

MINERS' & FARMERS' JOURNAL.

PRINTED AND PUBLISHED EVERY SATURDAY, BY THOMAS J. HOLTON...CHARLOTTE, MECKLENBURG COUNTY, NORTH-CAROLINA.

I WILL TEACH YOU TO PIERCE THE BOWELS OF THE EARTH AND BRING OUT FROM THE CAVERNS OF THE MOUNTAINS, METALS WHICH WILL GIVE STRENGTH TO OUR HANDS AND SUBJECT ALL NATURE TO OUR USE AND PLEASURE.—DR. JOHNSON.

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REPORT

OF THE COMMITTEE ON BANKS AND THE CURRENCY.

The Joint Select Committee on Currency and Banks, have had the subject under consideration, and report:

That, in the opinion of the Committee, the present condition of the currency of the State loudly calls for the prompt action of the Legislature. It may almost be said that the State, at this time, is destitute of a circulating medium; it has scarcely any of its own, and of that which our people are compelled to employ, there is a deficiency in quantity and quality.

This state of things is altogether owing to the circumstance of the existing Banks now winding up their business, collecting their debts, and withdrawing their notes from circulation. The stockholders in these institutions consider this necessary, since, after December next, they are restricted by law from doing any new business.

Nothing ever more powerfully disturbs the business of a community, and affects its prosperity, than a rapid and continued reduction of the general currency. It brings embarrassments on the people, destroys confidence in credit, checks trade, and invariably depresses the prices of labor and property. We have seen, if, at any time, in other States, a reduction of 10 or 15 per cent. takes place in the amount of the currency, it is followed by bankruptcies and distress. Can it be a matter of wonder, then, that there should be a stagnation of business in North Carolina, that industry should be paralyzed, and the energies of our people depressed, when we consider what a great reduction our currency has undergone during the past few years? The wonder is, how our people have sustained themselves as well as they have, under this severe operation.

Mr. Crawford, in his report of 1820, while Secretary of the Treasury, mentions an extraordinary fact, that, from 1815 to 1819, a period of little more than four years, a reduction of 59 per cent. took place in the circulating medium of the country; which, in his opinion, fully accounted for the unparalleled pressure then experienced throughout the Union. It is well known that, in this reduction, the bank paper of North Carolina, in common with that of all the other States, bore its part. The lowest point of depression was then reached in most of the other States, and since then their circulation has been gradually increasing in amount. Not so in North Carolina. The reduction with us has continued to go on, and the consequent effects have continued to be felt.

The official returns of the Banks in this State, will show the progress of this diminution. The amount of their notes in circulation was, in 1825, \$3,052,687; in 1830, \$1,216,060.

No returns of the present year have been received, of later date than June and July. From these, however, it appears that the reduction is still going on, and, as the Banks wind up, must continue to go on. Probably, at this time, the whole amount of notes in circulation falls short of one million of dollars; while the debt due to these Banks, alone, is considerably more than two millions. It must be recollected, too, that the branch of the United States Bank in this State, constrained by circumstances, has ceased to make any further discounts; while it goes on collecting its debts against our citizens to the amount of nearly another million of dollars. What amount of notes it may have in circulation in North Carolina, we have no means of ascertaining, though it is believed that the amount is considerably less than its debt, inasmuch as the notes of the United States Bank have always rather conducted the exchanges with the North than composed a part of the circulating medium of the State. What makes this state of things still worse, is, that neither of the Banks in the State will receive, in payment of their debts, the notes of Virginia, South Carolina, or Georgia, which now constitute the largest portion of our circulating medium. The consequence is, that debtors to the Banks have oftentimes to pay a premium of 2 to 4 per cent. to obtain such descriptions of money as will be received in the Banks; which, added to the regular Bank interest, subjects the debtor to

the payment of an interest, varying, as the case may be, from 8 to 10 per cent.

Owing to this state of things, at no former period in our history has the condition of North Carolina presented so depressed an aspect. We know that there are other causes; but we believe this to be one of the main ones. Besides the evils already alluded to, we may mention, as another consequence, the tide of emigration which is now setting to the South and West from our borders. Many of our most intelligent, wealthy and enterprising citizens have already gone, or are preparing to go; all who go, take from us wealth, capital and enterprise, and, what is worse, prepare the way for others to follow; thus unsettling our population, and turning their minds from improvements at home, to the advantages of the new States. The committee believe that a restoration of a sound circulating medium, commensurate with the wants of the community, will contribute much towards reviving trade, awakening the enterprise of our citizens, and as a necessary consequence, lead on the public mind to ameliorations in our moral and physical condition. Under these views of the subject, we unite in the opinion, that this Legislature ought not to adjourn without the establishment of a Bank or Banks, of some character or other.

