ON BANKING.

The following Essay, which lately appeared in a Philadelphia paper, is written with so much ability, and contains so clear and comprehensive a view of Banking, that we take pleasure in laying it before our readers, in the hope that an attentive perusal of it, will not fail to enlighten the public mind on a subject very imperfectly understood in this part of the Union.

When a community is in the full enjoyment of health, few persons are to be found willing to listen to the warnings of the cautious; and it is not until the destroying epidemic appears, and when relief would come almost too late, that the public mind is in a state capable of receiving the truths, a previous acquaintance with which might have saved them from disease. What is true of physical evils, is equally true of moral evils, and as we consider the present a favorable moment for attracting the attention of our fellow-citizens to the existing state of the currency, the true causes of which are important to be known, we embrace the occasion for advancing a few ideas on the subject, in addition to those which have already appeared in several of our city papers. In the able article on the subject, published in the National Gazette of April 10, the operation of *over banking* in producing *over trading*, and consequently commercial embarrasments, is analytically, lucidly, and satisfactorily explained. Indeed this matter is now so well understood, that no one scarcely doubts that the excessive importations of British goods which are now selling at a loss of 20 to 30 per cent. to the great injury of our importers and our manufacturers, have been in a great degree owing to the unnaturally high prices, and to the speculating spirit resulting from a depreciated currency. But here all inquiry seems to stop. Mercantile distress is seen to be *an effect*, and the effect of an immediate *cause*, but no one has undertaken to point out a preventive against the recurrence of that cause.

If *over banking* be an evil, that evil ought to be eradicated. As far, however, as it results from a multiplicity of banks, the task is not of easy accomplishment. When a whole community is seized with a *mania*, it is fruitless to attempt to change the public current. Experience has demonstrated, that the present generation will not profit by the sufferings of the past, for we have seen new charters granted to banks, at a moment when the recollection of the awful calamities produced by their mismanagement was fresh in the memories of all who voted for them. This being the case, and the fate of the country having been placed by our law-makers at the disposition of monied corporations, nothing remains for the people but to exert their endeavours in mitigating the evil, and in rendering it as light as it can be made to fall. In making these remarks, we disclaim all hostile feelings against any of the individuals who are concerned in the management of the banks, or who derive their means of support from them. They hold their employments in the legitimate exercise of an honorable calling, and are not responsible for the acts of the legislature. They are not, however, on this account, entitled to any exemption from the obligation of listening to the truth, when respectfully offered to their consideration; and as we consider them responsible to the public for the faithful, honest, and *intelligent* discharge of their duties, we hold them bound to abstain from every act which can militate against the general welfare of society. If the profits of banking are diminished in the ratio that new banks are created, let no forced attempts be made at the public expense, to secure profits, which, in the nature of things, can never be obtained.—*That* stockholder must indeed be regardless of the interests of his fellow-citizens, who, for the sake of increasing a momentary dividend, that the price of his stock might rise, and become saleable for more than it is worth, should urge upon a bank the expedient of inundating the land with paper.

The chief origin of the *mania* for banks, is to be found in the confused ideas entertained by the mass of the people, in regard to their *utility*. To point out the real extent of this utility, is the main design of this essay. We think we can present the subject in such a point of view as will satisfy even the stockholders of banks, that their own true and *permanent* interests are to be promoted by a strict adherence to the legitimate operations of banking, and that every departure from these, sooner or later brings with it a loss quite equal to all that may be gained by an undue expansion of the system. In doing this, however, we must beg the indulgence of the reader, whilst we call his attention to some elementary principles, which are requisite to a full understanding of what we purpose to say.

