



PUBLISHED WEEKLY BY CLANCY & EVANS, AT \$2.50 PER ANNUM, PAID IN ADVANCE.

NEW SERIES.

GREENSBOROUGH, N. C., FRIDAY MORNING, SEPTEMBER 14, 1838.

VOL. II—NO. 23.

MR. LEGARE'S LETTER, TO THE GOVERNOR OF S. CAROLINA.

So far, then, I think I am quite safe in saying that no case what ever has been made out by those who would have us believe that the South is particularly interested in the change. Just the reverse. We are less concerned in it than any other part of the country. Undoubtedly, it is desirable for us, as for all well regulated States, that our currency should be as stable as possible; but that we are particularly called upon to effect that result, by requiring payment of the public dues, that is, from one third to one quarter of the whole mass of dutiable commodities, in gold and silver, I utterly deny. I think on the contrary, you will admit that we are exposing ourselves, in a more or less serious degree, according to the variations of the revenue and the deposits on hand, to a fall of prices, which must be the effect of lowering the specie basis of the circulation in England; and that, in fact, common prudence would make us, of all others, adopt any such change with extreme hesitation and reluctance.

This is a matter of so much importance that I will dwell upon it a little longer, in another point of view.

There is no practical problem in political economy so difficult to solve with precision, as the question how far the diminished supply of the precious metals from the Mexican and South American mines since 1810 has affected their value, or which is the same thing, has affected the prices of other commodities. The falling off has been enormous—considerably more than one-half on an average, of the yearly produce of the same mines from 1800 to 1810, and upwards of twenty millions of dollars per annum, amounting in the whole period mentioned, to fully \$200,000,000. The wear and tear of the metals, less by casualty, &c., must also be taken into the account, and the annual diminution from these causes is estimated at one per cent., making on the whole stock of gold and silver, a very large amount. So much for the supply. While this has been so rapidly diminishing, the demand for them has been just as rapidly increasing. First, from the increase of population, according to an admitted principle. Great Britain, which in 1800 contained only fifteen millions of inhabitants, had in 1830, no less than twenty-five millions. Prussia, which at the peace of 1814, contained something more than ten millions, (I think) now boasts of her fifteen millions. Russia has grown at least as rapidly; so of other nations.

With our own extraordinary progress in that way you are familiar. Thus, as to productive power, another important element in determining the value of gold and silver, I need not mention that it has been every where immensely augmented, and with it, of course, the mass of commodities to be circulated by money. Look at the cotton trade for example. Lastly, the consumption of the precious metals in furniture and manufactures is becoming immense, and is every day on the increase; not, as has been said, in the course of the discussion, because they have been depreciated, and so driven out of circulation by paper; but as a necessary consequence of the progress of commerce and riches, and the elevation of the standard of comfort among all classes of society. The metals are in demand as commodities, precisely because they are precious. We all have them at any price, because the use of them is required by the existing state of civilization, and because the mighty fortunes acquired by industry or transmitted by inheritance, put in the power of thousands and tens of thousands to obtain them now, whereas hundreds formerly could.

Compare England with France in this respect, and you will be struck with this apparently singular, but really natural and instructive result. France has in circulation much more than twice or three times the amount of gold and silver that England has, estimating the specie currency of the latter at \$30,000,000; but, in plate furniture, &c., the tables are exactly turned, and England possesses twice or three as much as France. This does not show that the metals are depreciated in the former country, but the very reverse. There is a greater demand for them, because there is incomparably greater opulence and luxury in the country of banks and paper money than in the country of an exclusive metallic circulation. This is in the present condition of society, an inevitable effect of a great accumulation of capital, which can only be perverted by sumptuary and agrarian laws—a system of legislation familiar enough in antiquity, but quite inconsistent with our modern ideas of individual liberty and personal accommodation.