Having arrived at this conclusion, the next points of inquiry that present themselves for consideration, are,

1st. What amount of banking capital is necessary to supply the wants of the people of North Carolina?

2nd. What shall be the character of the Bank or Banks to be established?

First, as to the amount of capital that may be necessary. The amount of banking capital needed for the State depends on the amount of circulating medium that may be requisite to conduct the business and facilitate the exchanges of the community; for to preserve a sound condition, the one must bear a certain proportion to the other.

Whatever may be the character of the Bank to be established, its specie should be such as to enable it at all times promptly to redeem with specie its notes, whenever offered for payment. Without this, the currency cannot be sound. Paper bills have no intrinsic value of their own, and are only valuable as the representatives of gold or silver, which every where and always, have an intrinsic value. The first requisite, therefore, of a good paper currency is its instantaneous convertibility into gold and silver, and this is one of the main checks to over-issues by the Banks.

In estimating the amount of banking capital necessary for the business of our State, and competent to ensure a sound currency, the Committee have kept in view our peculiar circumstances. North Carolina, though the fifth State in the Union in point of population, is not the fifth in the extent of her commerce and trade. Our population is mostly agricultural, and it is known that an agricultural population requires less currency to effect its exchanges than one more commercial. A portion of our population, too, is of a character to require a less use of money than the laborers of the Northern States. These facts bring us to the conclusion, that we do not require as large a banking capital as several of the other States, possessing a much less population. Coming to a conclusion, from a variety of data not necessary here to spread out, the Committee believe that a capital of from two and a half to three millions of dollars will be sufficient to meet, at least the present wants of North Carolina; and they accordingly recommended this amount to the consideration of the Legislature.

Secondly. The inquiry yet remaining to be made is—What shall be the character of the Bank or Banks to be established?

A majority of the Committee believe that correct policy requires the establishment of a Bank, the funds of which shall be exclusively owned by, and the profits go to the State, and to be managed by a corporation created for the purpose, with specific powers and liabilities. We deem it our duty to present our reasons in favor of this measure, and briefly to notice the objections to it.

The first reason we advance in favor of this Bank, is, that, in our opinion, it is the best means we can adopt to restore a sound circulating medium to the State. The notes of an institution owned by the State will be received with more confidence than those of private corporations. In a Bank owned by individuals, the notes obtain currency alone from the supposed sufficiency of the capital, under good management, to redeem them; but, in a Bank owned by the State, in addition to this, the character of the State will ensure public confidence, and give undoubted credit.

Individual corporations, in the management of their Banks, look alone to their own interest. They go into business for the sole purpose of making money; and, therefore, whatever measure is calculated to accomplish this object, they are sure to adopt, regardless of its effects on the com-

munity. A sound currency is to them a secondary consideration, and is only kept in view so far as it is their interest to do so. We have seen instances in our own State, where Bank corporations have, by their measures, depreciated their own notes, and then privately gone into market with specie funds, and bought them up at a large discount.

On the other hand, the primary object of a State Bank is to give a sound currency to the people, and to make profits is only the secondary consideration.

If the State institution gives a sound currency to the community, it gains a great object, though it may fail in making large profits; but if it can do both, then the measure stands recommended with double force.—We believe it will do both; and, therefore, we recommend a State Bank in the second place as a measure of Finance.

All banking is a species of taxation imposed on the community in which it is carried on, and whenever the Legislature gives to individuals the privilege of banking, it clothes them with the power of taxing. It is true, that, in one sense, the tax is voluntarily paid by those who deal with the Banks; but still it is a tax imposed by virtue of law on the productive industry of the country, in favor of unproductive capital.

Suppose it requires a banking capital of three millions of dollars to supply the wants of North Carolina, and on these three millions there be made Bank issues to the extent of three for one, as is the case with our local banks, then it is clear that the owners of the three millions, by means of their charter, instead of six per cent. on three millions, are enabled to exact six per cent. on nine millions; that is, as individuals, they could only charge six per cent. on the three millions—equal to one hundred and eighty thousand dollars; but, as a corporation, they can charge six per cent. on nine millions—equal to five hundred and forty thousand dollars; making a difference of three hundred and sixty thousand dollars extra interest in each year; or, in other words, the act of incorporation gives them the power to charge the community six per cent. on six millions of dollars which they do not possess; or it enables them to exact eighteen per cent. on their actual capital. We may say twenty-one per cent., since paying the interest in advance, makes it nearly equal to seven per cent. It is true that the corporations do not realize all this as profit, for a part of it goes to pay for management; but this does not make it less a tax on that account paid by the productive class of the community to the privileged few. Since, then, banking is a species of taxation, and the power of taxing being an attribute of sovereignty, what good reasons are there, that the State should give up to soulless corporations the exercise of this important prerogative? The Bill of Rights says, "That no man, or set of men, are entitled to exclusive or separate emoluments or privileges from the community, but in consideration of public services;" and yet, if you give to corporations the exclusive power of banking, do you not give to a "set of men" the privilege to do what? Why, to exact from the people of North Carolina, annually, the sum of three hundred and sixty thousand dollars more than they could do, but for your acts of incorporations. And what are the "public services" they render for it? The only one pretended is, that they furnish to the State a circulating medium—a thing which, it appears, a Bank of the State can do much better than private corporations, and, consequently, the State is under the necessity of bestowing on corporations these exclusive "emoluments." UNIFORMITY is an essential requisite of a sound currency. A State Bank can give this uniformity; but the more corporation Banks you have, the less fixed will be the standard and measure of value. Whether, therefore, it be good policy to establish any Banks to be owned by individuals, must, in a considerable measure, depend on the circumstances of the particular case; and, should it be thought good policy to establish one or more Banks as checks, then ought not these Banks to make a fair acknowledgement to the State for the privilege, either by an annual tax or by a bonus, at the time.

