall be established, with a capital of thirty-five millions of dollars, divided into three hundred and fifty thousand shares, of one hundred dollars each share. Seventy thousand shares, amounting to the sum of seven millions of dollars, part of the capital of the said bank, shall be subscribed and paid for by the United States, in the manner hereinafter specified; and two hundred and eighty thousand shares, amounting to the sum of twenty-eight millions of dollars, shall be subscribed and paid for by individuals, companies, or corporations, in the manner hereinafter specified.

SEC. 2. *And be it further enacted,* That subscriptions for the sum of twenty-eight millions of dollars, towards constituting the capital of the said bank, shall be opened on the first Monday in July next, at the following places: that is to say, at Portland, in the District of Maine; at Portsmouth, in the State of New Hampshire; at Boston, in the State of Massachusetts; at Providence, in the State of Rhode Island; at Middletown, in the State of Connecticut; at Burlington, in the State of Vermont; at New York, in the State of New York; at New Brunswick, in the State of New Jersey; at Philadelphia, in the State of Pennsylvania; at Wilmington, in the State of Delaware; at Baltimore, in the State of Maryland; at Richmond, in the State of Virginia; at Lexington, in the State of Kentucky; at Cincinnati, in the State of Ohio; at Raleigh, in the State of North Carolina; at Nashville, in the State of Tennessee; at Charleston, in the State of South Carolina; at Augusta, in the State of Georgia, at New Orleans, in the State of Louisiana; and at Washington, in the district of Columbia. And the said subscriptions shall be opened under the superintendence of five commissioners at Philadelphia, and of three commissioners at each of the other places aforesaid, to be appointed by the President of the United States, who is hereby authorized to make such appointments, and shall continue open every day, from the time of opening the same, between the hours of ten o'clock in the forenoon and four o'clock in the afternoon, for the term of twenty days, exclusive of Sundays, when the same shall be closed, and immediately thereafter the com-

A bank of the United States, with a capital of \$35,000,000, etc.

Places, etc., for receiving subscriptions.

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Places, etc.,
for receiving sub-
scriptions, etc.

missioners, or any two of them, at the respective places aforesaid, shall cause two transcripts or copies of such subscriptions to be made, one of which they shall send to the Secretary of the Treasury, one they shall retain, and the original they shall transmit, within seven days from the closing of the subscriptions as aforesaid, to the commissioners at Philadelphia, aforesaid. And on the receipt of the said original subscriptions, or of either of the said copies thereof, if the original be lost, mislaid, or detained, the commissioners at Philadelphia aforesaid, or a majority of them, shall immediately thereafter convene, and proceed to take an account of the said subscriptions. And if more than the amount of twenty-eight millions of dollars shall have been subscribed, then the said last mentioned commissioners shall deduct the amount of such excess from the largest subscriptions, in such manner as that no subscription shall be reduced in amount, while any one remains larger: *Provided*, That if the subscriptions taken at either of the places aforesaid shall not exceed three thousand shares, there shall be no reduction of such subscriptions, nor shall, in any case, the subscriptions taken at either of the places aforesaid be reduced below that amount. And in case the aggregate amount of the said subscriptions shall exceed twenty-eight millions of dollars, the said last mentioned commissioners, after having apportioned the same as aforesaid, shall cause lists of the said apportioned subscriptions, to be made out, including in each list the apportioned subscription for the place where the original subscription was made, one of which lists they shall transmit to the commissioners or one of them, under whose superintendence such subscriptions were originally made, that the subscribers may thereby ascertain the number of shares to them respectively apportioned as aforesaid. And in case the aggregate amount of the said subscriptions made during the period aforesaid, at all the places aforesaid, shall not amount to twenty-eight millions of dollars, the subscriptions to complete the said sum shall be and remain open at Philadelphia aforesaid, under the superintendence of the commissioners appointed for that place, and the subscriptions may be then made by any individual, company, or corporation, for any number of shares not exceeding, in the whole, the amount required to complete the said sum of twenty-eight millions of dollars.

Regulations
concerning sub-
scriptions and
payments on
them, etc.

SEC. 3. *And be it further enacted*, That it shall be lawful for any individual, company, corporation, or state, when the subscriptions shall be opened as herein before directed, to subscribe for any number of shares of the capital of the said bank, not exceeding three thousand shares, and the sums so subscribed shall be payable, and paid, in the manner following; that is to say, seven millions of dollars thereof in gold or silver coin of the United States, or in gold coin of Spain, or the dominions of Spain, at the rate of one hundred cents for every twenty-eight grains and sixty hundredths of a grain of the actual weight thereof, or

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in other foreign gold or silver coin at the several rates prescribed by the first section of an act regulating the currency of foreign coins in the United States, passed tenth day of April, one thousand eight hundred and six, and twenty-one millions of dollars thereof in like gold or silver coin, or in the funded debt of the United States contracted at the time of the subscriptions respectively. And the payments made in the funded debt of the United States, shall be paid and received at the following rates: that is to say, the funded debt bearing an interest of six per centum per annum, at the nominal or par value thereof; the funded debt bearing an interest of three per centum per annum, at the rate of sixty-five dollars for every sum of one hundred dollars of the nominal amount thereof; and the funded debt bearing an interest of seven per centum per annum, at the rate of one hundred and six dollars and fifty-one cents, for every sum of one hundred dollars of the nominal amount thereof; together with the amount of the interest accrued on the said several denominations of funded debt, to be computed and allowed to the time of subscribing the same to the capital of the said bank as aforesaid. And the payments of the said subscriptions shall be made and completed by the subscribers, respectively, at the times and in the manner following; that is to say, at the time of subscribing there shall be paid five dollars on each share, in gold or silver coin as aforesaid, and twenty-five dollars more in coin as aforesaid, or in funded debt as aforesaid; at the expiration of six calendar months after the time of subscribing, there shall be paid the further sum of ten dollars on each share, in gold or silver coin as aforesaid, and twenty-five dollars more in coin as aforesaid, or in funded debt as aforesaid; at the expiration of twelve calendar months from the time of subscribing, there shall be paid the further sum of ten dollars on each share in gold or silver coin as aforesaid, and twenty-five dollars more, in coin as aforesaid, or in funded debt as aforesaid.

SEC. 4. *And be it further enacted*, That at the time of subscribing to the capital of the said bank as aforesaid, each and every subscriber shall deliver to the commissioners, at the place of subscribing, as well the amount of their subscriptions respectively in coin as aforesaid, as the certificates of funded debt, for the funded debt proportions of their respective subscriptions, together with a power of attorney, authorizing the said commissioners, or a majority of them, to transfer the said stock in due form of law to "the president, directors, and company of the bank of the United States," as soon as the said bank shall be organized. *Provided always*, That if, in consequence of the apportionment of the shares in the capital of the said bank among the subscribers, in the case, and in the manner, herein before provided, any subscriber shall have delivered to the commissioners, at the time of subscribing, a greater amount of gold or silver coin and funded debt than shall be necessary to complete the payments for the share or shares to such

April 20, 1806,
ch. 22.

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subscribers, apportioned as aforesaid, the commissioners shall only retain so much of the said gold or silver coin, and funded debt, as shall be necessary to complete such payments, and shall, forthwith, return the surplus thereof, on application for the same, to the subscribers lawfully entitled thereto. And the commissioners, respectively, shall deposit the gold and silver coin, and certificates of public debt by them respectively received as aforesaid from the subscribers to the capital of the said bank, in some place of secure and safe keeping, so that the same may and shall be specifically delivered and transferred, as the same were by them respectively received, to the president, directors, and company, of the bank of the United States, or to their order, as soon as shall be required after the organization of the said bank. And the said commissioners appointed to superintend the subscriptions to the capital of the said bank as aforesaid, shall receive a reasonable compensation for their services respectively, and shall be allowed all reasonable charges and expenses incurred in the execution of their trust, to be paid by the president, directors, and company, of the bank, out of the funds thereof.

Reasonable compensation to the commissioners.

The United States may redeem the funded debt, etc., and the bank may sell for gold and silver, etc.

SEC. 5. *And be it further enacted*, That it shall be lawful for the United States to pay and redeem the funded debt subscribed to the capital of the said bank at the rates aforesaid, in such sums, and at such times, as shall be deemed expedient, anything in any act or acts of Congress to the contrary thereof notwithstanding. And it shall also be lawful for the president, directors, and company, of the said bank to sell and transfer, for gold and silver coin, or bullion, the funded debt subscribed to the capital of the said bank as aforesaid: *Provided always*, That they shall not sell more thereof than the sum of two millions of dollars in any one year; nor sell any part thereof at any time within the United States, without previously giving notice of their intention to the Secretary of the Treasury, and offering the same to the United States for the period of fifteen days, at least, at the current price, not exceeding the rates aforesaid.

The Secretary of the Treasury to subscribe on behalf of the United States, etc.

SEC. 6. *And be it further enacted*, That at the opening of subscription to the capital stock of the said bank, the Secretary of the Treasury shall subscribe, or cause to be subscribed, on behalf of the United States, the said number of seventy thousand shares, amounting to seven millions of dollars, as aforesaid, to be paid in gold or silver coin, or in stock of the United States, bearing interest at the rate of five per centum per annum; and if payment thereof, or of any part thereof, be made in public stock, bearing interest as aforesaid, the said interest shall be payable quarterly, to commence from the time of making such payment on account of the said subscription, and the principal of the said stock shall be redeemable in any sums, and at any periods, which the Government shall deem fit. And the Secretary of the Treasury shall cause the certificates of such public stock to be prepared, and

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made in the usual form, and shall pay and deliver the same to the president, directors, and company, of the said bank on the first day of January, one thousand eight hundred and seventeen, which stock it shall be lawful for the said president, directors, and company, to sell and transfer for gold and silver coin or bullion, at their discretion: *Provided*, They shall not sell more than two millions of dollars thereof in any one year.

SEC. 7. *And be it further enacted*, That the subscribers to the said bank of the United States of America, their successors and assigns, shall be, and are hereby, created a corporation and body politic, by the name and style of "The president, directors, and company of the bank of the United States," and shall so continue until the third day of March, in the year one thousand eight hundred and thirty-six, and by that name shall be, and are hereby, made able and capable, in law, to have, purchase, receive, possess, enjoy, and retain, to them and their successors, lands, rents, tenements, hereditaments, goods, chattels and effects, of whatsoever kind, nature, and quality, to an amount not exceeding, in the whole, fifty-five millions of dollars, including the amount of the capital stock aforesaid; and the same to sell, grant, demise, alien or dispose of; to sue and be sued, plead and be impleaded, answer and be answered, defend and be defended, in all state courts having competent jurisdiction, and in any circuit court of the United States; and also to make, have, and use, a common seal, and the same to break, alter, and renew, at their pleasure; and also to ordain, establish, and put in execution, such by-laws, and ordinances, and regulations, as they shall deem necessary and convenient for the government of the said corporation, not being contrary to the Constitution thereof, or to the laws of the United States; and generally to do and execute all and singular the acts, matters, and things, which to them it shall or may appertain to do; subject, nevertheless, to the rules, regulations, restrictions, limitations, and provisions, hereinafter prescribed and declared.

The subscribers to the bank incorporated etc.

Corporate name.

