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## SPEECH.

OF THE

HON. JOHN C. CALHOUN,

ON HIS AMENDMENT TO SEPARATE THE GOVERNMENT FROM THE BANKS. DELIVERED IN THE SENATE OF THE UNITED STATES; OCT. 3, 1837.

Mr. President: In reviewing this discussion, I have been struck with the fact, that the argument on the opposite side has been limited, almost exclusively, to the questions of relief and the currency. These are, undoubtedly, important questions, and well deserving the deliberate consideration of the Senate; but there are other questions involved in this issue, of a far more elevated character and commanding control, and which more imperiously demand our attention. The banks have ceased to be mere moneyed incorporations. They have become great political institutions, with vast influence over the welfare of the community; so much so, that a highly distinguished Senator (Mr. Clay) has declared, in his place, that the question of the disunion of the Government and the banks involved in its consequences the disunion of the States themselves. With this declaration sounding in our ears, it is time to look into the origin of a system which has already acquired such mighty influence; to inquire into the causes which have produced it, and whether they are still on the increase; in what they will terminate, if left to themselves; and, finally, whether the system is favorable to the permanency of our free institutions; to the industry and business of the country; and, above all, to the moral and intellectual development of the community. I feel the vast importance and magnitude of these topics, as well as their great delicacy. I shall touch them with extreme reluctance, and only because I believe them to belong to the occasion, and that it would be a dereliction of public duty to withhold any opinion, which I have deliberately formed, on the subject under discussion.

The rise and progress of the banking system is one of the most remarkable and curious phenomena of modern times. Its origin is modern and humble, and gave no indication of the extraordinary growth and influence which it was destined to attain. It dates back to 1609, the year that the bank of Amsterdam was established. Other banking institutions preceded it; but they were insulated, and not immediately connected with the systems which have since sprung up, and which may be distinctly traced to the Bank of Amsterdam. That was a bank of deposit—a mere store-house—established under the authority of that great commercial metropolis, for the purpose of safe-keeping the precious metals, and facilitating the vast system of exchanges which then centered there. The whole system was the most simple and beautiful that can be imagined. The depositor, on delivering his bullion or coin in store, received a credit, estimated at the standard value on the books of the bank, and a certificate of deposit for the amount, which was transferrable from hand to hand, and entitled the holder to withdraw the deposit on payment of a moderate fee for the expense and hazard of safe keeping. These certificates became, in fact, the circulating medium of the community, performing, as it were, the hazard and drudgery, while the precious metals, which they, in truth, represented, guilder for guilder, lay quietly in store, without being exposed to the wear and tear, or losses, incidental to actual use. It was thus a paper currency was created, having all the solidity, safety, and uniformity, of a metallic, with the facility belonging to that of paper. The whole arrangement was admirable, and worthy of the strong sense and downright honesty of the people with whom it originated.

Out of this, which may be called the first era of the system, grew the bank of deposit, discount, and circulation—a great and mighty change, destined to effect a revolution in the condition of modern society. It is not difficult to explain how the one system should originate in the other, notwithstanding the striking dissimilarity in features and character between the old spring

and the parent. A vast sum, not less than three millions sterling, accumulated and remained habitually in deposit in the Bank of Amsterdam—the place of the returned certificates being constantly supplied by new depositors. With so vast a standing deposit, it required but little reflection to perceive, that a very large portion of it might be withdrawn, and that a sufficient amount would be still left to meet the returning certificates; or, what would be the same in effect, that an equal amount of fictitious certificates might be issued beyond the sum actually deposited. Either process, if interest be charged on the deposit withdrawn, or the fictitious certificates issued, would be a near approach to a bank of discount. This once seen, it required but little reflection to perceive, that the same process would be equally applicable to a capital placed in bank, as stock; and from that the transition was easy to issuing bank notes, payable on demand, on bills of exchange, or promissory notes, having but a short time to run. These combined, constitute the elements of a bank of discount, deposit and circulation.

Modern ingenuity and dishonesty would not have been long in perceiving and turning such advantages to account; but the faculty of the plain Belgian was either too blunt to perceive, or his honesty too stern to avail himself of them. To his honor, there is reason to believe, notwithstanding the temptation, the deposits were sacredly kept; and that for every certificate in circulation, there was a corresponding amount in bullion or coin in store. It was reserved for another people, either more ingenious or less scrupulous, to make the change. The Bank of England was incorporated in 1694, eighty-five years after that of Amsterdam, and was the first bank of deposit, discount and circulation. Its capital was £1,200,000, consisting wholly of Government stock, bearing an interest of eight per cent. per annum. Its notes were received in the dues of the Government, and the public revenue was deposited in the bank. It was authorized to circulate exchequer bills, and make loans to Government. Let us pause for a moment, and contemplate this complex and potent machine, under its various character and functions.