Even if the Legislature should act on the policy of chartering one or two corporations, with limited capitals, will it not be well in the State to retain the most of the power in its own hands, and to exercise it for the benefit of the whole? So that if the community pay these treble exactions in one shape, they will receive them back in another.

We see, from the report of the Public Treasurer, and the returns of that officer, as well as from the report of the committee of Finance, that the present revenues arising from taxation are insufficient to the current expenses of the State; and it is now very evident that we must either increase the taxes, or we must adopt some other system of finance, to enlarge the revenues.—It is equally evident we must have a Bank to supply a currency.

Now, if the State can supply a better currency than individuals, and at the same time, and by the same act, avoid the necessity of

increasing the taxes on the people by making the profits that otherwise would be made by corporations, surely good policy requires that we should do so. We confidently believe that this can be done.

Suppose the State shall borrow two millions of dollars, at five per cent.; the annual interest on this will be 100,000 dollars. The Bank, on this capital of two millions, with safety, can do business to the amount of two to one; and thus make an interest of six per cent. on four millions of dollars—equal to two hundred and forty thousand dollars. Of this sum, say one hundred thousand goes to pay the interest of the loan; forty thousand goes to pay for the administration of the Bank—leaving one hundred thousand as profit; which is double the amount of land and poll taxes annually paid to the State. If the Bank should find it safe to issue two and a half for one, then the profits would be still greater, making all just allowances for bad debts. That this can be done, we are warranted in believing from the results of the Banks in this State, and from the experience of several of our sister States.

South Carolina has had a Bank of the State in operation since the year 1812; and though, at first, this institution was defective in some of its details, the State soon corrected them, and the Bank has gone on most prosperously ever since. From the last report of the President of the Bank to the Legislature of that State, now in session, it appears that during the past fiscal year the Bank made a profit of more than one hundred and fifty-one thousand dollars on its capital of one million one hundred and fifty-six thousand dollars; and so well has that institution been managed, that not one dollar has been lost, by bad debts, since the present incumbent has been in office.—Governor Hayne, in his message to the Legislature, uses this language respecting the Bank: He says, "Under the able and faithful management of the Bank, it appears that our means will be ample to provide for the entire extinction of the public debt, as it shall become due, without the imposition of any additional taxes."

Alabama, next to South Carolina, adopted the policy of establishing a State Bank. In fact, the policy is engrafted in the provisions of her Constitution. Her experience, like that of South Carolina, proves the great advantage of the measure. The Governor's message to the Legislature, now in session, shows that the system has worked well in that State; so much so, that the last Legislature enlarged the operations of the Bank, by increasing its capital three and a half millions of dollars, which was raised by loan during the past summer.

The Alabama Bank has not only supplied a sound currency to the State, but has actually yielded such profits as to warrant the conclusion that in a few years the State may dispense with the necessity of taxation altogether. On this subject Governor Gayle, in his last message, speaks as follows: "I am fully persuaded that a prudent management of its concerns (the Bank) will, in a few years, dispense with the necessity of taxation altogether."

Georgia has also tried the experiment of a Bank owned exclusively by the State and so well has the system worked there, that the Governor, in his recent message to the Legislature, has recommended that all the assets of the State be concentrated in the Central Bank; and we see steps now taking to sell out the stock owned by the State in the local Banks, with that view. Governor Lumpkin, in his message, says, "After much reflection, I would respectfully recommend to the General Assembly such legislation as will tend finally, to bring all the public assets of the State under the immediate control and management of its own agent, the Central Bank."

Louisiana, with some modification, has also tried the system, and the people of that State are so well pleased with it, as at this time to be taking steps for the establishment of a State Bank, with a capital of five millions of dollars, the money to be obtained by loan.