SEC. 8. *And be it further enacted*, That for the management of the affairs of the said corporation, there shall be twenty-five directors, five of whom, being stockholders, shall be annually appointed by the President of the United States, by and with the advice and consent of the Senate, not more than three of whom shall be residents of any one state; and twenty of whom shall be annually elected at the banking house in the city of Philadelphia, on the first Monday of January, in each year, by the qualified stockholders of the capital of the said bank, other than the United States, and by a plurality of votes then and there actually given, according to the scale of voting hereinafter prescribed: *Provided always*, That no person, being a director in the bank of the United States, or any of its branches, shall be a director in any other bank; and should any such director act as

Twenty - five directors: five to be appointed by the president, etc.

Regulations concerning the direction of the bank, etc.

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a director in any other bank, it shall forthwith vacate his appointment in the direction of the bank of the United States. And the directors, so duly appointed and elected, shall be capable of serving, by virtue of such appointment and choice, from the first Monday in the month of January of each year, until the end and expiration of the first Monday in the month of January of the year next ensuing the time of each annual election to be held by the stockholders as aforesaid. And the board of directors, annually, at the first meeting after their election in each and every year, shall proceed to elect one of the directors to be president of the corporation, who shall hold the said office during the same period for which the directors are appointed and elected as aforesaid: *Provided also*, That the first appointment and election of the directors and president of the said bank shall be at the time and for the period hereinafter declared: *And provided also*, That in case it should at any time happen that an appointment or election of directors, or an election of the president of the said bank, should not be so made as to take effect on any day when, in pursuance of this act, they ought to take effect, the said corporation shall not, for that cause, be deemed to be dissolved; but it shall be lawful at any other time to make such appointments, and to hold such elections, (as the case may be,) and the manner of holding the elections shall be regulated by the by-laws and ordinances of the said corporation; and until such appointments or elections be made, the directors and president of the said bank, for the time being, shall continue in office: *And provided also*, That in case of the death, resignation, or removal of the president of the said corporation, the directors shall proceed to elect another president from the directors as aforesaid: and in case of the death, resignation, or absence, from the United States, or removal of a director from office, the vacancy shall be supplied by the President of the United States, or by the stockholders, as the case may be. But the President of the United States alone shall have power to remove any of the directors appointed by him as aforesaid.

Manner and time of the banks going into operation, etc.

SEC. 9. *And be it further enacted*, That as soon as the sum of eight millions four hundred thousand dollars in gold and silver coin, and in the public debt, shall have been actually received on account of the subscriptions to the capital of the said bank (exclusively of the subscription aforesaid, on the part of the United States) notice thereof shall be given by the persons under whose superintendence the subscriptions shall have been made at the city of Philadelphia, in at least two newspapers printed in each of the places, (if so many be printed in such places, respectively,) where subscriptions shall have been made, and the said persons shall, at the same time, and in like manner, notify a time and place within the said city of Philadelphia, at the distance of at least thirty days from the time of such notification, for proceeding to the election of twenty directors as aforesaid, and it shall be

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lawful for such election to be then and there made. And the President of the United States is hereby authorized, during the present session of Congress, to nominate, and, by and with the advice and consent of the Senate, to appoint, five directors of the said bank, though not stockholders, anything in the provisions of this act to the contrary notwithstanding; and the persons who shall be elected and appointed as aforesaid, shall be the first directors of the said bank, and shall proceed to elect one of the directors to be President of the said bank; and the directors and president of the said bank so appointed and elected as aforesaid, shall be capable of serving in their respective office, by virtue thereof, until the end and expiration of the first Monday of the month of January next ensuing the said appointments and elections; and they shall then and thenceforth commence, and continue the operations of the said bank, at the city of Philadelphia.

SEC. 10. *And be it further enacted*, That the directors, for the time being shall have power to appoint such officers, clerks, and servants, under them as shall be necessary for executing the business of the said corporation, and to allow them such compensation for their services, respectively, as shall be reasonable; and shall be capable of exercising such other powers and authorities for the well governing and ordering of the officers of the said corporation, as shall be prescribed, fixed, and determined, by the laws, regulations, and ordinances of the same.

The directors empowered to appoint officers, clerks, servants, etc.

SEC. 11. *And be it further enacted*, That the following rules, restrictions, limitations, and provisions, shall form and be fundamental articles of the constitution of the said corporation, to wit:

Fundamental articles, etc.

First. The number of votes to which the stockholders shall be entitled, in voting for directors, shall be according to the number of shares he, she, or they, respectively, shall hold, in the proportion following, that is to say; for one share and not more than two shares, one vote; for every two shares above two, and not exceeding ten, one vote; for every four shares above ten, and not exceeding thirty, one vote; for every six shares above thirty, and not exceeding sixty, one vote; for every eight shares above sixty, and not exceeding one hundred, one vote; and for every ten shares above one hundred, one vote; but no person, co-partnership, or body politic, shall be entitled to a greater number than thirty votes; and after the first election, no share or shares shall confer a right of voting, which shall not have been holden three calendar months previous to the day of election. And stockholders actually resident within the United States, and none other, may vote in elections by proxy.

Rules concerning voting for directors.

Second. Not more than three-fourths of the directors elected by the stockholders, and not more than four-fifths of the directors appointed by the President of the United States, who shall be in office at the time of an annual election, shall be elected or appointed for the next succeeding year; and no director shall hold his office more than three years out of four in succession: but the director who shall be the

A part of the directors appointed by the stockholders and president, alone eligible a second year, successively. President always eligible.

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president at the time of an election may always be re-appointed or re-elected, as the case may be.

Stockholders. *Third.* None but a stockholder, resident citizen of the United States, shall be a director; nor shall a director be entitled to any emoluments; but the directors may make such compensation to the president for his extraordinary attendance at the bank, as shall appear to them reasonable.

Seven directors, including the president, may constitute a board. *Fourth.* Not less than seven directors shall constitute a board for the transaction of business, of whom the president shall always be one, except in case of sickness or necessary absence: in which case his place may be supplied by any other director whom he, by writing, under his hand, shall depute for that purpose. And the director so deputed may do and transact all the necessary business, belonging to the office of the president of the said corporation, during the continuance of the sickness or necessary absence of the president.

How his place is supplied in case of absence or sickness. *Fifth.* A number of stockholders, not less than sixty, who, together, shall be proprietors of one thousand shares or upwards, shall have power at any time to call a general meeting of the stockholders for purposes relative to the institution, giving at least ten weeks' notice in two public newspapers of the place where the bank is seated, and specifying in such notice the object or objects of such meeting.

General meeting of the stockholders—how to be called. *Sixth.* Each cashier or treasurer, before he enters upon the duties of his office, shall be required to give bond, with two or more sureties, to the satisfaction of the directors, in a sum not less than fifty thousand dollars, with a condition for his good behaviour and the faithful performance of his duties to the corporation.

Cashier to give bonds and security. *Seventh.* The lands, tenements, and hereditaments, which it shall be lawful for the said corporation to hold, shall be only such as shall be requisite for its immediate accommodation in relation to the convenient transacting of its business, and such as shall have been *bona fide* mortgaged to it by way of security, or conveyed to it in satisfaction of debts previously contracted in the course of its dealings, or purchased at sales, upon judgments which shall have been obtained for such debts.

Limitation concerning, and a description of the real estate which may be held by the corporation. *Eighth.* The total amount of debts which the said corporation shall at any time owe, whether by bond, bill, note, or other contract, over and above the debt or debts due for money deposited in the bank, shall not exceed the sum of thirty-five millions of dollars, unless the contracting of any greater debt shall have been previously authorized by law of the United States. In case of excess, the directors under whose administration it shall happen, shall be liable for the same in their natural and private capacities: and an action of debt may in such case be brought against them, or any of them, their or any of their heirs, executors, or administrators, in any court of record of the United States, or either of them, by any creditor or creditors of the

Maximum of debts which the corporation may at one time contract.

Remedy against the directors under whose administration an excess of debt shall be created.

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said corporation, and may be prosecuted to judgment and execution, any condition, covenant, or agreement, to the contrary notwithstanding. But this provision shall not be construed to exempt the said corporation or the lands, tenements, goods, or chattels of the same from being also liable for, and chargeable with, the said excess.

Such of the said directors, who may have been absent when the said excess was contracted or created, or who may have dissented from the resolution or act whereby the same was so contracted or created, may respectively exonerate themselves from being so liable, by forthwith giving notice of the fact, and of their absence or dissent, to the President of the United States, and to the stockholders, at a general meeting, which they shall have power to call for the purpose.

Ninth. The said corporation shall not, directly or indirectly, deal or trade in anything except bills of exchange gold or silver bullion, or in the sale of goods really and truly pledged for money lent and not redeemed in due time, or goods which shall be the proceeds of its lands. It shall not be at liberty to purchase any public debt whatsoever, nor shall it take more than at the rate of six per centum per annum for or upon its loans or discounts.

Tenth. No loan shall be made by the said corporation, for the use or on account of the Government of the United States, to an amount exceeding five hundred thousand dollars, or of any particular state to an amount exceeding fifty thousand dollars, or of any foreign prince or state, unless previously authorized by a law of the United States.

Eleventh. The stock of the said corporation shall be assignable and transferable, according to such rules as shall be instituted in that behalf, by the laws and ordinances of the same.

Twelfth. The bills, obligatory and of credit, under the seal of the said corporation, which shall be made to any person or persons shall be assignable by endorsement thereupon, under the hand or hands of such person or persons, and his, her, or their executors or administrators, and his, her, or their assignee or assignees, and so as absolutely to transfer and vest the property thereof in each and every assignee or assignees successively, and to enable such assignee or assignees, and his, her, or their executors or administrators, to maintain an action thereupon in his, her, or their own name or names: *Provided*, That said corporation shall not make any bill, obligatory, or of credit, or other obligation under its seal for the payment of a sum less than five thousand dollars. And the bills or notes which may be issued by order of the said corporation, signed by the president, and countersigned by the principal cashier or treasurer thereof, promising the payment of money to any person or persons, his, her, or their order, or to bearer, although not under the seal of the said corporation, shall be binding and obligatory upon the same, in like manner, and with like force and effect, as upon any private person or persons, if issued

Directors absent or dissenting exempted.

In what the corporation may transact business and trade.

Loans exceeding certain sums not to be made to the United States or particular states, or foreign states, but by acts of Congress.

Rules to be prescribed for making the stock assignable.

The bills, obligatory and of credit, under the seal of the corporation: how assignable.

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by him, her or them, in his, her or their private or natural capacity or capacities, and shall be assignable and negotiable in like manner as if they were so issued by such private person or persons; that is to say, those which shall be payable to any person or persons, his, her or their order, shall be assignable by endorsement, in like manner and with the like effect as foreign bills of exchange now are; and those which are payable to bearer shall be assignable and negotiable by delivery only: *Provided*, That all bills or notes, so to be issued by said corporation, shall be made payable on demand, other than bills or notes for the payment of a sum not less than one hundred dollars each, and payable to the order of some person or persons, which bills or notes it shall be lawful for said corporation to make payable at any time not exceeding sixty days from the date thereof.

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Half yearly dividends to be made.

A statement of the affairs of the company to be laid before the stockholders.

Delinquent subscribers to lose the benefit of dividends.

Offices to be established in the District of Columbia and the several states when authorized and required by law

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Thirteenth. Half yearly dividends shall be made of so much of the profits of the bank as shall appear to the directors advisable; and once in every three years the directors shall lay before the stockholders, at a general meeting, for their information, an exact and particular statement of the debts which shall have remained unpaid after the expiration of the original credit, for a period of treble the term of that credit, and of the surplus of the profits, if any, after deducting losses and dividends. If there shall be a failure in the payment of any part of any sum subscribed to the capital of the said bank by any person, co-partnership, or body politic, the party failing shall lose the benefit of any dividend which may have accrued prior to the time for making such payment, and during the delay of the same.