As a bank of deposit, it was authorized to receive deposits, not simply for safe keeping, to be returned when demanded by the depositor, but to be used and loaned out for the benefit of the institution, care being taken always to be provided with the means of returning an equal amount, when demanded. As a bank of discount and circulation, it issued its notes on the faith of its capital stock and deposits, or discounted bills of exchange, and promissory notes backed by responsible endorsers, charging an interest something greater than was authorized by law to be charged on loans; and thus allowing it, for the use of its credit, a higher rate of compensation than what individuals were authorized to receive for the use and hazard of money or capital loaned out. It will, perhaps, place this point in a clear light, if we should consider the transaction in its true character, not as a loan, but as a mere exchange of credit. In discounting, the bank takes, in the shape of a promissory note, the credits of an individual so good that another, equally responsible, endorses his note for nothing, and gives out its credit in the form of a bank note. The transaction is obviously a mere change of credit. If the drawer and endorser break, the loss is the bank's; but if the bank breaks, the loss falls on the community; and yet this transaction, so dissimilar, is confounded with a loan, and the banks permitted to charge, on a mere exchange of credit, in which the hazard of the breaking of the drawer and endorser is incurred by the bank, and that of the bank by the community, a higher sum than the legal rate of interest on a loan; in which, besides the use of his capital, the hazard is all on the side of the lender.

Turning from these to the advantages which it derived from its connection with the Government, we shall find them not less striking. Among the first of these in importance is the fact of its notes being received in the dues of the Government, by which the credit of the Government was added to that of the bank, which added so greatly to the increase of its circulation. These again, when collected by the Government, were placed in deposit in the banks; thus giving it not only the profit resulting from their abstraction from circulation, from the time of collection till disbursement, but also that from the use of the public deposits in the interval. To complete the picture, the bank, in its capacity of lending to the Government, in fact paid in its notes which rested on the faith of the Government stock, on which it was drawing eight per cent.; so that, in truth, it but loaned to the Government its own credit.

Such were the extraordinary advantages conferred on this institution, and of which it had an exclusive monopoly; and these are the causes which gave such an extraordinary impulse to its growth and influence, that it increased in a little more than a hundred years, from 1694 to 1797, (when the

second era of the system, commenced with the establishment of the Bank of England, terminated,) from 1,200,000 to nearly £11,000,000; and this mainly by the addition to its capital by loans to the Government above the profits of its annual dividends. Before entering on the third era of the system, I pause to make a few reflections on the second.

I am struck, in casting my eyes over it, to find that, notwithstanding the great dissimilarity of features which the system had assumed in passing from a mere bank of deposit to that of deposit, discount, and circulation, the operation of the latter was confounded throughout this long period, as it regards the effects on the currency, with the bank of deposit. Its notes were universally regarded as representing gold and silver, and as depending on that representation exclusively for their circulation; as much so as did the certificates of deposit in the original Bank of Amsterdam. No one supposed that they could retain their credit for a moment after they ceased to be convertible into the metals on demand; nor were they supposed to have the effect of increasing the aggregate amount of the currency; nor, of course, of increasing prices. In a word, they were in the public mind as completely identified with the metallic currency as if every note in circulation had laid up in the vaults of the bank an equal amount, pound for pound, into which all its paper could be converted the moment it was presented.

All this was a great delusion. The issues of the bank never did represent, from the first, the precious metals. Instead of the representatives, its notes were in reality the substitute for coin. Instead of being the mere drudges, performing all the outdoor service, while the coins reposed at their ease in the vaults of the banks, free from wear and tear, and the hazard of loss or destruction, as were the certificates of deposit in the original Bank of Amsterdam, they substituted, degraded, and banished the coins. Every note circulated became the substitute of so much coin, and dispensed with it in circulation, and thereby depreciated the value of the precious metals, and increased their consumption in the same proportion; while it diminished, in the same degree, the supply, by rendering money less productive. The system assumed gold and silver as the basis of its circulation; and yet, by the laws of its nature, just as it increased its circulation, in the same degree the foundation on which the system stood was weakened. The consumption of the metals increased, and the supply diminished. As the weight of the superstructure increased, just in the same proportion its foundation was undermined and weakened. Thus, the germ of destruction was implanted in the system at its birth; has expanded with its growth, and must terminate, one day or other, in its dissolution, unless, indeed, it should, by some transition, entirely change its nature, and pass into some other and entirely different organic form. The conflict between bank circulation and metallic (though not perceived in its first stage of the system, when they were supposed to be indissolubly connected) is mortal; one or the other must perish in the struggle. Such is the decree of fate: it is irreversible.

