

The Raleigh Minerva.

FRIDAY, FEBRUARY 12, 1819.

No. 4.

Vol. 1.

RALEIGH, (N. C.)

PRINTED, WEEKLY, BY HARVEY AND GASSO,
EDITED BY A. LUCAS.

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Congressional Proceedings.

HOUSE OF REPRESENTATIVES.

SATURDAY, JAN. 16, 1819.

Mr. Spencer, from the committee appointed to investigate the proceedings of the Bank of the United States, made the following report:—

The committee appointed to inspect the books and to examine into the proceedings of the Bank of the United States, with directions to report thereon, and to report whether the provisions of its charter have been violated or not, respectfully report,—

That, under the leave granted by the house, the committee repaired to Philadelphia, and there personally inspected the books of the bank, and as a further means of examining its proceedings, they interrogated, on oath, the president, cashier, all the directors of the bank, whose attendance could be obtained, and several of its clerks and officers. Examinations also have been made at the office at Baltimore, at Richmond, and at the city of Washington, in order to obtain specific information upon certain subjects on which the books of the parent bank were necessarily deficient. From these inquiries, conducted with great labor, and, the committee trust, with great care, they have collected a mass of information, which they now submit to the house, and which will be referred to in the course of this report. This information consists of tables, statements, and extracts made by the committee from the books of the bank, or by them compared with those books, and verified: and of the testimony of witnesses, and of letters from the president of the institution.

The committee are aware, that from these sources of information various important inferences may be drawn, and upon them the most interesting opinions may be predicated; it has been their intention, however, to go no farther than was required by the resolution of the house, to avoid speculative opinions upon general subjects; and to confine themselves to what they deemed practical objects of inquiry, which they settled among themselves previous to entering upon the investigation. These objects seemed to divide themselves into two classes: those which related to the general management of the bank, and the conduct of the officers; and those which were connected with the question of a violation of its charter. As to the general management of the concerns of the institution—among the points of the inquiry which appeared to be most immediately interesting, were those which related to the refusal of the bank and its offices to pay its notes in specie at any other place than where they were made payable, and to the practice of selling drafts on each office.

It appears that the directors of the bank, on its first institution, and up to the 23rd of August, 1818, strenuously endeavored to redeem its notes at all its offices, indiscriminately, north of the city of Charleston. On the 7th day of January, 1817, it commenced operations by discounting notes on pledged stocks, and to stockholders only, and by the issue of its bills. The officer at the head of the Treasury Department had repeatedly urged the commencement of operations, with the laudible view, as it appears, of hastening the redemption by the state banks, of their notes in specie. Vide letters from the secretary of the Treasury to the president of the bank of the United States, 5th August and 29th November, 1816, marked i, ii.

Efforts on the part of the Treasury to induce the local banks to that measure, appear to have been abortive, until the bank of the United States made certain propositions which induced negotiations between it and the state institutions, which finally resulted in a compact contained in the resolutions of the board of directors, of the 31st January, 1817, herewith submitted, and marked iii and in order to exhibit how far the bank complied with its compact, a statement of the loans and of notes issued, up to the 20th February, 1817, is submitted, marked iv. It can be necessary only to refer to the state of the paper currency of the country at this period. The notes of the state banks were variously depreciated, some as much as 20 per cent, while others were at a premium. The excessive issue of paper by the local banks, had caused an unnatural and artificial depreciation of such paper which required only time, and moderate, but steady reductions to restore, not to an uniform par,

but to its true value. Under these circumstances, the Bank of the U. States had, on the last day of February, 1817, (vide statement marked v.) 8,848,000 dolls. due to it from the state banks at Philadelphia, New York, and Baltimore. With such a credit, constantly accumulating by the transfer of the treasury funds, and by the payment of the second instalment in the notes of the state banks it was in the power of the United States bank to have coerced the local institutions into a moderate and reasonable reduction of their circulating notes. An attempt to do so was made by the compact iii. and although the bank of the United States appears to have been anxious to effect the object, it did not persevere in the design. By its subsequent acts it improprietly afforded a temptation to the western banks particularly to extend their circulation of notes, by insisting on its branches paying out their own notes in preference to those of the state banks; and on their delivering drafts on the eastern cities whenever it could be done, to prevent the remittance of their own notes. The branch notes, and the drafts issued in consequence of those instructions were swept away by the facility of remittance thus unwarily given as well as by the ordinary balance of trade. A vacuum in the circulation was thus produced, which could be supplied only by the local notes, which were readily received by the offices of the bank of the United States, and were retained by them as a fund upon which interest was charged to the state bank. The letter of the president, marked vi. exhibits the course pursued by the bank in this respect.

