

# MAINE STATE LEGISLATURE

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# DOCUMENTS

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## THE LEGISLATURE,

OF THE

## STATE OF MAINE,

DURING ITS SESSION

A. D. 1837.

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1837.

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# SEVENTEENTH LEGISLATURE.

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No. 35.

HOUSE.

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## STATE OF MAINE.

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HOUSE OF REPRESENTATIVES, }  
March 10, 1837. }

THE Joint Select Committee, which was directed to inquire into the expediency of prohibiting the Banks within this State, from employing Agents to redeem their bills in another State, having had the subject under consideration,

### REPORT,

That the present system of Banking, not only in Maine but throughout New-England, is to redeem in Boston with current money, according to certain arrangements entered into between some one of the allied Banks in the city of Boston and the several country Banks. The terms of the different contracts are not precisely the same, but the general principle upon which they are formed, is, that the country Bank shall keep a permanent deposit of three thousand dollars at the Suffolk, upon which no interest is allowed—that no interest is allowed upon any balance remaining in the Suffolk Bank in favor of the country Bank, but that interest is received upon all balances due from the country Banks. As a consideration, the Suffolk, or some other Boston Bank, receives current money, drafts and notes payable in Boston, and passes the amount so received to the credit of the Bank forwarding it, the next

day after it is received, if paid before eleven o'clock, and in two days if not paid till after eleven. With these funds the country bills are redeemed and held subject to the order of the Bank issuing them.

The arguments usually advanced in favor of this system are, that all the Banks receive a mutual benefit, by thus giving currency to their bills throughout New-England, and that the public is more safe, because the constant drain of the bills of each Bank from circulation, sent into Boston weekly, as they must necessarily be, by the Banks receiving them, to redeem their own bills, or by individuals to take up the paper made payable in Boston in consequence of this arrangement, prevents excessive issues.

To detect the fallacy of these arguments, it is only necessary to institute a comparison between the Banks of New-England, and the Banks of other States where these regulations do not exist. By an exhibit of the Secretary of the Treasury, published in 1836, it appears that New-York, with a capital of \$27,000,000, has a greater circulation than New-England with a capital of over \$50,000,000. The aggregate circulation in New-England, was less than thirty-three per cent. upon the capital stock, but the circulation of the St. Albans Bank, the only Bank in New England whose bills were not redeemed in Boston, after deducting from the circulation the amount due from Banks and Agents, which may be regarded as specie funds, was one hundred per cent. upon the capital paid in.

Thus it appears from actual experiment, that a better circulation may be obtained by redeeming at the counter, than by redeeming in Boston, and this conclusion would very naturally be arrived at by an examination of the course and nature of business. At present every Bank prefers paper payable in Boston, and will discount it in

preference to home paper. This preference is very natural. They thus avoid the risk and expense of transmitting bills, and save several days' interest, which would otherwise be lost while the funds were accumulating and on their way to Boston. Large sums of money are thus sent to Boston by individuals to take up paper made payable there, and each of the fifty-five Banks is picking up the bills of all the others for the purpose of redeeming their own. Nor is there any discrimination made between foreign bills and bills of Banks within the State. They are all equally current in Boston, and the consequence is, that foreign Banks furnish about half of our circulation, while the circulation of our bills in other States is comparatively nothing.

If the present system were abandoned and the Boston agencies prohibited, our bills out of the State would necessarily be at a small discount. It would, therefore, become an object, in making remittances, to procure bills which would be received at par in Boston. Exchanges would be continually made, and our own bills would be left in circulation at home. In addition to this, whenever payments were made in our bills, in the Atlantic cities for goods, being at a discount, they would not pass into the Banks, but would go into circulation, or be returned in payment for cattle or lumber.

But it is said that our merchants would be subjected to a constant loss in their purchases abroad, when compelled to pay in a depreciated currency. This is not correct. The discount would be only one fourth or one half per cent., and the bills would pass at par in all business transactions, except the payment of Bank paper. The bills of the United States Bank are not received by the Boston Banks. They are at a discount in New-England of one half per cent. Yet who ever heard of their being refused

in payment for merchandize? And even if men were sometimes compelled to make a discount, the loss sustained would be less than is now necessarily borne by giving paper payable in Boston. Estimating our circulation at \$2,000,000, and the whole amount as redeemed four times a year in Boston, \$8,000,000 are annually paid in that city by the merchants of Maine. Of this sum, about one half is probably paid in current money, and the other half in drafts and notes. Of this paper, at least one half is not naturally payable out of the State, but so made to accommodate the Banks. The extra cost of paying such paper is not less than one half per cent. Our merchants, therefore, under the present arrangement, pay annually an extra charge of one half per cent. on \$2,000,000, and the amount of bills, on which they would be compelled to pay a discount, could not in any event exceed that sum. We now come to the comparative safety to the public under the Suffolk system.

