

# 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. 43.**

**HOUSE.**

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## STATE OF MAINE.

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HOUSE OF REPRESENTATIVES, }  
March 22d, 1837.

THE undersigned, a minority of the Committee to which was referred an order enquiring into the expediency of prohibiting the Banks within this State from employing agents to redeem their bills out of the State, disagreeing to the Report of the majority of the Committee, ask leave to present their own views.

The undersigned do not propose to enquire into the causes that may operate on Banks in other States, nor to discuss fully the Report of the majority of the Committee, but to confine themselves to the Banks in Maine, and treat the subject in as concise a manner as possible.

In order to a correct conclusion on this subject it may be proper to consider, in the first place, what Banks are, and what their connection is with the commercial interests of Maine.

The undersigned understand them to be corporations, chartered by the authority of the State, and based on a specie capital, with limited powers to issue bills to an amount not exceeding fifty per cent. above their capital

stock ; limited in the amount of debts, which may be due to or from them, to twice the amount of its capital stock actually paid in ; prohibited from engaging in trade and commerce; restricted in the rate of interest or discount on any note, draft, or security, to six per cent per annum; making the Directors liable in their private capacity for loss arising from any mismanagement ; the stockholders to be liable for the redemption of their bills; and under the entire control of the State.

Paper money is not a tender, neither has the State power to make it so. Its circulation is voluntary, as no one is obliged to receive it in payment for debts, or in exchange for any kind of property.

The design of Banks is not for the creation of money, but to associate it, for the purpose of establishing a sound system of credit, or paper currency, as a safe and convenient medium of exchange ; as all Bank bills bear on their face credit, until specie is demanded, being payable to bearer on demand.

They receive their credit and confidence from the public laws making the amount of their issues proportionate to the specie capital on which they are based, and the ability of the stockholders to redeem them when presented ; and not from the amount of specie that may be found in their vaults at any given time, as is supposed by many.

It is generally understood and admitted that the commercial concerns of the State cannot be carried on without the aid of a credit system, of some kind.

There are in use other kinds of paper currency than that now under consideration. For instance, such as is

used in France and England to a great extent, where private companies and individuals, who have an established credit, circulate their bills payable to order. Similar paper is used in this country for transmitting funds from one part of it to the other, but not for immediate exchange or circulation.

The objection to the circulation of such bills is in the fact, that the knowledge of their genuine character is confined to a particular class of merchants or brokers, who make it their business to negotiate them, and that they are subject to discount and brokerage, to convert them into specie except at the time and place where they are payable.

Our system of credit, is more safe and convenient, as every citizen can act his own broker, and carry with him paper that is equal to specie, without being burthened with its weight.

Boston is the commercial metropolis of all the New England States—and Maine, in particular, is as closely connected with her, in commercial relations, as she was before her separation from Massachusetts.

Boston is the place where the imports consumed in Maine, and the proceeds of exports, and earnings of her ships, concentrate. And in fact, the place where the commercial capital of Maine is to be found; and where receipts and payments are made. And the bills of our Banks will be sent there, in obedience to a natural and commercial law, (statute laws to the contrary notwithstanding) either directly by loans from the Banks to business men, or gathered up from the community, and carried there in payment for goods, debts, &c.

Hence the necessity of our Banks redeeming their bills in Boston, to make them equivalent to specie at that place ; as it must be obvious that a Bank bill in Boston, payable in specie two hundred miles distant, is not worth so much as it would be if paid in specie at Boston, by all the expense of carrying the bill the two hundred miles, and transporting the specie back, which expense or loss would be not less than one half per cent in the aggregate, and must fall upon the holder of the bill who carries it to Boston. And it is also a fact, that the bills of those Banks which were at the least discount, would be sent to Boston, while those of a greater would remain at home, leaving us with a depreciated currency—and circumscribing the circulation of our bills by the limits of our own State.

One of the objections presented by the Committee to the present system is, that the Banks discount paper payable in Boston, in preference to home paper.

In answer to which, it may be said, that a large proportion of the paper, discounted at our Banks, payable in Boston and New-York, is made in anticipation, and for the collection of the proceeds of exports, or returns from our ships payable or negotiable there.

The simple operation of which is—a citizen gets his draft discounted at one of our Banks ; he receives its bills, which he circulates at home, and while those bills are circulating and traveling to Boston, the draft becomes due, and is paid from such proceeds ; it is then optional with the Bank either to bring home the proceeds of that paper in specie, or in their own bills.

There may be some paper discounted, payable in Boston, drawn without funds, where the individual is obliged, at some inconvenience to himself, to place funds to meet it.

But it must be recollected, that the facilities of Banks to discount are dependent on commercial operations, and returns from exports, shipping, &c. And when making discounts, must always keep in view the amount of their bills in circulation, and the returns coming in to meet them. Consequently it is often the case, that Banks can discount paper payable on short time in Boston, when they could not on any other condition, consistent with their own safety—of this accommodation the individual owning the paper, is the judge of his own interest.

Another objection is, that the Banks of Maine are obliged to pay tribute to the Suffolk Bank, by making deposits there without interest.