I know no writer who has recently denied that the fall of prices, so universal within the last twenty years, has been owing, in some degree, to the diminished supply of the precious metals, or, what comes to the same thing, who pretends that those metals have been depreciated by the paper currency substituted for them in some countries, as some members of Congress has roundly asserted, without any means of ascertaining the state of facts, or even deigning to consider them at all. McCulloch, who thinks that a very exaggerated importance has been attached to the effects of that diminution, still admits

that it may have operated to the extent of from 3 to 5 per cent. The author of a clever little treatise, to which I had occasion frequently to refer in my speech at the extra session, dissuades no less than that, within the period just mentioned, thousands have, by this cause alone, been precipitated into inextinguishable embarrassments of the most serious kind, if I may venture to advance one on such a subject, is that, notwithstanding all that has been said on the cessation of the specie trade with the east, the breaking up of hoards in consequence of a long peace and established social order, the economizing of the metals by means of a paper circulation, &c., such is the immense development of commerce, industry, population and riches, that the demand for gold and silver, both for currency and for furniture and manufactures, will in many years, become greatly disproportioned to the probable supply for them. Some other means of conducting the exchanges of the trading world will become indispensable; at least, the use of gold and silver for any other purpose, than as a standard for the ultimate comparison of prices will be superseded, and the great bulk of every circulation, like that of England and the United States, will consist of bank notes and private paper. Far from thinking that the credit system of these two great commercial nations, with their advanced civilization, is a mere accident, an anomaly, which is to be exploded in a few years, in order to return to the Dutch plan, I consider it as the natural fruit of that civilization, and expect to see them flourish together, in the course of things, on other and less congenial soils. The bank note payable on demand was as great an improvement as the bill of exchange, when the Lombardy merchants first learned to dispense with specie in their remittances from country to country; and it was just as rational to wish to bring society back to the civilization of the tenth or eleventh century, when payments between distant places were made only in specie, as to wish to explode the money and labor-saving contrivances of Lombard street, by which transactions to the amount of gold millions are carried on almost without a show of coin. Commerce is an exchange of commodities; why, therefore, this simple operation, further than is absolutely necessary, by introducing a third commodity, like the precious metals, of which the value or relation to all other products is continually fluctuating, in a great or less degree?

I have hitherto considered this question in what may be called its external aspect, in reference, namely, to the effect which the proposed reform in our currency is likely to have on the distribution of precious metals throughout the whole commercial world. I wish now to look at it in another point of view, in reference to our own circulation exclusively. I think it will be apparent that here, too, we are not only attempting to raise a strong and settled current of practice and opinion, but are waging a war, fruitless of course, as such a war must always be, with the nature of things.

There is a question which I have often propounded to the advocates of a metallic circulation, and which I would be glad to have answered in a satisfactory manner.—How came it that, at no period of our history, has this country had a supply of gold and silver at all adequate to the wants of the community, even for the most ordinary purposes of circulation? The answer usually given, though not implausible, is, by no means a sufficient one, viz. that all the channels of circulation having been kept perpetually clogged up with paper, there was no place for a metallic current, which was thus expelled the country. But it is, in my judgment, obvious to observe that even were this fact admitted, it would be itself an effect to be accounted for, and the difficulty would only be removed one step further. How comes it, would be the next inquiry, that paper should, in all parts of the country, and at all periods of its history, have circulated so much more exclusively than (excepting a few very rare and extraordinary occasions) it has ever been known to do elsewhere? To what peculiarity of character or condition is this to be ascribed?

But in the next place, it is not historically true that the precious metals have been kept out of circulation in the U. States by paper. It can be shown clearly on the contrary, that, at certain periods of our history, there has been a pressing and universal want of a circulating medium; and yet, contrary to the general principle that gold and silver will, like other commodities, go wherever there is a demand for them, they have not made their appearance among us. I cited, on a former occasion, the Washington Papers, to show, that, during that period of our history, when we were more nearly reduced than at any other to a metallic currency—from '81 to '89-'90 there were perpetual complaints of a want of money for the most ordinary business of life. The dollar was not infrequently cut up into five parts, each passing for a quarter. Taxes were paid in what were called "countables." Many of the domestic