Of banks there are *three* distinct descriptions, wholly different from each other in their constitution, their operations and their influence upon the public prosperity, viz. *banks of deposit*—*banks of discount*—and *banks of circulation*. In the numerous banks which exist throughout the U. States, all the operations of these three distinct institutions are combined; and it is owing to this combination, by which dissimilar things are confusedly mixed together, that the general impression has been favourable to the existence of banks. *Banks of deposit* afford a secure place for the safe-keeping of coin and bullion—grant facilities for mercantile payments by transfers on their books, by which the labour of counting large sums of coin is saved, and furnish a *sound* circulating medium of paper, issued as the *absolute representative* of coin deposited in their vaults. *Banks of discount* are those associations of individual capitalists which are instituted for the purpose of loaning money; and as the amount of their loans is limited to their *actual capitals*, they make no addition to the circulating medium, and consequently produce by their operations, no effect upon the currency, different from that which would result from the loaning of the same money, by the same individual capitalists. *Banks of circulation*, are those institutions established expressly for the lending of *credit*, which is performed by exchanging their promissory notes for the promissory notes of individuals, charging the latter a certain per centage per annum, for the advantages they are supposed to gain, by dealing in the market, with the credit of the banks instead of their own.

From the foregoing definition it will readily be seen, that the operation of *banks of deposits* and *banks of discount* are of positive advantage to a nation. The one protects gold and silver from the danger of being plundered, the other keeps it in constant activity, by lending to one borrower as fast as it is paid by another. But it will as readily be seen, that such institutions do not hold out sufficient temptations for their frequent establishment. To maintain a *bank of deposit*, a fund must be provided by government or individuals to defray its expenses, inasmuch as no number of persons would assume, without compensation, the responsibility of taking care of other people's money, and of keeping their cash accounts; and in regard to a *bank of discount*, it would scarcely be worth while for a company to become incorporated, and pay the rent of a banking house and the salaries of a number of agents, to do that which the individuals themselves could do, by the employment of brokers, at a much less expense. *Banks of circulation* have therefore been resorted to, as presenting the only prospects of emolument, and as the credit requisite to give confidence to their paper could not well be established without having for its basis a capital of coin, more or less extensive, they have embraced the functions of *banks of discount*. To secure the popular favour too as well as to derive a profit from the lending of the money of others *deposited with them for safe keeping*, they have also taken upon themselves, without charge to the public, the duties of *banks of deposit*.

But *banks of circulation* are themselves, when properly conducted, and when their operations are confined to the *legitimate objects* of banking, capable of conferring benefits on a nation. We will illustrate this position by showing what would be the course of things in a country possessing a metalic currency, on the first introduction of such banks; and in doing this we shall be obliged to extend ourselves rather more widely than may perhaps be agreeable to the reader, in order to explain the principles upon which such a currency rests.

All the gold and silver coin and bullion in the commercial world, is in the constant course of distribution amongst the various trading nations, in the proportions called for respectively by the extent of their wealth—their commerce—and the state of confidence between individuals. A rich nation will require more gold and silver than a poor one; a nation carrying on much trade, more than one which carries on little;—and a nation wherein commercial credit is limited, more than one in which confidence is extensive.—What proportions to the numerical population of each country, these quantities would respectively bear, it is neither possible nor material to ascertain. It is sufficient to know, that such as they are, these proportions, when attained, constitute what may be called *the general level of currencies*, and it is to this level, as to a species of standard, that reference is made, when we say, that money like water will find its level. It is true, that owing to the constant production of the mines, which may at times occasion unequal distributions, as well as to a great variety of other circumstances which disturb the currencies of particular countries, this general level may never be a perfect one. It is sufficiently so, however, for all purposes of reasoning upon it, and perhaps as much so as fully warrants the figure, by which a fluid like property is ascribed to the precious metals. The surface of the ocean is never free from undulation, and the daily operation of the tides is constantly interfering with the level of streams. Moral causes which influence the movement of waters, operate upon gold and silver in driving them from one place to another, but it is easily to be seen, that were the extent of wealth, commercial transactions and confidence, in different countries to remain the same for a long period together, gold and silver would assume such a uniformity of exchangeable value in each, as to arrive at a perfect state of quiescence. Indeed, as it is, gold and silver are of all commodities the least likely to be exported from any country, except from those where they are produced, & of consequence form a part of the produce of the land and labour of the people, or from those which desire to purchase foreign productions, which are not procurable with any other commodity that the exporting country possesses. We may therefore conclude, that a level does not exist, or at least that there is a common centre, towards which the currencies of all countries have a perpetual tendency, and from which they do not greatly depart.

