

Shall the Banks be compelled to pay Specie?

The following letter from a citizen at a distance to his friend in the assembly, respecting the BANKS, having been communicated to some gentlemen, and more desiring to read it than can peruse the original, permission has been obtained to put it in print. It is a plain and a candid statement of facts on a question which deeply affects the welfare of the citizens of this state.

DEAR SIR,

You desire my opinion upon the expediency of the Legislature adopting measures to compel the Banks of the State to redeem their notes with specie at an early day; and you ask me at what time, if left to themselves, they probably would resume the payment of specie? No one can attach less importance to my sentiments on these points than I do myself. Yet if the few facts which I may place together can in any degree aid your deciding on the question before you, I shall not regret the few minutes bestowed on this letter.

I cannot but regret that any portion of the Legislature think themselves called on at this time, to interfere with the management of the Banks; and if measures are adopted to compel the Banks to pay specie immediately, under the penalty of paying heavy interest, or damages in case of refusal, there cannot be any doubt but that the Banks will be driven into measures for their safety and defence, which must greatly increase the distresses of the country.

That the Banks in suspending specie payments have not conformed to their undertakings is admitted. But common justice and candor require that they should not be condemned for a course of conduct, produced in the first instance by the distress of the country, and continued subsequently in mercy to the people. The distresses of the country have been ascribed to the Bank: The charge is, they first issued too freely in loans, and then vigorously called in. Those charges are ungrounded in fact. Money, whether of gold and silver or paper, may be too abundant. When the supply is greater than the business of a country requires, its value will be reduced; like tobacco or cotton, its value depends on the quantity in market. And yet, freely as the Banks may have issued, their notes within the State have not depreciated; but in every transaction between the citizens of the State, have answered the purpose of money as well as gold and silver; and so far from being too abundant, an universal complaint has prevailed of the scarcity of money, and of the want of more Bank Notes. Of the sum issued in loans, I think not more than fifteen per cent. has been called in in payments, and so far from having made heavy collections from their debtors, I feel confidence in the opinion that at this day, the sum due to the Banks in the aggregate, is within fifteen per cent. as large as it ever was. Such are the facts as regards issues and collections.

That in some instances loans may have been made to indiscreet men, who have used the money to their injury, must be admitted. But what species of trading has not proved injurious to indiscreet men? Do not men ruin themselves by injudicious purchases of tobacco, cotton, and pork; by erecting mills, establishing manufactures, by extravagance in dress and in living? Unfortunately the proofs are so abundant, that every man must answer in the affirmative. When, therefore, it is found practicable to prevent indiscreet men from trading in merchandize, produce and lands, when you can curb the follies of man, control the vicissitudes of trade, and regulate our expenditures by prudence and temperance; then having secured him against all other chances of misfortune, you may wisely close the door of a Bank upon him, and deny him this only remaining means of mischief. But while it continues impossible, (as it does and ever will,) for Legislatures to guard men against the consequences of their own imprudences, to which they are subject without recourse to Banks, surely it cannot be seriously contended, that the country is to be denied the advantages resulting from the use of Banks—advantages contended for by the first statesmen of the age, and admitted by universal establishment.

The distresses of the country consist in the low prices of produce and property, and in the consequent difficulty in paying debts. A very little reflection must satisfy every mind, not devoid of reason, that these evils may exist independent of any influence of the Banks, and that in the present times they actually owe their existence to other causes.

Let one of those who ascribe the low prices of produce to the scarcity of money, purchase and ship our produce to any part of the world. He will find the prices abroad so low, that after paying freight and charges, he will be fortunate if the first cost remain in his hands. He will then learn that the

market abroad, and not the want of money at home, causes the low price of produce. If the pressure of the times existed only among us, we might ascribe it to the scarcity of money, and lay all the blame on the poor Banks of North-Carolina, for their parsimonious issue of notes. But the same pressure is felt every where in Europe, as well as in every part of the United States. He who searches for the causes of national distress, must elevate his view above the petty banks of his country or the little extravagances of his neighbours. Whatever the parish politicians of the State may decide to be the cause of our distress, let them learn from the testimony of the venerable John Adams, that at the close of four wars, which he is old enough to remember, the same distresses have prevailed as incident to the change of circumstances, and he may learn also from the message of President Monroe to the present Congress, that "we are liable to be affected in some degree by the changes which occur in the condition and regulation of foreign countries"—that "it would be strange if the produce of our soil received at all times and in every quarter an uniform and equal encouragement"—"we trace these pressures to the peculiar character of the epoch in which we live, and to the extraordinary occurrences which have signalized it." "The convulsions with which several of the powers of Europe have been shaken, and the long and destructive wars in which all were engaged, with their sudden transition to a state of peace, presenting in the first instance, unusual encouragement to our commerce, and withdrawing it in the second even within its wonted limits, could not fail to be sensibly felt here. The station, too, which we had to support through this long conflict, compelled as we were finally, to become a party to it with a principal power, and to make great exertions, suffer heavy losses and to contract considerable debts, disturbing the ordinary course of affairs by augmenting to a vast amount the circulating medium, and thereby elevating, at one time, the price of every article above a just standard, and depressing it at another below it, had likewise its due effect. It is manifest that the pressures of which we complain, have proceeded in a great measure, from these causes." So far the words of Mr. Monroe.—Yielding to these high authorities, I think the distress of the country is owing to the extraordinary occurrences of the times in which we live, and not the petty Banks of North-Carolina.