The Banks, by redeeming their bills with current money, find little use for specie, and gradually transmit to Boston most of the fifty per cent. on their capital required by law to be paid in, before they can go into operation. And three hundred little Banks do business entirely upon a system of credit, without a specie basis, for their circulation to rest upon. They have the endorsement of the Suffolk, and that gives currency to their bills. Both the Directors and the public depend upon the Boston alliance to sustain them in case of difficulty. If the specie drawn from the country remained in Boston, this expectation might be realized. But so far from this arrangement producing an increase of specie in that city, its tendency is directly the reverse. The country Banks are under their control, and from them they have nothing to fear. Having few calls for specie, it is gradually transferred to New-York,

or shipped out of the country in the course of trade, and the whole Banking system of New-England becomes a system of credit.

The most experienced bankers have estimated the minimum ratio of specie to bills in circulation, with which a community may be safe, as one to three. With a less proportion, the Banks are constantly subject to alarms. It is an artificial state of things, sustained only by mutual forbearance. A turn of times or a small run for specie produces a panic, and the money market is thus subjected to constant fluctuations, advantageous to brokers and sharpers, but ruinous to the business community.

By the exhibit already alluded to, we find the ratio of specie to the bills in circulation, in New-England as one to six, while in New-York it is about one to two and a quarter. The community, therefore, is very far from being safe, for if the salutary restraints of our laws and the vigilance of government prevent failures, they cannot guard against the constant fluctuations, which often prove quite as injurious to the mercantile community. But are the Banks themselves less liable to failure as at present conducted? Your Committee see no reason to come to that conclusion. They believe the only safety to the public now is in the banking law, the character and responsibility of the Stockholders and Directors, and the annual examinations of the Commissioners. Their issues are limited by law to one and a half of their capital, and the private property of the Stockholders is holden to the amount of their stock. This is ample security when Banks are in the hands of responsible or even honest men, and if a Bank should fall under the control of swindlers, the present system would be no obstacle to their fraudulent designs. The stock might be passed into the hands of bankrupts, and after a year had elapsed, any amount of bills could be put in



circulation simultaneously at different points. Indeed, so far from checking, it would facilitate such a project. The bills being current throughout New-England and at a trifling discount in New-York, an unlimited amount could be put in circulation, before the alarm would be given. The first object of the Suffolk, upon finding the bills of a Bank coming in, in quantities largely exceeding their funds in deposite, would be to send an agent privately, to secure themselves. Thus ten or twelve days would elapse from the time the bills were first put in circulation before the public would be put on their guard. It is therefore, altogether a mistaken notion, that the Banks are more safe under the present system than if they redeemed at their own counters, and kept constantly on hand a metallic basis for their circulation.

There is also another very serious objection to this system. The country Banks, depending entirely upon the Suffolk to redeem their bills with current money, keep very little specie on hand, and the Directors of the Suffolk have it in their power, at any time, either through caprice or for the accomplishment of any private or political object, to stop specie payments throughout New-England, by suddenly discontinuing these arrangements and sending the bills of the country Banks home for specie. Had they done this, last October, what would have been the consequences? The calamities thus brought upon the community, would have been attributed to the Treasury Circular, Treasury Warrants and transfers of specie. In vain would those who understood the subject, have protested against such an inference. Before the people could have been disabused, the Presidential election would have passed, and the result would have been changed in two, if not three, of the New-England States. Is it right to leave such a tremendous power in the hands of a single Board

of Directors? Is it not a sacred duty of those who watch over the interests of the people, to guard against the possibility of defeating their will?

Your Committee, in making these suggestions, would not be understood as expressing an opinion, that the present officers of the Suffolk, could be induced thus to abuse their power. They have no reason to doubt that they are honorable men, and would render both individuals and Banks all the facilities in their power, not incompatible with the present system. It is that, and that alone to which these objections are raised.

If neither the Banks nor the community are benefitted, but both are injured by this system, the question very naturally arises why it is submitted to, and by what motives its defenders are actuated.

It was at first acquiesced in through weakness, and bankers, to cover their own nakedness and make a virtue of necessity, were suddenly enamored with the system, upon the same principle that Pistol became a lover of leeks. Our banking capital, when the Suffolk alliance first attempted to compel all the New-England Banks to redeem in Boston, was small and scattered over a large extent of country. Our Banks could not, therefore, afford each other much assistance, in case of runs for specie; and with our present laws, a refusal to redeem with specie all bills presented, might materially injure the soundest institution. The Suffolk took every possible advantage and gave the Banks which refused to come into the system all the trouble in their power. They were at last all worried out, and became the willing vassals of a foreign alliance. Perhaps, at that time they were promoting their interests in so doing. The banking capital was so small that our Banks obtained a respectable circulation, and the trouble and vexation of holding out against the alliance, would

have been more onerous than the payment of the tribute exacted. The honor and dignity of the State, the public good and the interest of the merchants, were left entirely out of the question.