Now we will suppose, that in a given country enjoying a metallic medium, the quantity of coin requisite to circulate its products and foreign commodities, and to maintain its currency upon a level with the currencies of other countries, is *ten million of dollars*. A bank of discount and circulation is introduced with a capital of *one million* of dollars, taken from the ten millions in circulation. If the whole of this million be paid into the bank at once, the first effect will be a scarcity of money, because there will then be for a time, only *nine* millions in the hands of the public instead of *ten*. This scarcity of money will raise the standard of the currency above the general level. Gold and silver will rise in value as exchangeable for all other commodities and property. In other words, all other commodities and property will fall in relation to gold and silver, retaining however the same exchangeable value as regards each other. A barrel of flour for example can be exchanged for as much coffe as before the fall in *price*, because coffee will have fallen in price in the same proportion; but neither of them can be exchanged for as much gold and silver as before, because there are only *nine* purchasers in the market where there were *ten*, or, what is the same thing, the former purchasers would only be possessed of nine tenths of the means which they formerly possessed. To what extent a diminution of ten per cent of the currency would lower prices, we shall not stop here to inquire inasmuch as that would depend upon the extent to which other circumstances might operate. An additional ten per cent might be withdrawn from circulation by failures in confidence owing to the embarrassments produced, inasmuch as lenders would become more timid, and thus would the pressure be increased, and prices be made to fall to a greater extent than what would be occasioned by the mere locking up of the bank capital. If this state of things were to continue any great length of time, it is very evident how the evil would be remedied. Domestic productions from their fall in the price would become profitable objects for exportation, and as the low price of foreign commodities would hold out no inducements for their importation, gold and silver would be brought back in payment until the currency should be restored to its proper level.

In showing the nature of this operation, we are far from supposing that any number of intelligent individuals would commence the operations of our supposed bank, in the way stated. They would no doubt see the propriety of collecting the capital of the bank by *instalments*, and of loaning out the amount of those instalments as fast as received, in order to avoid the loss of interest, as well as to avoid the evil of an artificial scarcity of money. But whether the payments be made in one way or the other, it is very manifest, that as far as loans to the amount of *one million* of dollars are made by the bank, the operation is that of a *bank of discount*, for it has only loaned the amount of its capital. It may indeed have issued notes, or given credits on its books, instead of paying out the identical gold and silver received from the stockholders; but such notes and credits would, in such case, be mere certificates that corresponding amounts of gold and silver were in the vaults of the bank, belonging to the holders of such notes or credits.—From this view of the subject, how clear is it to be seen that what the bank has performed, is nothing more than what the individuals who own the capital of the bank, could themselves have performed, more cheaply, more safely, & perhaps more advantageously to the public, seeing that loans to unskilful & imprudent borrowers lead to a diminution of the wealth of the country, whether it be by injudicious voyages, or by any species of enterprise which converts productive capital into property which is not productive? Banks it is tho't cannot, in the nature of things, exercise the same discretion in the choice of its borrowers, as individual capitalists do.

The circulating principle is now put into operation; and the bank loans what it calls *another million of dollars*, but which is, in fact, nothing but *its credit* in the form of bank notes or credits on its books, equivalent in the public estimation to gold and silver. By this transaction, the level of the currency is disturbed. There are *eleven* millions of dollars in circulation instead of *ten*. The currency is depreciated below the general level. Prices of commodities rise, and because money has been rendered comparatively cheaper, that part of it, which alone is current in foreign countries, is sent abroad to be exchanged for some of the foreign articles, which, by the rise of prices have been rendered profitable articles for importation. This exportation of gold and silver, we will suppose, to keep on *pari passu* with the increased issues of the bank; and provided the extent to which it is carried, is not so great as to drive out of the country too great a portion of the metallic currency, *by which the convertibility of the paper into coin might be endangered*, its operation is decidedly beneficial to the nation. It has disengaged from an unproductive employment, a capital capable of bringing back a profit to the country, or in other words, has substituted an expensive instrument of commerce, by one costing very little. And yet by this operation, so long as the issues of the bank and the exportation of coin are equal, no depreciation of the currency takes place, *because the total quantity of coin and paper united, is only equal to the quantity of coin that would have circulated, had there been no bank*. From this position, two conclusions are self evident. *First*, that circulating banks are only beneficial to the public, when they occasion the exportation of coin,—and *secondly*, that paper is only beneficial, when its quantity does not exceed the quantity of coin which has been removed from the currency by exportation.