Fourteenth. The directors of the said corporation shall establish a competent office of discount and deposit in the District of Columbia whenever any law of the United States shall require such an establishment; also one such office of discount and deposit in any state in which two thousand shares shall have been subscribed or may be held, whenever, upon application of the legislature of such state, Congress may by law require the same: *Provided*, the directors aforesaid shall not be bound to establish such office before the whole of the capital of the bank shall have been paid up. And it shall be lawful for the directors of the said corporation to establish offices of discount and deposit, wheresoever they shall think fit, within the United States or the territories thereof, and to commit the management of the said offices, and the business thereof, respectively, to such persons and under such regulations as they shall deem proper, not being contrary to law or the constitution of the bank. Or instead of establishing such offices, it shall be lawful for the directors of the said corporation, from time to time, to employ any other bank or banks, to be first approved by the Secretary of the Treasury, at any place or places that they may deem safe and proper, to manage and transact the business proposed as aforesaid, other than for the purposes of discount, to be managed and

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transacted by such offices, under such agreements, and subject to such regulations, as they shall deem just and proper. Not more than thirteen nor less than seven managers or directors, of every office established as aforesaid, shall be annually appointed by the directors of the bank to serve one year; they shall choose a president from their own number; each of them shall be a citizen of the United States, and a resident of the state, territory, or district wherein such office is established; and not more than three-fourths of the said managers or directors, in office at the time of an annual appointment, shall be re-appointed for the next succeeding year; and no director shall hold his office more than three years out of four, in succession; but the president may be always re-appointed.

Fifteenth. The officer at the head of the Treasury Department of the United States shall be furnished, from time to time, as often as he may require, not exceeding once a week, with statements of the amount of the capital stock of the said corporation and of the debts due to the same; of the moneys deposited therein; of the notes in circulation, and of the specie in hand; and shall have a right to inspect such general accounts in the books of the bank as shall relate to the said statement: *Provided*, That this shall not be construed to imply a right of inspecting the account of any private individual or individuals with the bank.

Secretary of the Treasury authorized to call upon the bank for a statement, not exceeding a weekly one, of its concerns.

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Sixteenth. No stockholder, unless he be a citizen of the United States, shall vote in the choice of directors.

No stockholder but a citizen of the United States may vote in choice of directors.

Seventeenth. No note shall be issued of less amount than five dollars.

No smaller notes than five dollars to be issued.

SEC. 12. *And be it further enacted*, That if the said corporation, or any person or persons, for or to the use of the same, shall deal or trade in buying or selling goods, wares, merchandise, or commodities whatsoever, contrary to the provisions of this act, all and every person and persons by whom any order or direction for so dealing or trading shall have been given; and all and every person and persons who shall have been concerned as parties or agents therein, shall forfeit and lose treble the value of the goods, wares, merchandise and commodities in which such dealing and trade shall have been, one half thereof to the use of the informer, and the other half thereof, to the use of the United States, to be recovered in any action of law with costs of suit.

Penalties for dealing in a way or in articles interdicted.

SEC. 13. *And be it further enacted*, That if the said corporation shall advance or lend any sum of money for the use or on account of the Government of the United States, to an amount exceeding five hundred thousand dollars; or of any particular state, to an amount exceeding fifty thousand dollars; or of any foreign prince or state, (unless previously authorized thereto by a law of the United States),

Penalties for making unlawful loans to the United States or particular states or to foreign governments.

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all and every person and persons, by and with whose order, agreement, consent, approbation and connivance such unlawful advance or loan shall have been made, upon conviction thereof shall forfeit and pay, for every such offence, treble the value or amount of the sum or sums which have been so unlawfully advanced or lent; one-fifth thereof to the use of the informer, and the residue thereof to the use of the United States.

Notes of the bank receivable in payments of all dues to United States, until, &c.

SEC. 14. *And be it further enacted*, That the bills or notes of the said corporation originally made payable, or which shall have become payable on demand, shall be receivable in all payments to the United States, unless otherwise directed by act of Congress.

Repealed, 1836, ch. 97.

The bank to give the necessary facilities without any charge, for transferring the funds of the United States to different quarters.

SEC. 15. *And be it further enacted*, That during the continuance of this act, and whenever required by the Secretary of the Treasury, the said corporation shall give the necessary facilities for transferring the public funds from place to place, within the United States, or the territories thereof, and for distributing the same in payment of the public creditors, without charging commissions or claiming allowance on account of difference of exchange, and shall also do and perform the several and respective duties of the commissioners of loans for the several states, or of any one or more of them, whenever required by law.

Deposits of the public moneys to be made in the bank or its branches, or the reasons to be laid before Congress by the Secretary of the Treasury for its not being done.

SEC. 16. *And be it further enacted*, That the deposits of the money of the United States, in places in which the said bank and branches thereof may be established, shall be made in said bank or branches thereof, unless the Secretary of the Treasury shall at any time otherwise order and direct; in which case the Secretary of the Treasury shall immediately lay before Congress, if in session, and if not, immediately after the commencement of the next session, the reasons of such order or direction.

Corporation prohibited from suspending payments in specie, by being made chargeable with the payment of interest at the rate of 12 per centum per annum.

SEC. 17. *And be it further enacted*, That the said corporation shall not at any time suspend or refuse payment in gold and silver, of any of its notes, bills or obligations; nor of any moneys received upon deposit in said bank, or in any of its offices of discount and deposit. And if the said corporation shall at any time refuse or neglect to pay on demand any bill, note or obligation issued by the corporation, according to the contract, promise or undertaking therein expressed; or shall neglect or refuse to pay on demand any moneys received in said bank, or in any of its offices aforesaid, on deposit, to the person or persons entitled to receive the same, then, and in every such case, the holder of any such note, bill, or obligation, or the person or persons entitled to demand and receive such moneys as aforesaid, shall, respectively be entitled to receive and recover interest on the said bills, notes, obligations or moneys until the same shall be fully paid and satisfied, at the rate of twelve per centum per annum from the time of such demand as aforesaid; *Provided*, That Congress may at any time hereafter enact laws enforcing and regulating the recovery of the

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amount of the notes, bills, obligations or other debts, of which payment shall have been refused as aforesaid, with the rate of interest above mentioned, vesting jurisdiction for that purpose in any courts, either of law or equity, of the courts of the United States, or territories thereof, or of the several states, as they may deem expedient.

SEC. 18. *And be it further enacted*, That if any person shall falsely make, forge, or counterfeit, or cause or procure to be falsely made, forged or counterfeited, or willingly aid or assist in falsely making, forging or counterfeiting, any bill or note in imitation of or purporting to be a bill or note issued by order of the president, directors, and company of the said bank, or of any order or check on the said bank or corporation, or any cashier thereof; or shall falsely alter, or cause or procure to be falsely altered, or willingly aid or assist in falsely altering any bill or note issued by order of the president, directors, and company of the said bank, or any order or check on the said bank or corporation, or any cashier thereof; or shall pass, utter or publish, or attempt to pass, utter or publish as true any false, forged, or counterfeited bill or note purporting to be a bill or note issued by order of the president, directors and company of the said bank, or any false, forged or counterfeited order or check upon the said bank or corporation, or any cashier thereof, knowing the same to be falsely forged or counterfeited; or shall pass, utter or publish, or attempt to pass, utter or publish as true, any falsely altered bill or note issued by order of president, directors and company of the said bank, or any falsely altered order or check on the said bank or corporation, or any cashier thereof, knowing the same to be falsely altered with intention to defraud the said corporation or any other body politic or person; or shall sell, utter or deliver, or cause to be sold, uttered or delivered, any forged or counterfeited note or bill in imitation, or purporting to be a bill or note issued by order of the president and directors of the said bank, knowing the same to be false, forged, or counterfeited every such person shall be deemed and adjudged guilty of felony, and being thereof convicted by due course of law shall be sentenced to be imprisoned and kept to hard labour for not less than three years, nor more than ten years, or shall be imprisoned not exceeding ten years, and fined not exceeding five thousand dollars: *Provided*, That nothing herein contained shall be construed to deprive the courts of the individual states, of a jurisdiction under the laws of the several states, over any offence declared punishable by this act.

Penalties for forging, counterfeiting, &c.

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SEC. 19. *And be it further enacted*, That if any person shall make or engrave, or cause, or procure to be made or engraved, or shall have in his custody or possession, any metallic plate, engraved after the similitude of any plate from which any notes or bills issued by the said corporation shall have been printed, with intent to use such plate, or to cause, or suffer the same to be used, in forging or counterfeiting any

For engraving after the similitude of the plates used for the bank, any plates, etc.

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of the notes or bills issued by the said corporation; or shall have in his custody or possession, any blank note or notes, bill or bills, engraved and printed after the similitude of any notes or bills issued by the said corporation, with intent to use such blanks, or cause, or suffer the same to be used, in forging or counterfeiting any of the notes or bills issued by the said corporation; or shall have in his custody or possession, any paper adapted to the making of bank notes or bills, and similar to the paper upon which any notes or bills of the said corporation shall have been issued, with intent to use such paper, or cause, or suffer the same to be used, in forging or counterfeiting any of the notes or bills issued by the said corporation, every such person, being thereof convicted, by due course of law, shall be sentenced to be imprisoned, and kept to hard labour, for a term not exceeding five years, or shall be imprisoned for a term not exceeding five years and fined in a sum not exceeding one thousand dollars.

Punishment.

Bonus to be paid to the United States for this charter.

SEC. 20. *And be it further enacted*, That in consideration of the exclusive privileges and benefits conferred by this act, upon the said bank, the president, directors, and company thereof, shall pay to the United States, out of the corporate funds thereof, the sum of one million and five hundred thousand dollars, in three equal payments; that is to say: five hundred thousand dollars at the expiration of two years; five hundred thousand dollars at the expiration of three years; and five hundred thousand dollars at the expiration of four years after the said bank shall be organized, and commence its operations in the manner hereinbefore provided.

Congress to establish no other bank except in the District of Columbia.

SEC. 21. *And be it further enacted*, That no other bank shall be established by any future law of the United States during the continuance of the corporation hereby created, for which the faith of the United States is hereby pledged. *Provided*, Congress may renew existing charters for banks in the District of Columbia, not increasing the capital thereof, and may also establish any other bank or banks in said district, with capitals not exceeding, in the whole, six millions of dollars, if they shall deem it expedient. And notwithstanding the expiration of the term for which the said corporation is created, it shall be

Authority to use the name of the corporation, etc., for two years after the charter shall expire.

lawful to use the corporate name, style, and capacity, for the purpose of suits for the final settlement and liquidation of the affairs and accounts of the corporation, and for the sale and disposition of their estate, real, personal, and mixed: but not for any other purpose, or in any other manner whatsoever, nor for a period exceeding two years after the expiration of the said term of incorporation.

Limitation of time prescribed for the bank going into operation.

SEC. 22. *And be it further enacted*, That if the subscriptions and payments to said bank shall not be made and completed so as to enable the same to commence its operations, or if the said bank shall not commence its operations on or before the first Monday in April next,

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then, and, in that case, Congress may, at any time within twelve months thereafter, declare, by law this act null and void.