exchanges were carried on by barter, as in the earliest stages of society. General Hamilton, in his report on the bank in 1790 says the same thing. There was a loud cry, from all quarters, for an issue of paper money by the States, and it required all the wisdom and firmness of the great men of that day, schooled as they had been by a severe experience, to resist the demand. Here, as well as elsewhere in our early history, we were deeply indebted to the sage and admirable conduct of the commonwealth of Virginia. New England was in a state of frightful anarchy; thousands of her young men, the most vigorous, active, and enterprising part of her population, openly revolted against the laws, which, by refusing them an adequate supply of the means of exchange, denied them as they conceived, those of laboring and living by their labor. Mr. Gallatin is another witness of the then state of things, and he happens to have favored us with a true account of it, as he saw and felt it in the State of Pennsylvania.

"We may aver," said he, "from our knowledge, that the western counties of Pennsylvania had not, during more than twenty years after their first settlement, the specie necessary for their own internal trade and usual transactions. The want of commodities, reduced their exports to a most inconsiderable amount. The two indispensable articles of iron and salt, and a few others almost equally necessary, consumed all their resources. The principle, almost universally true, that each country will be naturally supplied with the precious metals according to its wants, did not apply to their situation. Household manufactures supplied the inhabitants with their ordinary clothing, and the internal trade and exchanges were almost exclusively carried on by barter. This effectually checked any advance, even in the most necessary manufactures. Every species of business required the utmost caution, as any failure in the performance of engagements, in the way of barter, became, under the general law of the land, an obligation to pay money and might involve the party in complete ruin. Under these circumstances, even a paper currency, kept within proper bounds, might have proved useful."

I beg leave, in passing, just to call your attention to this vivid, though simple picture of the condition even of the most industrious people, straitened for want of a sufficient circulation. You see how all enterprises are paralyzed; all labor arrested; all the springs and principles of social improvement weakened and relaxed; by want of the means of exchanging the products of labor as soon as they are produced, and in the manner most convenient to the producer. There is no greater mistake, as has been well remarked by a sensible writer, than to consider a certain quantity of capital and a certain number of labor as productive instruments of uniform power, or operating with a certain uniform intensity. Many circumstances, by quickening the activity with which they are applied, may add immensely to the results effected by them. Among these causes, none is, perhaps more prominent than an abundant, and especially a progressive currency. Men labor only to sell and become rich; deprive them of a market, and they sink into apathy and idleness; make the market dull, diminish the chance of exchanging the products of industry, and you discourage it proportionably. Hence all business is at a stand-still, as soon as a want of money to circulate commodities is felt, and, by diminishing gradually the currency, you would reduce society, above all others, to a state of indolence, poverty and barbarism. In this generally progressive country, above all others, we require an equally progressive currency, or all the effects of a decreasing one in older countries would ensue, though less disastrous, in appearance, because of the counteracting influences of our youth and vigor.

But to return to our immediate topic.—Here, then, we have a state of facts entirely peculiar, to which the general principle, as to the certainty of procuring all the specie wanted in a country for the purposes of circulation, evidently does not apply. It is one of the phenomena which a philosophical inquirer will be most anxious to explain to his own satisfaction. I call your attention to it, and that of the advocates of this measure, who seem to think they have nothing to do but to break down banks and explode their paper, in order to flood the country with the precious metals. I appeal to our own experience to show the dangerous character of their projects.

I cite a fact, to be accounted for on the principles of a sober, inductive philosophy, not by metaphysical abstractions and theories, a priori. The modern world has abandoned that sort of thing, and it is not asking too much of our great men, I hope to expect that they will tread in the footsteps of Bacon and Galileo. It is a fact, then, that during long periods, this coun-

*Thoughts on Currency and Banking in the U. States, p. 63.

†A full, and even a redundant currency, whatever disorders might accompany it, has seldom failed to produce some good. Law's scheme, the most disastrous instance of an excess in this way, any where to be met with, was attended with permanent benefit to France.—See Thornton.

try, and every part of it, have been in the greatest embarrassment for want of a circulating medium; and yet gold and silver to a fair share in the common stock of which we were clearly entitled, would come to our relief.