It was an allusion to this *immutable law* of political economy, that the writer on "the currency," remarked, "This advantage has by its side a great danger," but he did not assert, what he might have done with great truth, that this danger arises chiefly from the want of knowledge on the part of many of those who have the management of banks, of the true principles of currency, without which it is impossible that the banking system can ever be other than a scourge to the nation.—Some of these persons will tell you, that the extent to which a bank may loan, without danger of reaction, depends entirely upon the extent of its *capital*, and reason thus—if a bank with ten millions capital, can loan with safety fifteen millions, which is fifty per cent. increase, one with thirty-five millions, capital, can loan to the extent of fifty-two millions and a half. Others fancy, that the power of expansion in a bank, bears a certain proportion to the amount of its average *deposits*. However this may hold good as regards any individual institution more favored than its neighbors, yet as a general rule, it is absurd, as is manifest from this consideration, that the aggregate of deposits in all the banks of a city, increases with every new issue of bank notes, and if that increase were to be the guide for further issues, there would be no limits to bank loans. Some, too, have an idea that it depends upon the quantity of *coin* there may be in the vaults of the banks, & that if this be very considerable, there is hardly any bounds to their expansibility. Neither of these theories however is sound. The real truth is, that the channels of circulation, will only hold, without depreciation, a certain quantity of paper in addition to the quantity of coin, which must needs exist, as the basis of the mixed currency. All attempts to increase that quantity *permanently* beyond the quantity requisite to preserve an equivalency with the general level, must in the nature of things be futile. If the channels are made to overflow, depreciation of the whole mass, and a consequent exportation of coin, must inevitably follow, as *effects* from a *cause*, and all redundant issues of notes will return upon the banks for payment, with the same unerring certainty, as the fabled stone of Sysiphus roiled back upon the wretched struggler.

If this be the case, how clear is it to be perceived, that the profit to be derived from supplying the paper currency of a country, is a *limited amount*, and that if it be divided among a great number of banks and distributed over the surface of many large capitals, its *proportionate* rate must of necessity be very small. To make this matter however more plain, for we consider a correct view of this branch of our subject as *the key to the whole science of banking*, we will illustrate it, by a reference to the case of the country, which we have above supposed to require a circulating medium of ten millions of dollars. Without pretending to determine the precise extent to which its coin might be safely substituted by paper, we will admit, for the sake of argument, that one half of the former shall be exported, and that, consequently, the currency consists of five millions of coin, and five millions of paper. Under this state of things, the bank would be drawing interest on a sum five times as large as its capital, allowing that it retained a million in its vaults in coin, to meet occasional demands. The profits of its business would therefore be very great on account of the small capital of which it was the income and the consequence would no doubt be, as soon as the secret was discovered, that additional banks would be projected. None of the projectors however of these banks would believe that the profits made by the original bank, were the result of a monopoly, and that they would not have been any greater, in *absolute amount*, if its capital had been ten millions instead of one, but under delusive notions that the same *per centage* of profit would attach to a large capital as to a small one, they would probably introduce a new bank with a capital we will suppose of two millions.—Now to make a proportionate profit equal to that enjoyed by the original bank, paper to the amount of ten millions must be issued. But the channels of circulation are already filled, and there is no room for more paper. Issues however are commenced, and the currency becomes depreciated below the general level. Prices of all commodities rise. Domestic products become too dear for exportation. Foreign merchandize by its high price holds out inducements for importations. Bills of exchange rise, because the *demand* for them to pay for foreign commodities, increases faster than the *supply*, and as soon as their price in the market exceeds the amount of the expense and risk of transmitting gold and silver abroad, a portion of the remaining five millions of coin will be exported. Then is the new bank, for the first time, reminded of its imprudence. Its notes return upon it for payment, and its neighbour too, which has also five millions of paper in circulation, feels the effects of this reaction, and both are obliged to retrace their steps, in order to avoid a stoppage of payment. The consequences are, a general scarcity of money and commercial embarrassments. If the remedy be applied in time, ruin to the banks may be avoided, but if it has been left too late, the contraction will be followed by the failure of these borrowers who were led into overtrading, by the facilities afforded by this system of overbanking, and the losses resulting therefrom to the banks, will most probably be equal to the total amount gained by their extraordinary dividends. And here we will take occasion to observe, that by *issues of paper*, we do not mean merely the bank notes which are in the pockets of the people, but also the amount standing to the credit of depositors, *over and above the amount of coin in the vaults of the banks*, for the right to draw out bank notes at pleasure by the depositors, is as much a part of the circulating medium, and produces the same effects upon the currency, as the bank notes themselves.