SEC. 23. *And be it further enacted*, That it shall, at all times, be lawful for a committee of either House of Congress, appointed for that purpose, to inspect the books, and to examine into the proceedings of the corporation hereby created, and to report whether the provisions of this charter have been, by the same violated or not; and whenever any committee, as aforesaid, shall find and report, or the President of the United States shall have reason to believe that the charter has been violated, it may be lawful for Congress to direct, or the President to order, a scire facias to be sued out of the circuit court of the district of Pennsylvania, in the name of the United States, (which shall be executed upon the president of the corporation for the time being, at least fifteen days before the commencement of the term of said court,) calling on the said corporation to show cause wherefore the charter hereby granted, shall not be declared forfeited; and it shall be lawful for the said court, upon the return of the said scire facias, to examine into the truth of the alleged violation, and if such violation be made appear, then to pronounce and adjudge that the said charter is forfeited and annulled. *Provided, however*, Every issue of fact which may be joined between the United States and the corporation aforesaid, shall be tried by a jury. And it shall be lawful for the court aforesaid to require the production of such of the books of the corporation as it may deem necessary for the ascertainment of the controverted facts; and the final judgment of the court aforesaid, shall be examinable in the Supreme Court, of the United States by writ of error, and may be there reversed or affirmed, according to the usages of law.

Committees of either House of Congress may inspect the books, etc., of the bank. For what purpose.

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Approved, April 10, 1816.

APPENDIX B.
RULES AND REGULATIONS FOR CONDUCTING THE
BUSINESS OF THE BANK OF THE UNITED STATES.

[As revised in 1833.]

I.

Days and hours of business. The Bank shall be kept open for the transaction of business, from nine o'clock in the morning until three o'clock in the afternoon every day in the year, except Sundays, Christmas day, the First of January, and the Fourth of July.

II.

Deposits. The Bank shall take charge of the cash of all such persons as shall choose to place it there, free of expense, and shall keep it subject to the order of the depositor, payable at sight; and shall also receive special deposits of ingots of gold, bars of silver, wrought plate and other valuable articles of small bulk, for safe keeping, at the risk of the depositor.

III.

Days of discount. All bills and notes offered for discount, shall be delivered into Bank on Monday and Thursday in each week, and laid before the Board of Directors, on the succeeding Tuesday and Friday, together with a statement of the funds and situation of the Bank; on which days the discounts shall be settled, and such as shall be admitted shall be passed to the credit of the applicants on the day on which they are discounted, and may be drawn for at any time after twelve o'clock; and the notes or bills not discounted, shall be returned at any time after twelve o'clock of the same day.

IV.

Discounts and accommodation. Discounts shall not be made upon personal security without two responsible names (the firm of a house being considered as one name only;) but if stock of this bank funded debt of the United States, or such other property as shall be approved by the Board, be deposited and pledged to an amount sufficient to secure the payment, with all damages, one responsible name shall be taken.

V.

Mode of decision on application for discounts. On each application for discount, every Director who may be present, shall be held to give his opinion for or against the same. And no discount shall be made without the consent of three-fourths of the

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directors present; and all notes and bills discounted shall be entered in a book, to be called *the Credit Book*, in such manner as to discover to the Board, at one view, on each discount day, the amount for which any person is indebted to the Bank, either as payer, discounter, or indorser.

VI.

On every discount day, the name of every person who shall have overdrawn the Bank since the last discount day, shall be reported to the Board; and no person while he remains an overdrawer, shall have any note or bill discounted at this Bank. And in no instance will this Bank give a release or discharge to any debtor where the debt arises from an overdraft. And every officer who shall knowingly suffer an overdraft to be made on the Bank, without communicating it to the President or Cashier, shall be dismissed from the service of the Bank.

Overdrafts.

VII.

If any bill or note belonging to this Corporation, shall not be paid before the shutting of the Bank on the last day of grace, such bill or note shall be forthwith protested; and while such bill or note remains unpaid, no discount or accommodation shall be granted to any drawer, acceptor, or indorser of the same. Bills and notes deposited for collection, at any time before the commencement of the days of grace, shall be proceeded with, as bills and notes discounted; unless the person depositing the same shall otherwise direct in writing; *provided*, that in case of non-payment and protest, the person lodging the same shall pay the charges of protest.

Protest.

VIII.

Every person who opens an account, and transacts business with this Bank, shall subscribe his name in a book, to be kept for that purpose, to be called *The book of signatures*, and all the persons who compose any house, keeping any account with this Bank, shall subscribe their names, and the signature of the firm, in this book, if residing in Philadelphia.

Books of signatures.

IX.

No director, without special authority, shall be permitted to inspect the cash account of any person with this Bank.

The cash account of individuals not to be examined by a director.

X.

The books and accounts of the Bank shall be regularly balanced on the first day in January and July in each year; and the half-yearly dividends shall be declared on the first Monday in said months, and published in at least three of the newspapers in the city of Philadelphia:—

Times for balancing the books, etc.

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and the books of transfer shall be shut for ten days immediately preceding each of the days appointed for declaring the half-yearly dividends.

XI.

Cashier may receive the dividends on the bank shares, and interest of the funded debt of the United States. In all cases when required, the Cashier shall accept powers of attorney for receiving any interest or dividend due, or to become due, on any shares in this Bank, or on any funded debt of the United States payable in Philadelphia; which interest or dividend shall be held by the Bank, subject to the order of the proprietor, free of charge.

XII.

How lost certificates are to be renewed. If any person claims a certificate of Bank stock to be issued in lieu of one lost or destroyed, he shall make an affidavit of the fact, and state the circumstances of the loss or destruction; and he shall advertise in one or more of the public newspapers in the city of Philadelphia, for the space of six weeks, an account of the loss or destruction, describing the certificate and its number, calling on all persons to show cause why a new certificate shall not issue in lieu of that lost; and he shall transmit to the Bank his affidavit, and the advertisements before mentioned, and give to the Bank a bond of indemnity, with one or more sureties if required, (in the sum of two hundred dollars, for each share to be renewed) against any damage which may arise from issuing the new certificate: whereupon the Cashier shall, six months after the notice by advertisement as aforesaid, issue a new certificate, of the same number and tenor with that said to be lost or destroyed, and specifying that it is in lieu thereof.

XIII.

Committees. A Committee on the Offices consisting of five members, shall be appointed by the President every three months, who shall have special charge of the situation and concerns of the several Offices and Agencies, with authority to report such measures in relation thereto as they may deem beneficial. The said Committee shall have like charge of all matters relating to the nomination and election of Directors for the several Offices.

A Committee on Exchange consisting of three members shall be appointed at the same time and in like manner, who shall have special charge of all matters relating to the operations of the Bank and its Offices, in Foreign and Domestic Exchange and Bullion—and who shall act as a daily Committee for the purchase of Domestic Exchange at the Bank.

A Committee on the State of the Bank consisting of five members shall at the same time be appointed by ballot, who shall have charge of such matters relative to the local business of the Bank as may from time to time be referred to them by the Board; they shall at

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least once during their time of service examine and count the discounted notes, and compare the amount thereof with the balance of the amount of bills discounted in the General Ledger; they shall also count the cash, and the printed and unprinted paper in the possession of the Cashier—examine the evidences of the public debt and property of the Corporation, make an inventory of the same to be compared with the books in order to ascertain their agreement, and report to the Board.

XIV.

Thirty days' notice shall be given by the Cashier in at least two of the daily newspapers of Philadelphia, of each annual election for Directors of the Bank; and within one week preceding the same, the Directors for the time being, shall appoint by ballot five Stockholders, not being Directors, to be Judges of the election, who shall conduct and regulate the same, commencing at ten o'clock A. M. on the first Monday of January. ^{Election of directors.}

But in case an election of Directors shall not begin, or shall not be completed on the said first Monday, the Judges shall adjourn the same from day to day, not exceeding five days, until the said election shall be completed.

The Judges shall on the forenoon of the day after the election shall have been completed, at the furthest, transmit to the Cashier of the Bank, an authentic certificate of the persons elected: and the Cashier shall thereupon forthwith give notice to all of the said Directors who shall be within convenient distance, to meet at the Bank at six o'clock in the evening of the same day, for the purpose of choosing a President.

XV.

In every election to an office (except that of the President) by this Board, there shall be a previous nomination of the candidate at least one week before the election: Provided, that such previous nomination may be dispensed with by a unanimous vote of the Directors present:—and every President, Cashier and Assistant Cashier of this Bank, shall take and subscribe, an oath or affirmation, to the following effect,—to wit:—*I do swear (or affirm) that I will to the best of my knowledge and abilities, perform the duties assigned to, and the trust reposed in me, as of the Bank of the United States.* ^{Mode of electing officers of the bank, etc.}

XVI.

It shall be the duty of the President to take into his custody at the Bank, the Seal of the Bank which he shall cause to be affixed to all instruments and documents when so ordered by the Board; and to sign all bills and notes issued by the Corporation. ^{Duties of the president.}

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He shall preside at all meetings of the Board, except in cases of necessary absence, convene the Directors on special occasions, and serve as a member of all committees of the Board.

XVII.

Duties of the
cashier.

It shall be the duty of the Cashier to countersign all bills, notes, certificates of stock, and bills of exchange to be signed by the President, or by order of the Board; He shall take into his custody at the Bank, the plates, paper-moulds, bank note paper, unprinted and printed until issued, blank certificates of stock, and bills of exchange, superintend the printing of whatever supplies of these may from time to time be considered necessary for the use of the Bank and Offices; keep a regular account of all the articles in his custody, which account shall be checked by quarterly examinations by the Committee on the State of the Bank; he shall attend all meetings of the Board, keep a fair and regular record of its proceedings, furnish official extracts therefrom, and give all such information as may be required by the Board or any Committee.

He shall correspond with the Officers of the several Offices, as the organ of the Board or Committees of the Board, in directing the general operations of the Bank, in stock and bullion, and in foreign and domestic exchange; he shall also correspond with the Agents of the Bank in Europe, and with all other persons doing business with the Bank on subjects connected with his department; he shall carefully observe the conduct of all persons employed under him, and report to the Board such instances of neglect, incapacity or bad conduct as he may discover in any of them, and generally shall perform all such other services as may be required of him by the Board.

XVIII.

Duty of the
first assistant
cashier.

It shall be the duty of the First Assistant Cashier to take charge of the local operations of the Bank in Philadelphia in the same manner and with the same duties, as the Cashiers of the Offices do of the concerns of their respective Offices, except when otherwise provided by the by-laws or directed by the Board; carefully to observe the conduct of all persons employed under him, and report to the President and Cashier such instances of neglect, incapacity or bad conduct as shall come to his knowledge, daily to examine the settlement of the cash accounts of the Bank, to take charge of the cash, and whenever the actual amount disagrees with the balance of the cash account report the same to the President and Cashier without delay, and generally to perform such services as shall be required of him by the Board, the President, or the Cashier.

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XIX.

It shall be the duty of the Second Assistant Cashier to take charge of the general statements and accounts of the Bank; the accounts between the several Offices, the accounts with the Government of the United States, the foreign exchange accounts, and the returns of all foreign or domestic bills purchased at the Offices. On all these subjects he shall correspond with the Offices and the parties concerned, under the special superintendence of the President and Cashier; and generally perform such other services as may be required by the Board or by the President or Cashier.

Duty of second assistant cashier.

XX.

It shall be the duty of the third Assistant Cashier to take charge of the Suspended Debt and the Real Estate of the Bank and the several Offices, and correspond thereon with the Officers and Agents of the Bank and the Offices, and with other parties concerned under the special superintendence of the President and Cashier, and generally perform such other services as may be required by the Board, or by the President or the Cashier.

Duties of the third assistant cashier.

XXI.

In the election of Cashier, or of Assistant Cashiers, the ballots shall be first taken for all the candidates, and if no one shall have a majority of the votes of all the Directors present, then the three candidates having the highest number shall be voted for again; and if no one shall be elected, the ballots shall then be taken on the two highest.