Mississippi, during the past year, put into operation a Bank of the State, the capital for which was borrowed in the northern cities: the stock was sold at a premium of 13 1/2 per cent. In addition to these examples, the committee might refer to facts to show that other States have now under consideration the policy of adopting this system; and that, wherever it has been adopted, and conducted on true Banking principles, the results have always more than realized the expectations of its advocates.—Nor is it an argument against this system, that certain Banks, established some years ago by Tennessee and Kentucky, did not succeed well; for it is notorious that these Banks were not established on solid capitals, nor conducted on legitimate banking principles. Based as they were on wild laws, and on empty pledges, their notes never obtained good credit. The failure of these specious Banks has given rise to all the prejudices which exist against State Banks.

The Committee will now proceed briefly to notice the principal objection urged against

the establishment of a State Bank, to wit: that it is UNCONSTITUTIONAL to establish such a Bank.

The clause of the Federal Constitution, which, it is alleged, prohibits the establishment of a Bank of the State, is in these words:

"No State," shall "emit bills of credit." From this language it is very clear that no State can "emit bills of credit." But what are "bills of credit," in the sense used by the Constitution? Let Judge Marshall answer. In the decision of the Supreme Court on the question of the Missouri certificates, he uses this language: "At a very early period of our colonial history, the attempt to supply the want of the precious metals by a paper medium, was made to a considerable extent, and the bills emitted for this purpose were denominated bills of credit. During the war of our revolution, we were driven to this expedient, and necessity compelled us to use it to a fearful extent."

Judge Story, in his new work on the Constitution, says of "bills of credit," "the phrase (as we have seen) was well known, and generally used to indicate the paper currency issued by the States during the colonial dependence. During the war of the revolution, the paper currency issued by Congress was constantly denominated in the act of that body bills of credit, and the like appellation was applied to similar currency issued by the States. The phrase had thus acquired a determinate and appropriate name."

Mr. Madison, in his letter to C. J. Ingersoll, in 1832, written on this subject, says: "The evil which produced the prohibitory clause in the Constitution of the States making bills of credit, and in some instances appraised property, a 'legal tender.' If the notes of State Banks, therefore, whether chartered or unchartered, be not made a legal tender, they do not fall within the prohibitory clause." This he says, is the true meaning of the 44th No. of the Federalist.

It is very clear, from this, what is meant by 'bills of credit.' The States, as well as the old Congress, had been in the practice of issuing large amounts of paper money, called 'bills of credit.' These bills of credit were made redeemable at some future day, and no funds were set apart for their redemption even at that future day. The people were compelled to take them, for they were made a 'legal tender;' and the holders of them had no remedy, for they could neither sue a State nor Congress; so that the evil became very great, and it was to avoid the recurrence of this evil that the prohibitory clause was inserted in the Constitution. Hence, when the Legislature of Missouri attempted to supply that State with a currency by issuing certificates to circulate as a medium, the Supreme Court could not do otherwise than pronounce them unconstitutional.—This however, is a very different thing from what we propose to do. We propose to create a corporation; to invest it with specific available funds; authorising it, in its corporate name and capacity, to issue notes to a limited amount, on the credit of its funds; make these notes (not a legal tender) convertible, at the pleasure of the holder, into gold or silver; and make the corporation, like individuals, liable for all its debts and responsibilities.

If any additional authority was necessary to show that the prohibitory clause does not apply to the notes of a State Bank, we may find it in the decision of the Constitutional Court of South Carolina, where the point was brought directly in question, and decided, unanimously, that the law of South Carolina establishing the State Bank, is not unconstitutional. See M'Cord's Report 2 vol.

The Constitution of Alabama contains a clause restricting the Legislature to the establishment of a State Bank, with branches. The Federal Government, with this clause staring them in the face, without a single mark of dissent, admitted Alabama into the Union. If they believed that a State had no right to establish such Bank, would they have admitted her into the Union until that clause had been expunged?

But, say the opponents of this measure, the creation of a corporation, in this instance, is merely an invasion, and we cannot do indirectly what we are forbidden to do directly. That a State can no more "emit bills of credit" indirectly, than she can directly, is very clear; but we deny that the notes of the Bank of the State will be bills of credit. The bills of credit which occasioned the prohibitory clause in the Constitution, were declared to be MONEY, and were made "a legal tender;" but the bank notes to be issued by the Bank, are not declared to be money, nor made a legal tender. They are not money, but only the representative of money. The opponents of this measure admit the power of the Legislature to incorporate Banks, to be owned by individuals, with the privilege to issue notes. But if the notes of the Bank of the State be bills of credit, will not the notes of individual Banks be the same? If the notes of the one be unconstitutional, how can the notes of the