Near the close of the second era, the system passed the Atlantic, and took root in our country, where it found the soil still more fertile, and the climate more congenial than even in the parent country. The bank of North America was established in 1791, with a capital of \$400,000, and bearing all the features of its prototype, the bank of England. In the short space of a little more than half a century, the system has expanded one bank to about eight hundred, including branches, (no one knows the exact amount, so rapid the increase) and from a capital of less than a half million, to about \$300,000,000, without apparently exhausting or diminishing its capacity to increase. So accelerated has been its growth with us, from causes which I explained on a former occasion, that attained a point much nearer the assigned limits of the system in its present form, than what it has in England.

During the year 1797, the Bank of England suspended specie payment; an event destined by its consequences to effect a revolution in public opinion in relation to the system, and to accelerate the period which must determine its fate. England was then engaged in that gigantic struggle which originated in the French revolution, and her financial operations were on the most extended scale, followed by a corresponding increase in the action of the bank, as her fiscal agent. It sank under its over-action. Specie payments were suspended. Panic and dismay spread through the land—so deep and durable was the impression, that the credit of the bank depended exclusively on the punctuality of its payments. In the midst of the alarm, an act of Parliament was passed making the notes of the bank a legal tender; and to the surprise of all, the institution proceeded on, apparently without any diminution of its credit. Its notes circulated freely as ever,

and without any depreciation, for a time, compared with gold and silver; and continued so to do for upwards of twenty years, with an average diminution of about one per cent. per annum. This shock did much to dispel the delusion that bank notes represented gold and silver, and that they circulated, in consequence of such representation, but without entirely obliterating on that point the old impression, which had taken such strong hold on the public mind. The credit of its notes during the suspension, was generally attributed to the tender act, and the great and united resources of the bank and the government.

But an event followed of the same kind, under circumstances entirely different, which did more than any preceding, to shed light on the true nature of the system, and to unfold its vast capacity to sustain itself without exterior aid. We finally became involved in the mighty struggle that had so long desolated Europe, and enriched our country. War was declared against Great Britain in 1812, and in the short space of one year, our feeble banking system sunk under the increased fiscal action of Government. I was then a member of the other House, and had taken my full share of responsibility in the measures which had led to that result. I shall never forget the sensation which the suspension, and the certain anticipation of the prostration of the currency of the country, as a consequence, excited in my mind. We could resort to no tender act; we had no great and central regulating power, like the Bank of England; and the credit and resources of the Government were comparatively small. Under such circumstances, I looked forward to a sudden and great depreciation of bank notes, and that they would fall speedily as low as the old continental money. Guess my surprise when I saw them sustain their credit, with scarcely any depreciation, for a time, from the shock. I distinctly recollect, when I first asked myself the question, what was the cause? and which directed my inquiry into the extraordinary phenomenon. I soon saw that the system contained within itself a self-sustaining power; that there was between the banks and the community mutually the relation of debtor and creditor, there being, at all times, something more due to the banks from the community, than from the latter to the former. I saw, in this reciprocal relation of debt and credit, that the demand of the banks on the community was greater than the amount of their notes in circulation could meet and absorb, and that, consequently, so long as their debtors were solvent, and bound to pay at short periods, their notes could not fail to be at or near a par with gold and silver. I also saw, that as their debtors were principally the merchants, they would take bank notes to meet their bank debts, and that which the merchant, and the Government, which are the great money dealers, take the rest of the community would also take. Seeing all this, I clearly perceived that self-sustaining principle, which poised and impelled the system self-balanced in the midst of the heavens, like some celestial body, with scarcely a perceptible deviation from its path from the concussion it had received.

Shortly after the termination of the war, specie payments were coerced with us by the establishment of a national bank, and a few years afterwards, in Great Britain, by an act of Parliament. In both countries, the restoration was followed by wide-spread distress, as it always must when effected by coercion, for the simple reason, that banks cannot pay unless their debtors first pay, and that to coerce the banks, compels them to coerce their debtors before they have the means to pay. Their failure must be the consequence; and this involves the failure of the banks themselves, carrying in their consequences, universal distress. Hence I am opposed to all kinds of coercion, and am in favor of leaving the disease to time, with the action of public sentiment, and the States, to which the banks are alone responsible.