How the cashier and assistant cashiers are to be elected.

XXII.

The Cashier before he enters upon the duties of his office shall give bond to the President, Directors and Company, with two or more approved sureties, in the sum of seventy thousand dollars, with a condition for his good behaviour and the faithful performance of his duties to the Corporation. The First Assistant Cashier, and the Cashier at each Office, shall give bond in like manner, in the sum of fifty thousand dollars, with the same condition. The Second and Third Assistant Cashiers shall give bond in like manner in the sum of twenty-five thousand dollars with the same condition. The paying and the receiving Tellers, in the sum of twenty thousand dollars each; The Book-keepers Discount Clerks, Note Clerks, and other Clerks, in the sum of five thousand dollars each; and the Porters in the sum of two thousand dollars each, with the same condition.

Security to be given by the cashier and other officers, etc.

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XXIII.

Clerks, etc., prohibited from having an account with the bank. No Clerk or Porter in this institution shall be permitted to have an account with the Bank, but shall receive his salary quarterly, or monthly. And every Clerk and servant of the Bank shall take, and subscribe, an oath or affirmation to the following effect, to wit:—
I — do swear or (affirm) that I will to the best of my knowledge and abilities perform the duties assigned to, and the trust reposed in me as — of the Bank of the United States, and keep secret the business thereof.

XXIV.

How the present rules, etc., may be altered or repealed. None of the foregoing rules or regulations shall be repealed or altered, unless a majority of all the Directors vote for the repeal or alteration, nor unless upon a motion offered for the purpose at a previous meeting.

XXV

How the proceedings of the board of directors are to be governed. The proceedings of the Board of Directors, when conducting their business as a deliberative body, shall be governed by the following article.

1. When the President takes the chair, the members shall take their seats.
2. The Discounts shall be settled, and the minutes of the preceding meeting shall then be read, before the Board proceeds to any other business; and no debate shall be admitted, nor question taken, at such reading, except as to errors and inaccuracies.
3. The President shall be the judge of order, and his decisions shall be immediately submitted to, unless two members require an appeal to the Board. He shall name all Committees, unless herein otherwise provided, or unless the Board shall otherwise determine; and he shall call special meetings of the Board, whenever in his opinion the business may require it, or on the request of three members of the Board.
4. Every member presenting a paper to the chair, shall first state its general purport; and every member who shall make a motion, or offer a resolution, or speak on any subject under discussion, shall rise and address the President.
5. No debate shall be entered into on any motion or resolution, until it shall be stated from the chair; and all motions shall, if requested by the President or by two members, be reduced to writing; and no member shall speak more than twice upon any one question without leave from the Board.
6. While a resolution is under consideration, no motion shall be made, except to amend, divide, commit or postpone it: But it shall be in order, at any time, on the call of three members, to take *the*

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previous question, which shall be "*Will the Board at this time act on this subject?*" and if it shall be decided in the affirmative, the debate may be continued. A motion to adjourn, shall always be in order, but shall be decided without debate.

7. A member may call for the division of a question or resolution where the sense will admit of it; but no amendment which tends to destroy the general sense of the clause of a resolution shall be admitted.

8. If business of different kinds shall be called for, at the same time, by different members, the Board will judge and give preference accordingly.

9. The *yeas* and *nays* shall be taken on any question, if called for by two members previous to the decision on such question; but no motion for reconsideration shall be permitted, unless made and seconded by members who were in the majority on the original question.

10. At the request of any two of the Board, the names of the members who make and second a motion shall be entered on the minutes.

APPENDIX C.

RULES AND REGULATIONS FOR THE GOVERNMENT OF THE OFFICES OF DISCOUNT AND DEPOSIT ESTABLISHED BY THE BANK OF THE UNITED STATES.

[Printed by order of the Board of Directors. 1817.]

Preamble. WHEREAS, by the act incorporating the subscribers to the Bank of the United States, the directors are authorized and empowered to establish Offices of Discount and Deposit within the United States, or the Territories thereof, subject to such regulations as they shall deem proper, not being contrary to law, or the constitution of the Bank; therefore, We, the Directors, by virtue of the power and authority vested in us, do resolve, that the following rules and regulations be established, for the government of the Offices of Discount and Deposit of the Bank of the United States:

ARTICLE I.

Directors of Offices, how appointed. The Directors of the Bank of the United States shall annually appoint not less than nine Directors for each Office, a majority of whom shall constitute a Board.

ARTICLE II.

Choose a President. The Directors of each Office shall choose one of their number for President.

ARTICLE III.

Duty of President. It shall be the duty of the President to preside at all meetings of the Board, except in cases of necessary absence, to convene the Directors upon special occasions, and to give such attendance at the Office, as the interest of it may require.

ARTICLE IV.

Cashiers of Offices, how appointed. The Directors of the Bank of the United States shall appoint the Cashiers of the Offices of Discount and Deposit.

ARTICLE V.

Duty of Cashiers. It shall be the duty of the Cashier, carefully to observe the conduct of all persons employed under him, and report to the Board such instances of neglect, incapacity or bad conduct as he may discover in any of them; daily to examine the settlement of the cash account of

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the office; take charge of the cash, and whenever the actual amount disagrees with the balance of the cash account, report the same to the President and Directors without delay; to attend all meetings of the Board; keep a fair and regular record of its proceedings; give such information to the Board as may be required; consult with committees when requested, on subjects referred by the Board; and also to perform such other services as may be required of him by the Board.

ARTICLE VI.

The Tellers, Clerks, and Servants of the Offices, shall be appointed by their Directors, and before they enter on the duties of their respective offices, bond shall be given with sufficient surety (to be approved by the Directors) for the faithful performance of the trust reposed in them. Tellers, Clerks, &c., how appointed.

ARTICLE VII.

No Teller, Clerk, or Servant, in an Office shall be permitted to have an account with the same, but shall receive his salary, quarterly or monthly, from the Cashier; and every Teller, Clerk, and Servant of an Office shall take, and subscribe, an oath, or affirmation, to the following effect, to wit: I, ———, do swear (or affirm) that I will to the best of my knowledge and abilities, perform the duties assigned, and the trust reposed in me as ——— of the Office of Discount and Deposit of the Bank of the United States, and keep secret the business thereof. Not permitted to have an account in the Office.

ARTICLE VIII.

The Offices shall be kept open for the transaction of business, every day in the year, during such hours as the Directors thereof may determine, except Sundays, Christmas day, the first of January, and the fourth of July. Directors to fix the hours of business.

ARTICLE IX.

The books and accounts of the Offices shall be regularly balanced on the first day of June and the first day of December, in each year. Books to be balanced.

ARTICLE X.

The Offices shall take charge of the cash of all such persons as shall choose to place it with them, free of expense, and shall keep it subject to the order of the depositor, payable at sight; and shall also receive special deposits of ingots of Gold, bars of Silver, wrought plate, and other valuable articles of small bulk, for safe keeping, at the risque of the depositor. Deposits.

ARTICLE XI.

The Offices shall receive and pay all specie coins, according to the rates and value, that have been or shall be established by Congress. Rates of Coins.

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ARTICLE XII.

Day of Dis- There shall be at least one Discount day in each week, when the Directors shall be assembled; a majority of the members shall be required to form a quorum, except for the purpose of settling Discounts, for which five shall constitute a quorum, and no bill or note shall be discounted the unexpired term of which exceeds sixty days.

ARTICLE XIII.

President may In case of sickness or necessary absence of the President, such other nominate a sub- Director shall preside as he shall by writing nominate, or in case of stitute, omission of such nomination, by such other Director as the Board may for that purpose appoint.

ARTICLE XIV.

Statement of All Bills and Notes offered for Discount, shall be laid before the Board funds to be made on days of Dis- of Directors by the Cashier on the days assigned for Discount, together count. with a statement of the funds and situation of the Office, for their information.

ARTICLE XV.

Discounts and Accommodation. Discounts shall not be made upon personal security without two responsible names (the firm of a house being considered as one name only;) but if Stock of the Bank of the United States, Funded Debt of the United States, or such other property as shall be approved by the Board, be deposited and pledged to an amount sufficient to secure the payment, with all damages, one responsible name may be taken. But no accommodation note (i. e., a note, the proceeds of which are to be placed to the credit of the drawer) shall be discounted, unless its payment be secured by a deposit of the Stock of this Bank or of Funded Debt of the United States, or such other property as shall be approved by the Board together with an express authority to the Bank to sell the Deposit in case of non-payment at any time after the Note shall become due.

ARTICLE XVI.

Mode of de- On each application for discount, every Director who may be present, decision on appli- shall be held to give his opinion for or against the same. And no Dis- cation for Dis- count shall be made without the consent of three fourths of the Direct- count. ors present; and all notes and bills discounted shall be entered in a book, to be called *The Credit Book*, in such manner as to discover to the Board, at one view, on each Discount day, the amount which any person is discounter, or is indebted to the Office, either as payer or as indorser.

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ARTICLE XVII.

On every Discount day, the name of every person who shall have overdrawn the Office since the last Discount day shall be reported to the Board; and no person while he remains an overdrawer, shall have any note or bill discounted by the Offices. And in no instance will this Bank give a release or discharge to any debtor when the debt arises from an overdraft. And every officer who shall knowingly suffer an overdraft to be made on the Office, without communicating it to the President and Cashier, shall be dismissed from the service of the office.

Overdrafts.

ARTICLE XVIII.

If any Bill or Note belonging to the Bank, shall not be paid before the shutting of the Office on the last day of grace, each bill or note shall be forthwith protested; and while such bill or note remains unpaid, no discount or accommodation shall be granted to any drawer, acceptor, or indorser of the same. Bills and notes deposited for collection, at any time before the commencement of the days of grace, shall be proceeded with as bills and notes discounted; unless the person depositing the same shall otherwise direct in writing: provided that in case of non-payment and protest, the person lodging the same shall pay the damages of protest.

Protests.

ARTICLE XIX.

Every person who opens an account, and transacts business with an Office, shall subscribe his name in a book, to be kept for that purpose, to be called *The Book of Signatures*; and all the persons who compose any house, keeping an account with an Office shall subscribe their names, and the signatures of the firm, in the book, if residing in the place where the Office is established.

Book of signatures.

ARTICLE XX.

No Director, without special authority, shall be permitted to inspect the cash account of any person with the Office.

Cash account of an individual not to be examined by a Director.

ARTICLE XXI.

A Committee on the state of the Office, shall be appointed by ballot every three months to examine and count the discounted notes, and compare the amount thereof with the balance of the amount of bills discounted in the general ledger; they shall also count the cash, and examine the evidences of the other property of the Bank, and make an inventory of the same to be compared with the books in order to ascertain their agreement, and make report to the Board.

Committee to examine and report on the state of the Office.

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ARTICLE XXII.

Presidents and Cashiers of Offices to subscribe an oath.

The Presidents and Cashiers of Offices, shall take, and subscribe an oath, or affirmation to the following effect, to wit: I, _____, do swear (or affirm) that I will, to the best of my knowledge and abilities, perform the duties assigned to, and the trust reposed in me as _____ of the Office of Discount and Deposit of the Bank of the United States.

ARTICLE XXIII.

Only notes and bills redeemable with specie to be received in deposit.

All Notes and Bills receivable at an Office, shall be paid in Specie, or in the Notes of the Office, or in the Notes of such Banks established in the same place with the Office, as redeem their Notes to bearer, with Specie on demand.

ARTICLE XXIV.

And in payment of the revenue of the U. S.