The Banks are censured for suspending specie payments. Before they are condemned and punished for this step, its cause and the consequences of it should be enquired into. A concurrence of circumstances, and among them not the least in effect, the course adopted by the Bank of the United States toward all other Banks, had compelled the Banks, particularly those to the north of us, to call in their debts in large proportions; an extraordinary demand for money in all the States was the consequence. The debtors and the agents of each particular Bank were active in drawing from every other Bank, all the specie they could obtain to give strength to that one in whose support they had particular interest. At the same time Spanish milled dollars were particularly sought after for shipment to the East Indies. In this season of gathering, North-Carolina did not escape visitation; and Bank agents, brokers and pedlars from the north and from the south, in quick succession, were calling on our Banks, and taking off specie by waggon loads. It is a fundamental rule in banking, to regulate the amount of notes afloat, by the amount of specie in the vaults of the Bank. The extraction of large sums of specie from the Bank demanded a corresponding reduction of the notes afloat; or in other words, as the Banks paid out their specie they were required to call in their notes. The consequences soon became obvious; if that course were persisted in, the debtors of the Bank, the people of the State would be ruined, while the speculators and brokers from other states would be enriched. The alternatives before the Banks were, either to pay specie and call in the debts due them, unmindful of the ruin it might cause; or indulge the debtors and refuse to pay specie, regardless of the clamour which would be raised against them. They adopted the latter alternative, and resolved to refuse specie payments to such demands. Such is the history of the suspension of specie payments. Northern brokers, speculators and pedlars may complain of it, but it would be indeed strange that citizens of the State should find cause of blame in the determination to prefer the safety of the people at large, to the profits of a few speculators. But in judging of the conduct of the Banks on this occasion, it must be kept in mind that though they did not pay specie, they did not fail to satisfy every just demand on them. They had procured (and at some expence) funds in other States, north and south, and it is believed that

hour, every demand on them has been fully satisfied by drafts on the Banks north or south; which drafts, as those to whom they were paid resided abroad, answered every purpose of specie, and had every effect a payment in specie could have had, except only undermining our Banks and distressing our people.

As to the consequences of suspending specie payments, as they operate among ourselves.

Whether bank notes, not convertible into specie at the pleasure of the holder, can supply the place of specie as a circulating medium, is a question so often discussed, that I would not agitate it again. I would only remind you as I pass on, that during our late war, all banks having suspended specie payments, every operation of money was performed by bank notes, not convertible into specie; and that the bank of England suspended the payment of specie from 1797, to the last year, in which interval the government with no funds but paper bank notes, prosecuted those wars which, in the final overthrow of Napoleon, established their own empire and achieved the independence of Europe. The experience of the world on this point, set at nought the theories of evil from the substitution of paper for specie.

The value of money is estimated by the quantities it will purchase of the necessaries, comforts and luxuries of life. Compare the prices of produce and property in 1817, 1818, and to June, 1819, while the banks redeemed their notes with specie, with the prices at this time. Corn, pork, flour and most other articles of produce can now be purchased with bank notes at less than one half the prices they commanded in the former period. In other words, you can at this time, obtain in exchange for bank notes, not redeemable in specie, double the quantity of produce, which in 1817 you could obtain for the same sum in bank notes, which were convertible into specie, at pleasure. Lands and negroes can be purchased now for at least one third less than in the former period, payable too in the same abused bank notes. In short, in every operation of money, whether purchasing property or paying debts; whether to private persons or to officers in settlement of executions, the notes of our banks have answered, and still do answer every purpose of specie; and with pretty ample opportunities of being informed, I do not know a single instance of dealings between citizens of the state, in which any difficulty has been made because bank notes, and not specie, were paid. Bank notes may, therefore, with truth be said to be placed by universal consent, on a par with gold and silver. If there is any exception, it is in the case of those traders and pedlars, who owe money to the north. If they take our notes northerly, they pass them at a discount of about two per cent.—they would save this loss if they would ship or waggon our produce abroad to pay their debts. If the interest of these gentlemen, in number, not one in a thousand of our citizens, conflicts with the interests of the rest of the state, there can be no hesitation in deciding which interest should be preferred.

Admitting the correctness of all that is said, still the question remains, will the return to specie payments at this time, be injurious to the banks, or to the people of the state? My opinion is, that such a measure would probably be fatal to the banks and certainly very injurious to the people.