But it may be asked, how are the banks to ascertain the precise limits beyond which they cannot proceed without depreciating the currency, and of course injuring the public? We answer, *first*, by carefully avoiding to throw obstructions in the way of a free exportation of coin; and *secondly*, by confining themselves to the legitimate objects for which banks were instituted. If they perform these duties to the public, and if the public does not suffer itself to be debarred of the rights which it possesses, of demanding the fulfilment of their contracts, through a false and mistaken delicacy, or through the fear of offending banks or bank debtors, we shall never hear of a general scarcity of money, or of a general distress. The overtrading of the banks of any particular place, would be prevented by the demands made upon them by those of another place. If the currency of a particular city, Philadelphia, for example, be depreciated by over issues, whilst that of New-York is not so, the effect is immediately shown by a rise in the price of stocks and bills of exchange at the former city, of which the consequence is, that quantities of these are sent to Philadelphia for sale, and by that means the banks of that city are brought into debts to those of New-York, and an equivalency of their respective currencies is thus maintained. In like manner, the overtrading of any individual bank would be prevented by the others of the same city making a daily or weekly demand upon it, for payment in coin of the balance which has accrued against it by the transactions of the day or week. All obstructions to the free and full exercise of these rights, by individuals and by banks, are injurious to the public interests; and all waving of these rights, whether voluntarily or compulsively, are equally so. They all have a tendency to invite to a depreciating of the currency, and as far as individuals suffer themselves to be deterred from demanding of the banks, payment of their notes, or join in the exciting of odium against those who find it their interest to export gold and silver from the country, so far are they accomplices in the production of the evils, which the abuse of banking inflicts upon their country.

[*To be concluded in our next.*]

Episcopal Consecration.—This solemn and imposing ceremony was, yesterday morning performed upon the Rev. Dr. Meade of Virginia, in James's church. Morning service was read by the Rev. Dr. Duchacet of Virginia, and the sermon preached by the Right Rev. Bishop White, from Revelation, chap 2d, and 10th verse:—"Be thou faithful unto death and I will give thee a crown of life." The reverend gentleman was presented for consecration by Bishops Croes of New-Jersey and Moore of Virginia. The holy communion was administered by Bishop White, assisted by Bishops Hobart, Croes and Griswold.—*U. S. Gaz.*

Remarkable presence of Mind.—On Wednesday week, the daughter of Mr. Farquharson, Bankend, Sterlingshire, was standing near a bee hive. The hive suddenly threw off a swarm, and alighted on the young woman's head. It completely covered her hair, face, breast and shoulders so that she could neither see nor speak.—In this situation she remained without moving, until her father brought a hive, and the bees entered, without her receiving a single sting. Had she ran away, or irritated the insects by striving to remove them the consequences might have been fatal to her.—*London paper.*