The Offices of Discount and Deposit shall receive in payment of the revenue of the United States, the Notes of such State Banks as redeem their engagements with Specie, and provided they are the Notes of Banks located in the city, or place, where the Office receiving them is established. And also the Notes of such other Banks as a special deposit on behalf of the Government, as the Secretary of the Treasury may require.

ARTICLE XXV.

Offices to settle accounts once a week with other Banks.

The Offices of Discount and Deposit shall at least once every week, settle with the State Banks for their Notes, received in payment of the revenue, or for the engagements of individuals to the Bank, so as to prevent the balances due to the Office from swelling to an inconvenient amount.

ARTICLE XXVI.

Accounts of offices to be kept stated and rendered as prescribed by Directors of B. U. S.

The manner of keeping, stating, and rendering the accounts of the Offices shall be prescribed by the Directors of the Bank of the United States, and the observance of the rules established and instructions given shall be enforced by the Directors of the Bank of the United States, to whom accounts of the Offices shall be rendered.

ARTICLE XXVII.

Offices once a week to transmit to Bank of United States an abstract of their funds.

The respective Offices, shall once in every week, make out and transmit to the Directors of the Bank of the United States, a distinct abstract of the state of their funds; which abstract shall ascertain the amount of the debts and credits of the Office, amount of Notes issued by the Office, and then in circulation, the amount of cash on hand; and shall likewise distinguish in the account of cash on hand, how much thereof, is in specie, and how much in the several kinds of Bank notes, designating the notes of the parent Bank and those of each Office particularly.

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ARTICLE XXVIII.

All notes issued from the Offices shall be delivered to their respective Cashiers, who shall give duplicate receipts for the same, one of which is to be lodged with the President of the Bank of the United States, and the other with the President of the Office. Cashiers of Offices to give duplicate receipts for notes issued

ARTICLE XXIX.

All Notes which shall have become unfit for circulation, shall be cancelled by the President and Directors of the Office, and immediately thereafter transmitted to the Directors of the Bank of the United States, who shall cause the said Office to be credited with the same. Notes unfit for circulation to be cancelled.

ARTICLE XXX.

The Cashier of each Office shall give bond to the President, Directors, and Company of the Bank of the United States with two or more approved securities, in the sum of fifty thousand dollars, with a condition for his good behaviour, and the faithful performance of his duties to the Corporation. Cashiers of Offices to give Bond.

ARTICLE XXXI.

The Directors of the Offices shall be empowered to form and establish all other Rules and Regulations for the interior management of the Offices: Provided, the same be not repugnant to law, or to the Rules and Regulations of the Bank of the United States, or the Resolutions of the Directors thereof. Directors of Offices to form rules for their interior management.

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APPENDIX D.

THE BILL TO CONTINUE THE CHARTER, WHICH WAS VETOED BY PRESIDENT JACKSON.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the act entitled "An act to incorporate the subscribers to the Bank of the United States," approved on the tenth day of April, in the year one thousand eight hundred and sixteen, shall continue in full force and effect for the term of fifteen years from and after the period therein limited for its expiration, to wit, the third day of March, in the year one thousand eight hundred and thirty-six; and that all the rights, interests, properties, powers and privileges, secured by the said act, with all the rules, conditions, restrictions, and duties, therein prescribed and imposed, be and remain after the said third day of March, in the year one thousand eight hundred and thirty-six, during the said fifteen years, as if the said limitation in the said act had not been made; subject, nevertheless, to the modifications and changes hereinafter expressed.

SEC. 2. *And be it further enacted,* That the directors of the said corporation shall have power to appoint two or more officers, with authority to sign and countersign any or all the notes thereof, the denomination of each of which shall be less than one hundred dollars; which notes, when signed and countersigned by the said officers, respectively, shall, to all intents and purposes, be binding and obligatory upon the said corporation as if the same had been signed by the President, and countersigned by the principal Cashier or Treasurer thereof; and it shall be the duty of the directors of the said corporation to make known, in writing, and as soon as may be, to the Secretary of the Treasury, the names of the officers who shall be appointed by virtue of this provision: *Provided,* That from and after the third day of March one thousand eight hundred and thirty-six, no branch bank draft, or other bank paper not payable at the place where issued, shall be put in circulation, as currency, by the bank, or any of its offices, except notes of the denomination of fifty dollars, or of some greater sum.

SEC. 3. *And be it further enacted,* That it shall not be lawful for the said corporation to issue, pay out, or put in circulation, any note or notes of a denomination less than fifty dollars, which shall not, upon the faces thereof, respectively, be payable at the bank or office of discount and deposite whence they shall be issued, paid out, or put in circulation.

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SEC. 4. *And be it further enacted*, That the notes or bills of the said corporation, although the same be, upon the faces thereof, respectively, made payable at one place only, shall, nevertheless, be received by the said corporation at the bank, or at any of the offices of discount and deposite thereof, if tendered in liquidation or payment of any balance or balances due to said corporation, or to such office of discount and deposite, from any other incorporated bank.

SEC. 5. *And be it further enacted*, That it shall not be lawful, after the said third day of March, in the year one thousand eight hundred and thirty-six, for the said corporation to hold, keep, and retain, for a period exceeding five years after the date of acquiring the same, any right, title, or interest, except by way of mortgage or judgment lien in security of debts, to any lands, tenements, hereditaments, other than those requisite for its accommodation in relation to the convenient transacting of its business; and it shall be the duty of said corporation, within the aforesaid period of five years, to sell, dispose of, or otherwise bona fide divest itself of all right, title, and interest to any lands, tenements and hereditaments, conveyed to it in satisfaction of debts previously contracted in the course of its dealings, or purchased at sales upon judgments which shall have been obtained for such debts; and for any and every violation of this provision, the said corporation shall be subject to a penalty of ten thousand dollars, to be recovered in the name of the United States of America, by a qui-tam action of debt instituted in any court of the United States having jurisdiction of the same; one half of which shall enure to the benefit of the informer, and the other half to the use of the United States.

SEC. 6. *And be it further enacted*, That from and after the said tenth day of April, in the year one thousand eight hundred and thirty-six, it shall not be lawful for the directors of the said corporation to have, establish or retain, more than two offices of discount and deposite in any State: *Provided*, That nothing herein contained shall prevent the said corporation from retaining any of the branches which are now established.

SEC. 7. *And be it further enacted*, That, in consideration of the exclusive benefits and privileges continued by this act to the said corporation for fifteen years as aforesaid, the said corporation shall pay to the United States the annuity or yearly sum of two hundred thousand dollars; which said sum shall be paid on the fourth day of March in each and every year, during the said term of fifteen years.

SEC. 8. *And be it further enacted*, That it shall be lawful for Congress to provide, by law, that the said bank shall be restrained, at any time after the third day of March, in the year one thousand eight hundred and thirty-six, from making, issuing, or keeping in circulation, any notes or bills of said bank, or any of its offices, of a less sum or denomination than twenty dollars.

SEC. 9. *And be it further enacted*, That the Cashier of the bank shall, annually, report to the Secretary of the Treasury the names of all stock-

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holders who are not resident citizens of the United States; and, on application of the Treasurer of any State, shall make out and transmit to such Treasurer a list of stockholders residing in, or citizens of, such State, with the amount of stock owned by each.

SEC. 10. *And be it further enacted*, That so much of any act or acts of Congress heretofore passed, and now in force, supplementary to, or in anywise connected with, the said original act of incorporation, approved on the tenth day of April, in the year one thousand eight hundred and sixteen, as is not inconsistent with this act, shall be continued in full force and effect during the said fifteen years after the said third day of March, in the year one thousand eight hundred and thirty-six.

SEC. 11. *And be it further enacted*, That it shall be the duty of the President and directors of the said bank, on or before the first day of the next session of Congress, to signify to the President of the United States their acceptance, on behalf of the Bank of the United States, of the terms and conditions in this act contained; and if they shall fail to do so on or before the day above mentioned, that then this act shall cease to be in force.—*Senate Journal, 22d Cong., 1 sess., pp. 451-453, July 11, 1832.*

APPENDIX E.

VETO MESSAGE OF PRESIDENT JACKSON, JULY 10, 1832.

To the Senate:

The bill "to modify and continue" the act entitled "An act to incorporate the subscribers to the Bank of the United States" was presented to me on the 4th July instant. Having considered it with that solemn regard to the principles of the Constitution which the day was calculated to inspire, and come to the conclusion that it ought not to become a law, I herewith return it to the Senate, in which it originated, with my objections.

A bank of the United States is in many respects convenient for the Government and useful to the people. Entertaining this opinion, and deeply impressed with the belief that some of the powers and privileges possessed by the existing bank are unauthorized by the Constitution, subversive of the rights of the States, and dangerous to the liberties of the people, I felt it my duty at an early period of my Administration to call the attention of Congress to the practicability of organizing an institution combining all its advantages and obviating these objections. I sincerely regret that in the act before me I can perceive none of those modifications of the bank charter which are necessary, in my opinion, to make it compatible with justice, with sound policy, or with the Constitution of our country.

The present corporate body, denominated the president, directors, and company of the Bank of the United States, will have existed at the time this act is intended to take effect twenty years. It enjoys an exclusive privilege of banking under the authority of the General Government, a monopoly of its favor and support, and, as a necessary consequence, almost a monopoly of the foreign and domestic exchange. The powers, privileges, and favors bestowed upon it in the original charter, by increasing the value of the stock far above its par value, operated as a gratuity of many millions to the stockholders.

An apology may be found for the failure to guard against this result in the consideration that the effect of the original act of incorporation could not be certainly foreseen at the time of its passage. The act before me proposes another gratuity to the holders of the same stock, and in many cases to the same men, of at least seven millions more. This donation finds no apology in any uncertainty as to the effect of the act. On all hands it is conceded that its passage will increase at least 20 or 30 per cent more the market price of the stock, subject to the payment of the annuity of \$200,000 per year secured by the act, thus adding in a moment one-fourth to its par value. It is not our own citizens only who are to

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receive the bounty of our Government. More than eight millions of the stock of this bank are held by foreigners. By this act the American Republic proposes virtually to make them a present of some millions of dollars. For these gratuities to foreigners and to some of our own opulent citizens the act secures no equivalent whatever. They are the certain gains of the present stockholders under the operation of this act, after making full allowance for the payment of the bonus.

Every monopoly and all exclusive privileges are granted at the expense of the public, which ought to receive a fair equivalent. The many millions which this act proposes to bestow on the stockholders of the existing bank must come directly or indirectly out of the earnings of the American people. It is due to them, therefore, if their Government sell monopolies and exclusive privileges, that they should at least exact for them as much as they are worth in open market. The value of the monopoly in this case may be correctly ascertained. The twenty-eight millions of stock would probably be at an advance of 50 per cent, and command in market at least \$42,000,000, subject to the payment of the present bonus. The present value of the monopoly, therefore, is \$17,000,000, and this the act proposes to sell for three millions, payable in fifteen annual installments of \$200,000 each.

It is not conceivable how the present stockholders can have any claim to the special favor of the Government. The present corporation has enjoyed its monopoly during the period stipulated in the original contract. If we must have such a corporation, why should not the Government sell out the whole stock and thus secure to the people the full market value of the privileges granted? Why should not Congress create and sell twenty-eight millions of stock, incorporating the purchasers with all the powers and privileges secured in this act and putting the premium upon the sales into the Treasury?