This apparent anomaly must, no doubt, be ascribed in a good degree, to the peculiarity of our condition as a young and growing country, by far the greater amount of whose very inadequate capital and labor has been laid out in cultivating a virgin soil and covering it with improvements of all sorts. We have been borrowers from the beginning, but our great profits have enabled us to pay our debts, and to grow rich by them, without any other inconvenience than the scarcity of the precious metals, created by a standing balance of payments against us, and that has been practically none, because their place has been amply supplied by the use of paper.

But something, or I should rather say a great deal, is also due to our way of thinking on these subjects. Whether it be owing to our peculiar situation, which has accustomed us to the paper system, or whether it be that our people, in this as in so many other reforms have anticipated the conclusions of philosophers and the progress of society, certain it is that they have greater confidence in bank paper, and have accomplished more by means of it, than any other nation in the world. This confidence, as has been well remarked by a very sensible French writer, who lately travelled through the U. States, and whose information struck me at the time (for his letters were published in the newspapers at Paris) as, in general, remarkably exact, is not a blind confidence—it is the result of reflection and experience. It is an acknowledgment, a most striking and honorable trait of our people, and an index of some of the highest excellencies of the national character, as well as of the singular happiness of our condition. I have listened with astonishment to the false and superficial declamation, so much in vogue, upon this subject. To some persons, you would take us for a nation of sleepers, suppose that the whole history of our currency and banking was one issue of downright knavery and imposture. These gentlemen totally misapprehend the case. I am sure they would not do so much injustice to their country as to turn what is rightly understood, is her glory into her shame. Why, sir, you perceive that, as the foreigner just quoted has observed in regard to the comparatively slight shock to credit occasioned by the configuration at New York, we have been trading, in effect upon a moral capital, which fire could not consume; it is not worth or not corrupt, nor does it break in and steal. This is that sort of artificial capital, the object of so much absurd denunciation here and elsewhere—a capital made up of skill, civility, perseverance, integrity, enterprise. Political economists have always appeared to me to be guilty of one great cardinal error, which was precisely this, of attaching, by any means, sufficient importance, moral causes, considered as productive powers only.

The first heads it every well formed table of statistics ought to be the national character—the Constitution and laws of a People—the liberty they enjoy—the race to which they belong—the education they receive—their conduct, parents, and principles. In comparison of these, great features of the geog. & phys. & natural of a country, its soil, climate, situation, rivers, harbors, &c. are really unimportant. Had some other People been planted on rocky shores of New England, they might have sunk into the condition of obscure fishermen, perhaps of half-savage Ichthyoplage, instead of inheriting, as they have done, in their gigantic increase, directly or indirectly, half of this fair continent. The might which slumbers in a peasant's arm in one country is awakened revealed, brought out into might, and efficient exertions under the moral influence of another and covers the soil it cultivates with lasting monuments of its power. It is this high moral intelligence, animated with the spirit of improvement, protected by equal laws full of confidence in a future, which the peculiar circumstances of our most happy situation could not fail to make better than the past—it is these high qualities, these distinguished privileges, that have constituted the capital of a People that had hardly any other; or in other words have enabled them to anticipate, by means of credit, the abundant fruits of a few years of well-directed industry. We live upon the resources of to-morrow, because they are sure to be better than those to-day. This is the magic under which a new and fertile country starts up, almost instantly, into life and beauty. Failure and disappointment are not in our vocabulary, and though they sometimes occur, they are comparatively, so rare amidst the dazzling successes of the great majority of adventurers, in our wonderful career of improvement, as to be scarcely worth taking into the account.

The Americans have the utmost faith in paper money. It is not a blind confidence, for, if we have had our assignments, they have had their continental money; and it would not be necessary to trace their history far to find their banks falling en masse. It is a confidence, founded upon reason—a courage, the result of reflection.