From the state of the banks laid before the last assembly, it appeared that the banks possessed bonds and notes due to them for three millions of dollars more than all the demands which could be made upon them. Yet, strong as this statement proved them to be, and clearly as it put their solvency beyond question, it also appeared that they held but seven hundred thousand dollars in specie, to meet demands which could be made on them, for four million six hundred thousand dollars—not quite one dollar in specie to meet six dollars of debt. Since that report their situation may have improved, and I estimate their specie at this time at one dollar in five of their debts. In this situation it is mere delusion to believe that they can pay in specie all the demands which will be made upon them. If the legislature say the banks shall pay specie under heavy penalties the consequence is plain: self defence is the law of nature: to avoid the penalty, the exaction of which, if not counteracted, must speedily both destroy their profits and absorb their capital, and to meet the demand as far as they can, the banks must require payments of their debts—not instalments, but the whole; judgments will be enforced to the amount of five millions of dollars. Each man indebted to a bank and urged for payment will press in turn his debtors, and thus the whole debts of the community will be brought down in one torrent upon our heads at the same time. But will the demands for specie be made upon the banks, if they may be made and if the consequen-

ces may be such as I have suggested, the experiment ought not to be made. The banks, in the neighboring state of Virginia, crippled, and for some time put "hors de combat" by hits from the bank of the United States, have been recruiting their strength, but are not yet sufficiently restored to not need help—they will gladly now, as they heretofore did, clutch every Carolina Bank Note to draw specie for themselves. The bank of the United States, the chartered enemy of the State banks, stands also ready the moment the doors are open, to enter; and, as when they last had opportunity, load waggons with our dollars. Agents from northern banks, brokers and clerks of India merchants, all will seize the golden opportunity, and from the joint visitations of all, the specie of the banks will soon disappear. It should be remembered, too, that to the money dealers, there is a special temptation to visit the banks of North-Carolina—it is this: Spanish milled dollars, the only coin which is shipped to the East Indies, uniformly commands a premium when the India ships are preparing to sail. The northern banks protect their Spanish dollars by the tender of American coin; and so desirable is it to the banks to possess this coin, that within a month past we have seen that three hundred thousand dollars of foreign coin have been sent in steam boats and waggons from New-England to the mint in Philadelphia, to be converted into American coin. Our banks have very little American coin; their foreign gold is not a tender, and their Spanish milled dollars are thus placed at the command of all who choose to demand them. Thus it is that I fear the banks are to be assailed—the consequences are inevitable—the banks will do no business but collect—the capital rendered unproductive, each stockholder will prefer to withdraw his stock and employ it otherwise, and the charter will be surrendered. The state will lose its annual tax of sixteen thousand dollars from the banks of Newbern and Cape Fear, and its dividend on its stock in all the banks. The last dividend will be of land and negroes purchased by the banks for the debts due them. If you think any fears visionary remember that probably not less than fifty banks have surrendered their charters since the establishment of the bank of the United States. As the collection of debts due to the banks withdraw their notes from circulation, specie must become the only circulating medium. In proportion as specie is scarce, in the same proportion will its value increase, and the prices of property depreciate, and in this effect, will further evils be felt from the destruction of the banks.

It is true that the banks are by charter bound to pay specie; but by charter they are also bound to lend money. In issuing notes they have fulfilled the object of their creation—that they cannot immediately redeem their notes with specie is not their fault; it is the fault, or more properly, the misfortune, of those to whom they have loaned money. The people of this state, oppressed by the disasters of the times, have failed to pay their debts to the banks, and leave the banks, of consequence, unable to pay their creditors.—It is not less the duty of individuals than of corporations to fulfil their contracts; and the legislature, having the same control over one as the other, may, with the same propriety, affix penalties upon the non-payment in specie of the notes of individuals, and in all cases punish delinquents in proportion to their misfortunes. And surely even-handed justice requires, that if the banks are punished for failing to pay specie, those who owe them the specie, and fail to pay them, should not go unpunished.

When I look at the situation of affairs at the meeting of the legislature—the notes of the banks issued upon a pledge of the property of the debtors, therefore perfectly safe, and at par with gold and silver in this state—the debtors consoling themselves amid distresses, with the hope that their debts would be called for by the banks as indulgently as heretofore; and when I contrast this state of things with that which the proposed interference may create—runs upon the banks for specie; suits by the banks for debts due them; the general loss of credit; sacrifices of estates, and ruin of families—I cannot but believe the legislature are, without the least possible necessity, about to make one of the most dangerous experiments which power ever ventured upon.

As to the time when the banks can resume specie payments.

By specie payments, I mean the bona fide paying in specie all the notes they issue—not that shuffling kind of dealing, which at times they have all heretofore practised, of issuing at one office notes payable at another, and when the note issued one hour is presented in the next for payment, it is refused, and the holder is directed to take a journey across the state to another branch or office for payment. It would be quite as fair to issue notes paya-