But this act does not permit competition in the purchase of this monopoly. It seems to be predicated on the erroneous idea that the present stockholders have a prescriptive right not only to the favor but to the bounty of the Government. It appears that more than a fourth part of the stock is held by foreigners and the residue is held by a few hundred of our own citizens, chiefly of the richest class. For their benefit does this act exclude the whole American people from competition in the purchase of this monopoly and dispose of it for many millions less than it is worth. This seems the less excusable because some of our citizens not now stockholders petitioned that the door of competition might be opened, and offered to take a charter on terms much more favorable to the Government and country.

But this proposition, although made by men whose aggregate wealth is believed to be equal to all the private stock in the existing bank, has been set aside, and the bounty of our Government is proposed to be again bestowed on the few who have been fortunate enough to secure the stock and at this moment wield the power of the existing institution. I can not per-

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ceive the justice or policy of this course. If our Government must sell monopolies, it would seem to be its duty to take nothing less than their full value, and if gratuities must be made once in fifteen or twenty years let them not be bestowed on the subjects of a foreign government nor upon a designated and favored class of men in our own country. It is but justice and good policy, as far as the nature of the case will admit, to confine our favors to our own fellow-citizens, and let each in his turn enjoy an opportunity to profit by our bounty. In the bearings of the act before me upon these points I find ample reasons why it should not become a law.

It has been urged as an argument in favor of rechartering the present bank that the calling in its loans will produce great embarrassment and distress. The time allowed to close its concerns is ample, and if it has been well managed its pressure will be light, and heavy only in case its management has been bad. If, therefore, it shall produce distress, the fault will be its own, and it would furnish a reason against renewing a power which has been so obviously abused. But will there ever be a time when this reason will be less powerful? To acknowledge its force is to admit that the bank ought to be perpetual, and as a consequence the present stockholders and those inheriting their rights as successors be established a privileged order, clothed both with great political power and enjoying immense pecuniary advantages from their connection with the Government.

The modifications of the existing charter proposed by this act are not such, in my view, as make it consistent with the rights of the States or the liberties of the people. The qualification of the right of the bank to hold real estate, the limitation of its power to establish branches, and the power reserved to Congress to forbid the circulation of small notes are restrictions comparatively of little value or importance. All the objectionable principles of the existing corporation, and most of its odious features, are retained without alleviation.

The fourth section provides "that the notes or bills of the said corporation, although the same be, on the faces thereof, respectively made payable at one place only, shall nevertheless be received by the said corporation at the bank or at any of the offices of discount and deposit thereof if tendered in liquidation or payment of any balance or balances due to said corporation or to such office of discount and deposit from any other incorporated bank." This provision secures to the State banks a legal privilege in the Bank of the United States which is withheld from all private citizens. If a State bank in Philadelphia owe the Bank of the United States and have notes issued by the St. Louis branch, it can pay the debt with those notes, but if a merchant, mechanic, or other private citizen be in like circumstances he can not by law pay his debt with those notes, but must sell them at a discount or send them to St. Louis to be cashed. This boon conceded to the State banks, though not unjust in itself, is most odious because it does not measure out equal justice to the high and the low, the rich and the poor. To the extent of its practical effect it is a bond of union among the banking

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establishments of the nation, erecting them into an interest separate from that of the people, and its necessary tendency is to unite the Bank of the United States and the State banks in any measure which may be thought conducive to their common interest.

The ninth section of the act recognizes principles of worse tendency than any provision of the present charter.

It enacts that "the cashier of the bank shall annually report to the Secretary of the Treasury the names of all stockholders who are not resident citizens of the United States, and on the application of the treasurer of any State shall make out and transmit to such treasurer a list of stockholders residing in or citizens of such State, with the amount of stock owned by each." Although this provision, taken in connection with a decision of the Supreme Court, surrenders, by its silence, the right of the States to tax the banking institutions created by this corporation under the name of branches throughout the Union, it is evidently intended to be construed as a concession of their right to tax that portion of the stock which may be held by their own citizens and residents. In this light, if the act becomes a law, it will be understood by the States, who will probably proceed to levy a tax equal to that paid upon the stock of banks incorporated by themselves. In some States that tax is now 1 per cent, either on the capital or on the shares, and that may be assumed as the amount which all citizen or resident stockholders would be taxed under the operation of this act. As it is only the stock *held* in the States and not that *employed* within them which would be subject to taxation, and as the names of foreign stockholders are not to be reported to the treasurers of the States, it is obvious that the stock held by them will be exempt from this burden. Their annual profits will therefore be 1 per cent more than the citizen stockholders, and as the annual dividends of the bank may be safely estimated at 7 per cent, the stock will be worth 10 or 15 per cent more to foreigners than to citizens of the United States. To appreciate the effects which this state of things will produce, we must take a brief review of the operations and present condition of the Bank of the United States.

By documents submitted to Congress at the present session it appears that on the 1st of January, 1832, of the twenty-eight millions of private stock in the corporation, \$8,405,500 were held by foreigners, mostly of Great Britain. The amount of stock held in the nine Western and South-western States is \$140,200, and in the four Southern States is \$5,623,100, and in the Middle and Eastern States is about \$13,522,000. The profits of the bank in 1831, as shown in a statement to Congress, were about \$3,455,598; of this there accrued in the nine Western States about \$1,640,048; in the four Southern States about \$352,507, and in the Middle and Eastern States about \$1,463,041. As little stock is held in the West, it is obvious that the debt of the people in that section to the bank is principally a debt to the Eastern and foreign stockholders; that the interest they pay upon it is carried into the Eastern States and into

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Europe, and that it is a burden upon their industry and a drain of their currency, which no country can bear without inconvenience and occasional distress. To meet this burden and equalize the exchange operations of the bank, the amount of specie drawn from those States through its branches within the last two years, as shown by its official reports, was about \$6,000,000. More than half a million of this amount does not stop in the Eastern States, but passes on to Europe to pay the dividends of the foreign stockholders. In the principle of taxation recognized by this act the Western States find no adequate compensation for this perpetual burden on their industry and drain of their currency. The branch bank at Mobile made last year \$95,140, yet under the provisions of this act the State of Alabama can raise no revenue from these profitable operations, because not a share of the stock is held by any of her citizens. Mississippi and Missouri are in the same condition in relation to the branches at Natchez and St. Louis, and such, in a greater or less degree, is the condition of every Western State. The tendency of the plan of taxation which this act proposes will be to place the whole United States in the same relation to foreign countries which the Western States now bear to the Eastern. When by a tax on resident stockholders the stock of this bank is made worth 10 or 15 per cent more to foreigners than to residents, most of it will inevitably leave the country.

Thus will this provision in its practical effect deprive the Eastern as well as the Southern and Western States of the means of raising a revenue from the extension of business and great profits of this institution. It will make the American people debtors to aliens in nearly the whole amount due to this bank, and send across the Atlantic from two to five millions of specie every year to pay the bank dividends.

In another of its bearings this provision is fraught with danger. Of the twenty-five directors of this bank five are chosen by the Government and twenty by the citizen stockholders. From all voice in these elections the foreign stockholders are excluded by the charter. In proportion, therefore, as the stock is transferred to foreign holders the extent of suffrage in the choice of directors is curtailed. Already is almost a third of the stock in foreign hands and not represented in elections. It is constantly passing out of the country, and this act will accelerate its departure. The entire control of the institution would necessarily fall into the hands of a few citizen stockholders, and the ease with which the object would be accomplished would be a temptation to designing men to secure that control in their own hands by monopolizing the remaining stock. There is danger that a president and directors would then be able to elect themselves from year to year, and without responsibility or control manage the whole concerns of the bank during the existence of its charter. It is easy to conceive that great evils to our country and its institutions might flow from such a concentration of power in the hands of a few men irresponsible to the people.

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Is there no danger to our liberty and independence in a bank that in its nature has so little to bind it to our country? The president of the bank has told us that most of the State banks exist by its forbearance. Should its influence become concentrated, as it may under the operation of such an act as this, in the hands of a self-elected directory whose interests are identified with those of the foreign stockholders, will there not be cause to tremble for the purity of our elections in peace and for the independence of our country in war? Their power would be great whenever they might choose to exert it; but if this monopoly were regularly renewed every fifteen or twenty years on terms proposed by themselves, they might seldom in peace put forth their strength to influence elections or control the affairs of the nation. But if any private citizen or public functionary should interpose to curtail its powers or prevent a renewal of its privileges, it can not be doubted that he would be made to feel its influence.

Should the stock of the bank principally pass into the hands of the subjects of a foreign country, and we should unfortunately become involved in a war with that country, what would be our condition? Of the course which would be pursued by a bank almost wholly owned by the subjects of a foreign power, and managed by those whose interests, if not affections, would run in the same direction there can be no doubt. All its operations within would be in aid of the hostile fleets and armies without. Controlling our currency, receiving our public moneys, and holding thousands of our citizens in dependence, it would be more formidable and dangerous than the naval and military power of the enemy.

If we must have a bank with private stockholders, every consideration of sound policy and every impulse of American feeling admonishes that it should be *purely American*. Its stockholders should be composed exclusively of our own citizens, who at least ought to be friendly to our Government and willing to support it in times of difficulty and danger. So abundant is domestic capital that competition in subscribing for the stock of local banks has recently led almost to riots. To a bank exclusively of American stockholders, possessing the powers and privileges granted by this act, subscriptions for \$200,000,000 could be readily obtained. Instead of sending abroad the stock of the bank in which the Government must deposit its funds and on which it must rely to sustain its credit in times of emergency, it would rather seem to be expedient to prohibit its sale to aliens under penalty of absolute forfeiture.

[Paragraphs relating to question of constitutionality are omitted.]

If our power over means is so absolute that the Supreme Court will not call in question the constitutionality of an act of Congress the subject of which "is not prohibited, and is really calculated to effect any of the objects entrusted to the Government," although, as in the case before me, it takes away powers expressly granted to Congress and rights scrupulously reserved to the States, it becomes us to proceed in our legislation with the utmost caution. Though not directly, our own powers and the rights of the States may be indirectly legislated away in the use of means to execute

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substantive powers. We may not enact that Congress shall not have the power of exclusive legislation over the District of Columbia, but we may pledge the faith of the United States that as a means of executing other powers it shall not be exercised for twenty years or forever. We may not pass an act prohibiting the States to tax the banking business carried on within their limits, but we may, as a means of executing our powers over other objects, place that business in the hands of our agents and then declare it exempt from State taxation in their hands. Thus may our own powers and the rights of the States, which we can not directly curtail or invade, be frittered away and extinguished in the use of means employed by us to execute other powers. That a bank of the United States, competent to all the duties which may be required by the Government, might be so organized as not to infringe on our own delegated powers or the reserved rights of the States I do not entertain a doubt. Had the Executive been called upon to furnish the project of such an institution, the duty would have been cheerfully performed. In the absence of such a call it was obviously proper that he should confine himself to pointing out those prominent features in the act presented which in his opinion make it incompatible with the Constitution and sound policy. A general discussion will now take place, eliciting new light and settling important principles; and a new Congress, elected in the midst of such discussion, and furnishing an equal representation of the people according to the last census, will bear to the Capitol the verdict of public opinion, and, I doubt not, bring this important question to a satisfactory result.

Under such circumstances the bank comes forward and asks a renewal of its charter for a term of fifteen years upon conditions which not only operate as a gratuity to the stockholders of many millions of dollars, but will sanction any abuses and legalize any encroachments.