Times are now changed. The allied Banks are so weakened by their own measures, the war may be carried into Africa, and that triumphantly. The specie of Maine has increased more than one hundred per cent. within six months, and if our deposit was withdrawn from Boston, the proportion of specie to bills in circulation, would be greater in Maine than in Massachusetts. This is a time peculiarly favorable for the Maine Banks to withdraw their allegiance from the Suffolk, and set up for themselves. The specie naturally coming into the State the present year, would be nearly enough to supply them all, and with a combined effort the system would not live a single month.

Your Committee, therefore, are of opinion,

Firstly—That the community cannot be safe under the present system. That it is a perversion of all sound banking principles—that it necessarily expels specie and leaves the proportion of paper to the precious metals unwarrantably large, thereby causing constant fluctuations in the money market.

Secondly—That the proportion of gold and silver to paper, should never be less than one to three.—That a currency having a less proportion cannot be safe and uniform in its amount or value.

Thirdly—That the interest, not only of the community but of the Banks themselves requires, that the present system should be abandoned, and that the paper issues of our Banks, should never exceed four times the amount of specie in their vaults.

Fourthly—That united action on the part of the Banks

of Maine, would immediately produce this result, so beneficial to themselves and the public.

Although your Committee have, in the course of their investigation, arrived at these conclusions, they are not prepared at this time to recommend the passage of a law prohibiting deposits, and agencies for the redemption of bills in another State. It is but a few months since public attention has been turned to this subject, and notwithstanding there has been from almost every quarter an expression in favor of such a law, it is not so full and unanimous, as to authorize compulsory measures. And besides, your Committee are further of opinion that very many of the Banks are inclined voluntarily to abandon the Suffolk system, and should they not all coincide in these views, the people can express their opinions upon the subject more fully in their primary assemblies, and such a law, if decidedly called for, may be passed by the next Legislature. In the mean time your Committee would recommend such alterations in the present banking law, as will remove all unnecessary obstacles, to their resisting the payment of tribute, for they cannot expect to achieve their independence without a struggle. The Suffolk alliance will acknowledge no law but that of necessity—no rule of right but that of power. They play for a large stake, two millions of circulation and an annual revenue of forty thousand dollars drawn from the country Banks.

With this view of the subject, your Committee would submit the following Bill, for the consideration of the public, and recommend its reference to the next Legislature.

JONATHAN BURR,  
S. MILDAM,  
JOHN GOWEN,  
SOLOMON BROOKS,  
HENRY CAMPBELL,  
ROBERT FOSTER.

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# STATE OF MAINE.

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IN THE YEAR OF OUR LORD ONE THOUSAND EIGHT HUNDRED  
AND THIRTY-SEVEN.

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AN ACT prohibiting Banks from establishing  
Agencies out of the State, for the redemption of  
their bills, and regulating the ratio of specie to  
bills in circulation.

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SECTION 1. *Be it enacted by the Senate  
2 and House of Representatives in Legislature  
3 assembled, That from and after the first day of  
4 June next, no Banking incorporation receiving  
5 its Charter from this State, shall keep a perma-  
6 nent deposit of money with any individual or  
7 individuals, Bank or Banks, in another State, for  
8 any purpose whatever.*

SECT. 2. *Be it further enacted, That from  
2 and after said first day of June, no Bank receiv-  
3 ing its Charter as aforesaid, shall have in another  
4 State an Agent or Agents for the purpose of  
5 redeeming its bills, nor shall any such Bank*

6 enter into any arrangement with any individual  
 7 or Bank, by which a sum of money is stipulated  
 8 to be paid or the use of a sum of money given  
 9 as an exemption from redeeming its bills of said  
 10 Agent or Bank at its own counter and in specie.

SECT. 3. *Be it further enacted*, That from  
 2 and after the passage of this Act no Bank in  
 3 this State shall be permitted to issue or put in  
 4 circulation its own bills, when the amount in  
 5 circulation exceeds four times the amount of the  
 6 specie in its vaults.

SECT. 4. *Be it further enacted*, That if  
 2 any Bank shall violate the provisions of either  
 3 of the three first sections of this Act, said Bank  
 4 shall forfeit and pay the sum of two thousand  
 5 dollars, for each and every offence, to be recov-  
 6 ered by information or indictment for the use of  
 7 the State, or by action of debt, one half to the  
 8 use of the State and the other half to the person  
 9 who may first sue for the same.

SECT. 5. *Be it further enacted*, That all  
 2 Acts, and parts of Acts, inconsistent with the  
 3 provisions of this Act, be, and the same are  
 4 hereby repealed.

**STATE OF MAINE.**

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**HOUSE OF REPRESENTATIVES, }  
March 10, 1837. }**

**Read, laid on the table, and 2000 copies ordered to be  
printed for the use of the Legislature.**

**(Extract from the Journal.)**

**Attest,            CHARLES WATERHOUSE, Clerk.**