The bank of the United States received from the Treasury the notes of the local institutions, in many cases as special deposits, to be paid out in similar bills. From April, 1817, to this time, the amount so received appears from statement vii. to be 2,752,750 dolls. of which 87,341, continues on hand, leaving 2,665,409 as the amount, voluntarily assumed by the bank of the United States. The committee have not found any evidence of the banks having attempted to oppress the state bank, either by wanton demands of specie or by the rejection of their notes. Much complaint has indeed existed, but in the instances which have come to the knowledge of the committee, the state banks have been in the wrong and some of them at the westward have refused the most equitable propositions of the bank, and have met its demands for its just dues with complaints and reproaches. It was not intended to trouble the House with any of the various letters which have passed on that subject, but as the president of the bank transmitted a letter from the office at Charleston, exhibiting the conduct of the local banks in that place, it is presented to the House marked viii.

The committee are of opinion that instead of conducting with the alleged rigor towards the state banks, the bank of the United States is liable to the more serious charge of having increased the amount of notes in circulation, by its acceptance of them in those places, where it was known they would not be redeemed in specie and by making them, in the manner before mentioned, the only circulating medium in that part of the country. The forbearance of the bank towards the state banks is vindicated on the ground of its being the only means to induce the resumption of specie payments. This effect, if really owing to that cause, has been proved to have been but temporary, & experience has shown, that, at the same time, or soon after the refusal of the bank of the United States to receive the notes of its offices, many of the state banks began to suspend and evade their specie payments.

So long as the notes of each office were payable at all the others, and the office issuing them was not exclusively liable for their redemption, the discounts at those places, against which there was a balance of trade, became larger in proportion to their indemnity against demands. As the notes of the offices were rapidly carried off, the payment of these discounts were necessarily made in the notes of the local institutions; and thus it was one inevitable effect of the old system to increase the debts of the state banks to the offices of the bank of the United States at those places. The demands of the bank were suffered to accumulate improperly, instead of being gradually reduced as specie was required at other offices, and in small quantities that would not have been felt. Their reduction was not insisted upon sufficiently early; and, when the bank began to call for specie, its demands were so considerable as not only to expose the local banks, but the citizens in their vicinity, generally, to very severe pressure.

By substituting the credit of individuals for the payment of the second instalment, which will be presently stated, instead of coin or notes of state banks, the bank of the United States in a great measure deprived itself of the early and prompt check, which the possession of their notes would have afforded, to the more extensive increase of local paper. In July 1817 the debts due from the state banks are reduced to \$3,972,000 while the notes

of the Bank of the United States in circulation amounted to 4,754,000 by which it might have been subjected to embarrassments arising from the calls of the local institutions.—The committee think it evident from this result, that the bank did not exercise with sufficient energy the power which it possessed and might have retained, but rather afforded inducements to the state banks to extend the amount of their circulating notes, and thus increased one of the evils it was intended to correct.

In answer to an enquiry addressed by the committee on this subject to the president of the Bank they were furnished with his views, and a letter from the office at Boston marked ix and were referred to a report of the committee of Directors on the 23rd of August 1818 marked x. Those documents exhibit the reasons of the Bank for adopting the resolutions of that date, by which the notes of the offices were refused acceptance. In the letter of the Boston office much stress is placed upon the large accumulation of paper and drafts at Boston, issued by the Southern and Western offices. And this became an important object of inquiry. The books of the Parent Bank do not furnish information respecting the drafts made by, and upon the offices, excepting those which were made on it, and the committee have not ascertained their amount, except at the offices in Baltimore, and this city. From the local situation of Baltimore the statements obtained at that office marked xi. xii. may be considered as furnishing sufficient proof of the correctness of the opinion expressed by the Boston office. To the office at Boston, its debt fluctuated between \$4,000, and 215,000 until May last, since which it has been indebted to Baltimore from \$500 to 57,000 dollars. Its debt to the office at New York, has varied from 100,000 to \$1,947,000 and until October last, it has generally owed that office more than \$1,500,000. At that time the New York office was brought in debt to Baltimore \$97,278, its debt in November last was \$10,948. The explanation of these extraordinary reductions of the Baltimore debts is given from the circumstances of Treasury drafts on the north being delivered directly to the Baltimore office or sent to it through the office at this city; and by a check on New York for more than a million given by the Parent Bank, in payment of foreign bills of exchange, hereinafter mentioned. The Baltimore debt to the Parent Bank has varied from 1,500,000 to nine millions and has generally exceeded 6 millions. Notwithstanding their heavy debts to New York, Boston and Philadelphia, the drafts of the Baltimore office on those places continued uninterrupted and excessive in amount: that office was originally supplied with notes to the amount of \$872,000 dollars, and had returned 46 it from Philadelphia \$1,697,000 in its notes and yet it is stated by the Teller that it never had a sufficient quantity of notes to meet its demands; that they did not remain twenty four hours in the office, but were constantly remitted to the north with the drafts which it issued. And there can be no doubt on a comparison of the statements referred to connected with these facts, that the drafts from Baltimore given for the proceeds of notes discounted, were unwarrantably large, and much more than the balance of trade required.