The undersigned are not aware of the reason why this should be termed tribute; as it is decidedly for the interest of our Banks, which could be clearly proved, if the limits of this Report would permit.

It is like all other contracts—reciprocal, a compensation for services performed.

The amount of such deposits is not uniform, being in some cases greater, and in some less; while some Banks make none, owing to the different commercial position of the Banks, and their situation to reciprocate, by performing similar service.

The Committee intimate that the Directors of the Suffolk Bank might, under the present system, at any time, stop specie payments throughout New-England, if they were so disposed. To reason and conclude from such premises, would lead to the destruction of all organization—as all power to do good, might in the same hands be used to do evil.



The intimation is founded upon the presumption, that the people of New-England *would* submit to the abuse of a power necessary to regulate their Banking system, or that those entrusted with it might have the hardihood to abuse it.

If there is any weight in this argument, it is in favor of the present system, which is, that every Bank must rely on its own resources, and provide funds to redeem its own bills in Boston, as fast as they arrive there. This being the case, the Suffolk Bank can have no control over the bills after they are redeemed; and all power it might otherwise exercise over the Banks is at an end.

The undersigned having considered the advantages of the present system, and some of the objections to it, as by the Report of the Committee, and the effect the proposed law would have on the public interests of Maine—now proceed to consider the operation of such change on the Banks of this State.

The law now obliges them to redeem their bills in specie when presented, and it is not pretended, that the law is not *strictly* complied with. Not by the force or obligation of statute law, but in obedience to natural causes, rather than the combination of Boston Banks, (as is set forth by the Committee,) the Banks have adopted the system of redeeming their bills in Boston. As it must be obvious that if natural circumstances had been in favor of redeeming them at their own counters exclusively, and it had been their interest to do so; they would not have changed their system, merely in conformity to an arbitrary power exercised by the Boston Banks.

The semi-annual returns of the Banks show a small

amount of specie in their vaults, which proves that but little is wanted there to comply with the requisition of the laws under the present system. It also proves, that but few bills return directly to the Banks for payment, but taking a different direction, return to the Banks redeemed.

The advantages accruing to the Banks of Maine, by redeeming their bills through the Boston Banks, are, that having weekly returns from them, they are always advised of the amount of their bills, that go into Boston per day or week, and provide funds accordingly for their redemption—their specie funds being either in Boston, in the hands of their customers, or in their own vaults; and knowing the amount of their bills to be redeemed weekly, the amount of funds there, and the amount of loans falling due at the Bank, they are enabled to regulate their discounts and accommodations to the public at home, with a greater degree of certainty and stability, than they possibly could by redeeming their bills at their own Banking house.

If the law proposed by the Committee be adopted, the Banks must be always in a state of uncertainty, and liable to be taken by surprise, not knowing at what time, or what amount of their bills may be presented at their counters for specie; they must, from necessity, keep about one third of their capital in their vaults, useless to themselves and the public, to provide against runs of masses of their bills, that would accumulate in Boston, exposing them to constant fluctuations and embarrassments.

And as a failure to redeem their bills promptly, in a single instance, would destroy confidence in a Bank, and be very injurious in its effects both to such Bank and to

the public, for the time being, although the Bank might be perfectly safe and good ; prudence, therefore, would dictate to that Bank to be always provided against runs, even when there was no danger. .

Their bills being sent home for specie, which would be carried to Boston, and of course the Banks must send there to buy specie again ; and thereby keep up a constant transportation of specie back and forth, attended with great expense and risk to the Banks, without any benefit arising from it.

The undersigned, in conclusion, believe that the present system is wholesome and beneficial to the Banks, and safe to the public ; beneficial to the Banks, because they can do more business, and with a greater degree of certainty and safety, than they could under the law proposed by the Committee, as they are kept constantly advised of the state of their business, by which they are enabled to sustain their credit at home and abroad. Safe to the public, because their bills are equivalent to specie, the whole extent of their circulation, which would not be the case under the law now proposed.

They believe, that the maxim of "let well enough alone," is very applicable to this case ; as experience has proved, that tampering with the currency is pernicious to the public interest, and more particularly when under a safe and sound regulation. It is an established principle that the circulation of Bank bills cannot be sustained beyond the commercial wants of the community.

The present system operates as a safety valve, both to the Banks and the public, by preserving an equilibrium in

their circulation, keeping it always within the limits of its natural support—whereas the law proposed would deprive them of that regulation, the Banks would be liable at times to over issues of their bills, and to extend their circulation beyond that point.

Reactions and convulsions would follow, as the natural consequences. Therefore, both wisdom and prudence dictate, that all legislation on this subject should be suspended, until some more sound and tangible reason presents itself, than has yet been exhibited.

EDWARD ROBINSON,

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STATE OF MAINE.

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HOUSE OF REPRESENTATIVES, }  
March 23, 1837. }

This Report, on being read, was laid on the table, and 1000 copies ordered to be printed for the use of the Legislature.

(Extract from the Journal.)

Attest,      CHARLES WATERHOUSE, Clerk.