Suspicious are entertained and charges are made of gross abuse and violation of its charter. An investigation unwillingly conceded and so restricted in time as necessarily to make it incomplete and unsatisfactory discloses enough to excite suspicion and alarm. In the practices of the principal bank partially unveiled, in the absence of important witnesses, and in numerous charges confidently made and as yet wholly uninvestigated there was enough to induce a majority of the committee of investigation—a committee which was selected from the most able and honorable members of the House of Representatives—to recommend a suspension of further action upon the bill and a prosecution of the inquiry. As the charter had yet four years to run, and as a renewal now was not necessary to the successful prosecution of its business, it was to have been expected that the bank itself, conscious of its purity and proud of its character, would have withdrawn its application for the present, and demanded the severest scrutiny into all its transactions. In their declining to do so there seems to be an additional reason why the functionaries of the Government should proceed with less haste and more caution in the renewal of their monopoly.

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The bank is professedly established as an agent of the executive branch of the Government, and its constitutionality is maintained on that ground. Neither upon the propriety of present action nor upon the provisions of this act was the Executive consulted. It has had no opportunity to say that it neither needs nor wants an agent clothed with such powers and favored by such exemptions. There is nothing in its legitimate functions which makes it necessary or proper. Whatever interest or influence, whether public or private, has given birth to this act, it can not be found either in the wishes or necessities of the executive department, by which present action is deemed premature, and the powers conferred upon its agent not only unnecessary, but dangerous to the Government and country.

It is to be regretted that the rich and powerful too often bend the acts of government to their selfish purposes. Distinctions in society will always exist under every just government. Equality of talents, of education, or of wealth can not be produced by human institutions. In the full enjoyment of the gifts of Heaven and the fruits of superior industry, economy, and virtue, every man is equally entitled to protection by law; but when the laws undertake to add to these natural and just advantages artificial distinctions, to grant titles, gratuities, and exclusive privileges, to make the rich richer and the potent more powerful, the humble members of society—the farmers, mechanics, and laborers—who have neither the time nor the means of securing like favors to themselves, have a right to complain of the injustice of their Government. There are no necessary evils in government. Its evils exist only in its abuses. If it would confine itself to equal protection, and, as Heaven does its rains, shower its favors alike on the high and the low, the rich and the poor, it would be an unqualified blessing. In the act before me there seems to be a wide and unnecessary departure from these just principles.

Nor is our Government to be maintained or our Union preserved by invasions of the rights and powers of the several States. In thus attempting to make our General Government strong we make it weak. Its true strength consists in leaving individuals and States as much as possible to themselves—in making itself felt, not in its power, but in its beneficence; not in its control, but in its protection; not in binding the States more closely to the center, but leaving each to move unobstructed in its proper orbit.

Experience should teach us wisdom. Most of the difficulties our Government now encounters and most of the dangers which impend over our Union have sprung from an abandonment of the legitimate objects of Government by our national legislation, and the adoption of such principles as are embodied in this act. Many of our rich men have not been content with equal protection and equal benefits, but have besought us to make them richer by act of Congress. By attempting to gratify their desires we have in the results of our legislation arrayed section against section, interest against interest, and man against man, in a fearful commotion which

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threatens to shake the foundation of our Union. It is time to pause in our career to review our principles, and if possible revive that devoted patriotism and spirit of compromise which distinguished the sages of the Revolution and the fathers of our Union. If we can not at once, in justice to interests vested under improvident legislation, make our Government what it ought to be, we can at least take a stand against all new grants of monopolies and exclusive privileges, against any prostitution of our Government to the advancement of the few at the expense of the many, and in favor of compromise and gradual reform in our code of laws and system of political economy.

I have now done my duty to my country. If sustained by my fellow-citizens, I shall be grateful and happy; if not, I shall find in the motives which impel me ample grounds for contentment and peace. In the difficulties which surround us and the dangers which threaten our institutions there is cause for neither dismay nor alarm. For relief and deliverance let us firmly rely on that kind Providence which I am sure watches with peculiar care over the destinies of our Republic, and on the intelligence and wisdom of our countrymen. Through *His* abundant goodness and *their* patriotic devotion our liberty and Union will be preserved.

APPENDIX F.

BALANCE SHEETS OF BANK: 1820, 1825, 1831, 1832.

November, 1820.

[Finance, 3:570.]

DR.		CR.	
Funded debt of the United States, various.....	\$9,157,604.15	Capital stock.....	\$34,976,958.63
Louisiana 54 per cent.....	278,008.00	Bank and branch notes.....	11,621,380.04
Bills discounted, viz:		Dividends unclaimed.....	22,079.80
On personal security.....	\$19,977,821.31	Discount, exchange, and interest.....	645,723.92
On personal security and funded debt.....	77,750.00	Profit and loss, and contingent interest.....	2,668,244.30
On personal security and bank stock, etc.....	6,865,818.62	Due to Bank of the United States and offices.....	\$14,283,150.81
	26,921,389.93	Due to state banks.....	1,175,905.01
Bills of exchange, viz:		Loan from Baring & Co. and Hope & Co.....	15,459,055.82
Foreign.....	52,659.65	Damages on sterling bills protested.....	2,040,000.00
Domestic.....	1,083,097.86	Bills of exchange received of S. Smith & Co.....	26,048.59
	1,135,757.51	Deposits, viz:	37,355.55
Baring Bros. & Co.....	189,941.20	On account of Treasurer of United States.....	1,135,205.44
Hope & Co., Amsterdam.....	63,200.00	Deduct overdrafts.....	287,499.20
Overdrafts.....	199,547.00		847,706.24
Debt of S. Smith and Buchanan, George Williams, and J. W. McCulloch.....	1,540,000.00	On account of public officers.....	1,507,813.75
Due from offices of discount and deposit.....	16,430,187.66	On account of individuals.....	3,794,267.54
Due from state banks.....	2,625,996.99		6,149,787.53
Interest and commission on loan from Baring & Co. and Hope & Co.....	8,200.00		
Real estate, permanent expenses, and bonus.....	1,393,247.04		
Expenses.....	89,718.94		
Deficiencies.....	310,445.24		
Cash, viz:			
Notes of Bank of United States and branches.....	6,295,992.19		
Notes of other banks.....	955,899.08		
Specie.....	6,051,499.25		
	13,303,390.52		
	73,646,634.18		73,646,634.18

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APPENDIX F (continued).

JANUARY 31, 1825.

[Finance, 5:324.]

DR.	CR.
Funded debt United States (various) -----	Capital stock -----
\$18,422,027.38	\$34,995,919.63
Bills discounted on—	Notes issued -----
Personal security ----- \$22,862,162.15	13,001,957.46
Funded debt ----- 87,882.94	Dividends unclaimed -----
Bank stock ----- 5,527,744.68	181,710.77
28,477,789.77	Discount, exchange, and interest -----
Domestic bills of exchange -----	2,467,398.10
Foreign bills of exchange -----	24,178.00
Real estate -----	1,362,266.72
Mortgages, etc. -----	135,091.85
Due from Bank United States and offices -----	16,109,461.53
Due from state banks -----	1,837,512.29
17,946,973.82	Due to Bank United States and offices -----
Debt of Smith and B. G. Williams and J. W. McCulloch -----	\$16,368,760.33
1,207,332.08	Due to state banks -----
Debt due by the United States -----	1,426,161.46
5,267.32	Seven per cent stock -----
Deficiencies -----	17,794,921.79
500,931.15	Six per cent stock exchanged -----
Banking houses, bonus, and premium on loans -----	1,053,840.82
1,882,853.12	Baring Bros. & Co. -----
Expenses -----	2,574,646.03
45,363.66	Deposits on account of Treasurer United
Cash:	States -----
Notes of Bank United States and	2,825,436.46
offices -----	Deduct overdrafts -----
6,336,763.06	195,525.64
Notes of state banks -----	2,629,910.82
1,178,353.64	Deposits of public officers -----
Specie -----	1,543,618.63
6,616,049.98	Deposits of individuals -----
14,131,166.68	7,533,406.46
86,608,639.65	Special deposit of Treasury drafts -----
	11,706,935.91
	296,300.00
	Contingent fund -----
	3,750,947.67
	86,608,639.65

APPENDIX F (continued).

MARCH 2, 1831.

[H. R. 523, 23d Cong., 1st sess., p. 13.]

DR.		CR.	
Funded debt, various	\$7,674,681.06	Capital stock	\$34,696,269.63
Bills discounted on—		Notes issued	33,335,126.76
Personal security	\$33,502,614.39	Discount, exchange, and interest	616,931.60
Funded debt	6,800.00	Foreign-exchange account	7,329.25
Bank stock	711,034.01	Dividends unclaimed	169,869.48
		Profit and loss	1,626,281.53
	34,220,448.40	Contingent fund	\$5,452,040.95
Domestic bills of exchange	12,943,653.09	Less losses chargeable to contingent fund	3,389,244.98
	47,164,101.49		2,062,795.97
Real estate	2,616,313.10	Due to—	
Baring Bros, & Co., Hope & Co., Hottinguer & Co	1,161,076.75	Bank of the United States and offices	21,331,213.58
Due from—		State banks	1,734,203.08
Bank United States and offices	20,535,786.05		23,065,416.66
State banks	3,004,593.87	Redemption of public debt	525,921.91
	23,540,379.92	Deposits, viz:	
United States	5,267.32	On account of Treasurer United States	7,243,273.59
Deficiencies	142,010.55	Less overdrafts and special deposits	239,544.99
Banking houses, bonus, and premium	1,283,384.71		7,003,728.60
Expenses	89,204.62	Of public officers	1,190,787.61
Cash, viz:		Of individuals	8,475,346.03
Notes of the Bank of the United States	14,833,665.86		16,669,862.24
Notes of state banks	2,069,754.31		
Specie	12,012,232.73		
	28,915,652.90		
Mortgages	143,588.44		
Navy agent, Norfolk	40,144.17		
	112,775,805.03		
Total		Total	112,775,805.03

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APPENDIX F (continued).

MARCH 2, 1832.

[H. R. 523, 23d Cong., 1st sess., p. 85.]

DR.		CR.
Bills discounted on—		Capital stock.....\$35,000,000.00
Personal security.....\$45,850,367.27		Notes issued.....42,118,452.13
Bank stock.....620,766.14		Discount, exchange, and interest.....855,958.17
Other stocks.....2,145,895.20		Foreign-exchange account.....371,610.55
	48,617,028.61	Baring Bros. & Co., Hope & Co., Hottinguer & Co.....1,876,802.39
Domestic bills of exchange.....20,354,748.79	\$68,971,777.40	Dividends unclaimed.....166,432.73
Foreign bills of exchange.....91,238.23		Profit and loss.....1,750,263.52
Due from—		Contingent fund.....\$5,613,346.20
Bank United States and offices.....29,288,810.19		Less losses chargeable to contingent fund.....3,477,737.29
State banks.....3,752,822.73		2,135,608.91
United States.....33,041,632.92		Due to—
5,267.32		Bank United States and offices.....28,461,352.88
Real estate.....2,131,359.64		State banks.....2,000,270.50
Deficiencies.....122,973.18		31,061,623.38
Banking houses.....1,163,091.92		Fund for extinguishing cost of banking houses.....551,292.05
Expenses.....106,720.02		Redemption of public debt.....857,613.12
Cash, viz:		Deposits, viz:
Notes of Bank United States and offices.....18,401,011.03		On account of Treasurer of the United States.....6,781,114.55
Notes of state banks.....2,836,900.40		Less overdrafts and special deposits.....260,976.99
Specie.....6,799,753.63		6,520,137.56
Mortgages.....28,037,665.06		Of public officers.....1,719,489.32
89,573.78		Of individuals.....8,816,759.81
Navy agent, Norfolk.....40,144.17		17,056,386.69
	133,802,043.64	133,802,043.64

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