In a letter of the President, dated June 27, 1817, he observes, "the Directors considering (among other things mentioned) the low state of the specie and individual deposits at your office, and the magnitude of your discounts and those at this Bank as well for Baltimore as this place, and the very inadequate and disproportionate amount of discounts to which the office at New York has been restricted in consequence of the daily and excessive drafts from your office and this Bank, which has become the subject of great animadversion" direct that the then amount of discounts should not be exceeded. The same language is held in other letters, xii. xiv, but it terminated in unavailing remonstrances, the Baltimore office continued its drafts and its discounts and drained the specie from the Northern offices. 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, and took no effectual step to control them, until the adoption of the general resolutions of August 23rd, 1818, forbidding the offices to draw on each other. The effect of these excessive drafts on the Northern offices, was to compel the constant remittance of specie there, to cripple them in all their operations, to limit their discounts to a trifling amount, to cause the revenue paid there and which would itself have been a capital for business, to be drawn Southward, thus compelling them to deny to the debtors of the government any indulgence or accommodation in their payments,—to bring those offices into debt with the State Banks, to produce a general depression of credit and a severe pressure for money. Those places were in fact made tributary to Baltimore, and all their means and energies were required to supply its extravagant issues.

A sudden reduction of the Baltimore debt to the Northern offices appears to have taken place in March and April last, & within a few months past those offices have been brought in debt to it. This is accounted for by the Cashier of that office by saying that it arose principally from Treasury drafts, and by the sale of foreign Bills of Exchange. Drafts were given by the Treasurer in some instances, and to considerable amounts directly to Baltimore, on the Northern offices, and in other instances such drafts went through the office in this city. It is not to be presumed that these drafts were given by the Treasury with a knowledge of all the circumstances, or with a view to draw the revenue collected at the North, to Baltimore, merely to aid that office in paying its debts. Yet such was the effect, and although it enabled Baltimore to continue its large discounts, it impoverished the Northern offices, and the cities where they were established were made to feel the pressure. The Baltimore debt to the parent Bank, will be found to have regularly increased with the reduction of its debts to the other offices, until it remitted 1,007,000 dollars in Bills of Exchange on London; which remittance is connected, by the testimony of J. W. McCulloch, esq. with the negotiation explained in the letter of the President xv. The loan which resulted from that negotiation was on pledge of stock that had been pledged at Baltimore, the Bank assumed it and received the Bills of Exchange, and paid for them by giving a check on the New-York office for the amount, at the time the Baltimore office was indebted to the parent bank more than six millions of dollars.

It might have been supposed that the pressure of the Baltimore office upon those more north, was owing to its being pressed by the southern and western offices. The fact will however appear from the table xi. that until September last it was indebted to the office at Lexington, that the debts of Cincinnati, Chillicothe and Louisville to it were small in amount, and that the only office which has constantly owed it, is New-Orleans, and that office not to a large amount until lately.

From these facts it would seem to result that the embarrassments of the Bank of the United States in receiving the notes of all its offices did not arise so much from the fair and ordinary balance of trade which might have been calculated and provided for, as from the excessive discounts granted at some of the offices particularly Baltimore and Philadelphia, and the drafts consequent upon those discounts which were made upon the other offices.—From the correspondence of the bank with its offices, it is obvious that this was the opinion of the directors and the officers; it is distinctly assigned as one of the grounds for refusing the notes of the offices in the report of the committee x and it is more strongly urged in the letter of the Boston office submitted and adopted by the President xi, and is eloquently enforced in several of his letters.

This committee is not prepared to say that an uniformly equal currency could have been maintained under the most auspicious circumstances; they are inclined to the opinion that such an attempt would be hopeless, but they consider its abandonment at the time as having been produced by the causes before stated.—The efforts of the bank to meet the payment of its notes at all its offices north of Charleston, were certainly great and particularly at New York and Boston, as will appear from the resolutions marked xvi, and the account of specie remitted xvii. The relinquishment of the attempt was involuntary and reluctant.

From the testimony of the Cashier and Teller of the bank, the teller of the bank of North America, and of the cashier and teller of the office at Baltimore, it will appear very satisfactorily, that the conduct of the bank and that office in adopting the new system of refusing the notes of the branches, was perfectly fair and equitable; that the bank and the Baltimore office promptly paid and received all the notes of the other offices which they had paid out previous to the change of the system, whenever application was made for the purpose, and that in no instance have they refused to do so. Injury probably was suffered by those who had received the depreciated notes in the usual course of business, but the committee cannot perceive how the bank could have changed its system in any manner less injurious to itself and less inconvenient to the public than that which was adopted.

From this change of system, which placed the notes of the offices on the same footing with those of the local banks in their vicinities, resulted a greater difference in the exchange between the different parts of the union. The offices at New Orleans, Savannah and Charleston, had never been included in the plan of equalizing the currency. They had always been left to their own discretion in receiving or refusing the notes of the other offices. In May, 1817, the offices at Charleston and Savannah were authorized to draw on those at the north, at a premium. In April, those at Lexington and Cincinnati were authorized to draw on those at the north, at a premium. (See fourth page.)