One of the most extraordinary examples of the confidence which all these circumstances have enabled and disposed us to repose in each other, is as has been remarked by one of our writers* the credit of twelve or thirteen months habitually given by a remittance in the Atlantic cities to those of the interior, at a distance of twelve hundred or fifteen hundred miles, when they do not expect to see before the expiration of that long period, any such evidence as are the best evidence of the general punctuality and integrity of their customers. This temper may lead to occasional excesses; and yet, I confess there is something in this mutual confidence, thus pervading all classes of society and all parts of the country, so full of a high morality, of a refined humanity, of a brotherly union, of a sense of all our happy privileges as a People, that affects me extremely in contemplating it. And the more so when I come to compare it with the habits and condition of other nations, in this particular.† Take France, for example, with a single exception the most renowned of modern States, and, in some points of social refinement, perhaps the most civilized.

I am fortunately able to vouch here, too, a witness whose testimony may be relied on. "A long time must elapse," says Mr. Chevalier, before we can enjoy in France a system of credit as extensive as that which exists in England and the United States. We are in this respect in a state of barbarism." He gives many instances which fully justify this strong language. The picture he presents of the universal want of confidence in pecuniary matters, and the manner in which it embarrasses and retards all sorts of business, is a perfect contrast to the happy condition of our own country. For instance, after stating the metallic currency of France at \$600,000,000, he goes on to say that "a part of this immense capital is out of circulation, and rests buried in the coffers of individuals or hoarded by the poor, unwilling to confide to any one their little savings." And he remarks elsewhere, that "if we had in France the habit of England the people of the United States, it is probable that 1,000,000,000 of circulation (\$200,000,000) half in paper and half in coin, would suffice for our transactions. Allowing for our commercial inferiority, let us admit 1,500,000,000 [\$300,000,000] would be required, and that it should be composed of two-thirds metals, and one-third paper, it follows that we might usefully dispose of 2,900,000,000, or at least 1,500,000,000, (francs) now unproductive in the form of coin, added nothing to our comforts, to our enjoyments, or to our productive power." The moral effects of this want of confidence are fully as disastrous as the pecuniary; especially in regard to the poor classes, whose condition is rendered comparatively hopeless. Nobody is trusted, and what security have the poor to give? "In France (says the same writer,) if you want credit, you cannot obtain it; but if you do not want it, it is offered."

I think what I have hitherto said sufficiently accounts for the great peculiarity of our banking system—what is, the very small proportion of specie to deposits and circulation. This has hardly ever amounted to the half of what has been thought necessary in England, that is to say, one to three. Our circulation was never in a sounder condition than in 1830; indeed, there never was, in my opinion, a more perfect circulation in any country. According to Mr. Gallatin's estimate of it, it stood thus:

Back notes \$51,000,000
Deposites 53,000,000
Specie in circulation 10,000,000
Total \$114,000,000
Specie in the vaults of banks 22,000,000

You see that the basis of 119 millions of issues and credits was only 22,000,000 dollars; yet it is impossible to imagine a currency answering all its legitimate ends more perfectly, and at the same time, in every respect, more safe and stable. It is manifest that every dollar added to the stock of gold and silver then on hand in the vaults of banks would have been just so much dead loss to the community, besides lowering prices, and so far, discouraging industry. And here I will take notice of another fallacy very general here. It is, to suppose that the proportion of one to three maintained, or rather aimed at (for it is seldom effected) by the Bank of England, is a fundamental, universal rule of sound banking. Not at all. What this proportion ought to be is more matter of local experience, and cannot be settled a priori. In this country the experience of the past is a beautiful illustration of what is stated in the text. Chevalier, t. ii, p. 112. "Society says to the government in America, labor and if business should be against you and you should fall, you will speedily rise again, for here failure is considered as a wound received in battle; it will not cause you to lose esteem or confidence, provided you have always been temperate and regular, a good Christian, and a faithful husband."

*Carey. Credit system of France, Great Britain and the United States.
†Harris is a beautiful illustration of what is stated in the text. Chevalier, t. ii, p. 112. "Society says to the government in America, labor and if business should be against you and you should fall, you will speedily rise again, for here failure is considered as a wound received in battle; it will not cause you to lose esteem or confidence, provided you have always been temperate and regular, a good Christian, and a faithful husband."