But to proceed with my narrative. Although specie payments were restored, and the system apparently placed where it was before the suspension, the great capacity it proved to possess of sustaining itself without specie payments, was not forgot by those who had its direction. The impression that it was indispensable to the circulation of its notes, that they should represent the precious metals, was almost obliterated; and they were regarded rather as restrictions on the free and profitable operation of the system than as the means of its security. Hence a feeling of opposition to gold and silver gradually grew up on the part of the banks, which created an esprit du corps, followed by a moral resistance to specie payments, if I may so express myself, which in fact suspended, in a great degree, the conversion of their notes into the precious metals, long before the present suspension. With the growth of this feeling, banking business assumed a bolder character, and its profits were proportionably enlarged; and with it the tendency of the system to increase kept pace. The effect of this soon displayed itself in a

striking manner, which was followed by very important consequences, which I shall next explain.

It so happened that the charters of the Bank of England and the late Bank of the United States expired about the same time. As the period approached, a feeling of hostility, growing out of the causes just explained, which had excited a strong desire in the community, who could not participate in the profits of these two great monopolies, to throw off their restraint, began to disclose itself against both institutions. In Great Britain, it terminated in breaking down the exclusive monopoly of the Bank of England, and narrowing greatly the specie basis of the system, by making the notes of the Bank of England a legal tender in all cases, except between it and its creditors. A sudden and vast increase of the system, with a great diminution of the metallic basis in proportion to banking transactions, followed, which have shocked and weakened the stability of the system there. With us, the result was different. The bank fell under the hostility. All restraint on the system was removed, and banks shot up in every direction almost instantly, under the growing impulse which I have explained, and which, with the causes I stated when I first addressed the Senate on this question, is the cause of the present catastrophe.

With it commences the fourth era of the system, which we have just entered—an era of struggle, and conflict, and changes. The system can advance no farther in our country, without great and radical changes. It has come to a stand. The conflict between metallic and bank currency, which I have shown to be inherent in the system, has, in the course of time, and with the progress of events, become so deadly, that they must separate, and one or the other fall. The degradation of the value of the metals, and their almost entire expulsion from their appropriate sphere, as the medium exchange and the standard of value, have gone so far, under the necessary operations of the system, that they are no longer sufficient to form the basis of the widely extended system of banking. From the first, the gravitation of the system has been in one direction—to dispense with the use of the metals; and hence the descent from a bank of deposit to one of discount; and hence, from being the representative, their notes have become the substitute, for gold and silver; and hence, finally, its present tendency to a mere paper engine, totally separated from the metals. One law has steadily governed the system throughout—the enlargement of its profits and influence; and under that operation, through which metallic currency became insufficient for circulation, it has become, in its progress, insufficient for the basis of banking operations; so much so, that, if specie payments were restored, it would be but nominal, and the system would in a few years, on the first adverse current, sink down again into its present helpless condition. Nothing can prevent it but great and radical changes, which would diminish its profits and influence, so as effectually to arrest that strong and deep current which has carried so much of the wealth and capital of the community in that direction. Without that, the system, as now constituted, must fall, unless, indeed, it can form an alliance with the Government, and through it establish its authority by law, and make its credit, unconnected with gold and silver, the medium of circulation. If the alliance should take place, one of the first movements would be the establishment of a great central institution; if that should prove impracticable, a combination of a few selected and powerful of the State banks, which, sustained by the Government, would crush or subject the weaker, to be followed by an amendment of the Constitution, or some other device, to limit their number and the amount of capital hereafter. This done, the next step would be to confine and consolidate the supremacy of the system over the currency of the country, which would be in its hands exclusively, and, through it, over the industry, business, and politics of the country; all of which would be wielded to advance its profits and power.

The system having now arrived at this point, the great and solemn duty devolves on us to determine this day what relation this Government shall hereafter bear to it. Shall we enter into an alliance with it, and become the sharers of its fortune and the instrument of its aggrandizement and supremacy? This is the momentous question, on which we must now decide. Before we decide, it behoves us to inquire whether the system is favorable to the permanency of our free republican institutions, to the industry and business of the country, and, above all, to our moral and intellectual development, the great object for which we were placed here by the Author of our being. Can it be doubted what must be the effects of a system whose operations have been shown to be so unequal and free institutions whose foundation rests on an equality of rights? Can that favor equality which gives to one portion of the citizens and the country such decided advantages over the other, as I have shown it does in my open,