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half a century has established beyond doubt that nothing approaching to a third is required a sixth, or less has been abundantly sufficient. Our peculiar situation in our line of business, and the character of the people have made it so. In England, were it not that the bank is obliged to keep on hand specie enough to support not only its own circulation, but that of the country and even the Scotch banks too (for, in case of a run upon them, they all have recourse to it) a less proportion would be required. Mr. Horsely Palmer says so expressly in his examination before a committee of the House of Commons in 1832. While on this subject, I will state that I have been very recently brought to doubt the soundness of some of my former opinions on the history of American banking, taken as a whole. A little volume already referred to, seems to show that, in New England especially, the system has been safest, cheapest, most effective, and, in all respects, the most useful and beneficial that could have been devised. This being merely a practical question, to be settled by experiment, every thing depends upon the true state of facts. Scotch banking has been an immense blessing to that country, whatever may be thought of it as applicable to others. I take this occasion of calling public attention in the South to a volume, which, if its statements should be found to be quite accurate, will have placed this whole subject in a new and striking point of view.

Now, sir, we come to the question:—What will be the effect of the sub-Treasury scheme with the "hard money feature" upon the business of a country, bottomed upon a system of banking thus conducted? Suppose it should require only eight or ten additional millions of specie. This we have seen, is as much as the whole amount circulated throughout this vast country in 1830. It would absorb every cent of it.—It is nearly half the treasure of all the banks at the same time. Is it not obvious that we should be violently disturbing all the settled proportions of things, and threatening the business of the country with perpetual disorder? But what guaranty have you that the amount will be only what has been stated? The country is immensely progressive, twenty-five years double its population and resources, and consequently, its revenue, levied as it is, almost exclusively on commerce and the public lands, which must continue to be a favorite mode of investment in prosperous times. It is absurd to lay any stress on our present embarrassments; they are merely temporary, and, what is more, any thing but so serious as has been thought. They will pass away as though they had never been, in the course of a few years, if the Government will only (as I now think it shows a disposition to do) inspire the community with confidence on this great subject of finance. The reduction of the tariff in 1812 is just as insufficient a guaranty against an abundant revenue and large surpluses in the Treasury—or, should those be taken off by proportionally large expenditures, as they probably will, against high average balances on hand. Every body knows that low duties increase consumption, and consequently revenue, and I should not at all be surprised to see our immensely augmented in a few years. Should it prove so, and a solid surplus of thirty or forty millions accumulate in the Treasury, as in 1830, the derangement of our whole business, both by the effect of the withdrawal at home and abroad, would be frightful. But even without any such extraordinary accumulation, and supposing future appropriations always equal to the revenue raised, still the effects of this scheme of hoarding are likely to be quite bad enough. It must be remembered, that it is not merely what will be lying in the land offices and the custom-houses, and the hands of disbursing officers, that would be abstracted from circulation. The merchants and purchasers of lands would be compelled to demand of the banks an amount of specie sufficient to meet current disbursements; and this amount, whatever it were, would be just as completely lost to the uses of currency, as if locked up in one of the stores described in the bill.

The quantity of gold and silver which would be required by this change of policy would be much greater here than in England, for instance, where almost all payments are ultimately made in London. The vast extent of our country; the independent exchange and organization of state institutions; the great disproportion between the revenue raised, and the disbursements made by the Government at different points of collection; the consequent necessity of frequent transfers of the public money from one part of the Union to another, would expose us, in a very peculiar manner, to derangements of business and derangements of such a system. As to the inequality of expenditures, it has been, as you know, a theme of eloquent complaint and denunciation to your Representatives here for years past. Your colleagues in the House, Mr. Thompson, has, in a very able and argumentative speech at this very session, treated that topic so fully as to supersede the necessity of my saying any thing more of it here. It is sufficient to mention the general result only, which is—

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Speech of S. Thompson of France, England and the United States, by Mr. Carey.