

MAINE STATE LEGISLATURE

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DOCUMENTS

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THE LEGISLATURE

OF THE

STATE OF MAINE,

DURING ITS SESSION

A. D. 1839.

VOL. 2.

AUGUSTA:
SMITH & ROBINSON, PRINTERS TO THE STATE.

1839.

NINETEENTH LEGISLATURE.

NO. 29.

HOUSE.

MEMORIAL

OF

PHILIP MORRILL AND OTHERS,

ON

BANKS AND BANKING.

[SMITH & ROBINSON,.....Printers to the State.]



MEMORIAL.

*To the Hon. Senate and the House of Representatives of the
Legislature of Maine.*

THE undersigned, your fellow citizens and constituents, would most respectfully but earnestly call your attention to a subject, which, in the opinion of your memorialists, involves, to a very great extent, the pecuniary prosperity and the personal happiness of the whole people of this State. There is no other subject, perhaps, at any time, and certainly none at this time, in the whole scope of your legislative duties, which calls so loudly for your most serious and careful deliberation, and prudent, but decided action.

We allude, gentlemen, to the subject of the currency; a subject in which every citizen, in this free country, is most deeply and permanently interested—the most humble, as well as the most exalted; and we hold it to be one of the first and most imperative duties of every government, to provide for the *people*, a sound, adequate and stable currency. And indeed, no government can be called *good*, that neglects, or is indifferent to, this duty; for a well regulated currency is one of the best, if not the very best guaranty for individual freedom and national tranquility.

The question then presents itself, have the people in this State a currency in all respects suited to their wants? We answer, emphatically, no! We answer that the currency provided for the people of this State, for the last

few years at least, possesses neither of the three important requisites of a good currency—it has neither been *sound*, *adequate*, nor *stable*.

That we are not mistaken in this position, we shall endeavor hereafter to show. But before we proceed, we desire to spread before you the prayer of our petition, to wit : *that you will enact a law requiring all the banks in this State, (giving a reasonable time for preparation,) to redeem all their bills at their own counters, and at no other place.*

In asking for the passage of a law, which, if passed, is calculated and intended to change the whole currency system of the State, to some extent, and to effect, for better or worse, (and we believe for the better,) every citizen, perhaps, we feel it to be due to you, to the people, and to ourselves, to state some objections to the present system of supplying the people of this State with a currency, long and familiarly known as the “Suffolk System,” and to urge some reasons for its discontinuance in this State.

And first, we object to the “Suffolk System” because it is based upon a fallacious theory—a theory imported from England, where it had its origin, but has been exploded for more than twenty years. The first division of this theory rests upon the assumption that *specie*, as a basis for banking operations, is not necessary, or necessary to a very limited extent, and substituting in its stead “*the current money system.*”

When the subject of a resumption of specie payments by the Bank of England in 1816, after a suspension of twenty years, was in agitation in that country, a talented and powerful party arose, who strenuously contended that an entire paper currency was the *cheapest* and *best* that could be devised; and among the distinguished writers

who espoused this cause, was Mr. David Ricardo, then favorably known for his works on political economy. In an essay entitled "*Economical and Secure Currency*," Mr. Ricardo uses the following language :—"The introduction of the precious metals for the purposes of money, may, with truth be considered as one of the most important steps towards the improvement of commerce, and the arts of civilized life; but it is no less true, that with the advance of science, we discover that it would be another decided improvement to banish them again from the employment to which, during a less enlightened period, they had so advantageously performed."

The second feature in Mr. Ricardo's plan, was, that the banks could go on in perfect safety to themselves and the public, so long as they confined their discounts to "real business paper," based upon property, until the demand for money shall be fully supplied.

The third assumption was, that the rate of interest ought not, or need not be fixed by law, but left to be regulated by the profit the borrower might expect to derive from the employment of the money. In short, it made "money," as the cant phrase is, "merchandise."

This theory constitutes the distinguishing features of the "Suffolk System." This theory was exploded in England before it was reduced to practical application; and had it been confined here to the carrying out of the original plan, there would be less cause of complaint, perhaps, but the "advancement of science," discovered to the Boston *financiers*, that it would be an "other decided improvement" to *banish bank bills also*, as well as *specie*, from the employment which during a *less enlightened period*, they had so advantageously performed, and substituting in their stead, "*the credit system*." This is the most objec-

tionable feature in the "Suffolk System," that it has banished, or nearly banished, or that its tendency is to banish, *all currency*, and substituting in its stead an overwhelming mass of indebtedness ; creating and substituting *drafts, checks, notes, accounts, and a barter trade, for currency.*

To be driven to this alternative was not the original intention of the founders of this system in Boston. In making war upon the country currency, it was expected and intended that *Boston bills* should obtain possession of the entire field of circulation, and thus furnish to New England more, and a better currency, because based upon "*their short business paper.*" But the "advance of science" discovered that "some things could be done as well others," and that by multiplying country banks, "the war could be carried back into Africa." By making country bills as good as their own in Boston, and redeemable there, it became an object everywhere to send home Boston bills, and the natural tendency being in that direction, the Boston banks have had their bills returned so rapidly that they have become besieged in their own strong hold, and would long since have surrendered at discretion, but for the relief brought to their aid by the "credit system," the best resort of a sinking state. This we shall proceed to illustrate. But before doing so, it may be proper here to remark, that *we hold it be a fundamental principle in political economy, THAT ALL EXCHANGES OF COMMODITIES FOR CONSUMPTION SHOULD BE PAID FOR AT THE TIME OF PURCHASE, EITHER IN CURRENCY, OR BY A VOLUNTARY EXCHANGE FOR OTHER COMMODITIES.*

In providing a currency, then, it should be adapted and made *adequate* to the wants of the people, to enable them to carry out this great principle, in their daily transactions. No nation or community can long enjoy uninterrupted

prosperity, and violate to any great extent this principle. If all the exchanges of property, which are daily and hourly going on for consumption, say for sums under twenty dollars, were represented by currency, there would be very little occasion for regulating exchanges between distant places, and it would forever silence that army of croakers, who are ever ready to denounce the government on the one hand, and overtrading on the other.

The currency, therefore, should not only be *sound*, *adequate* and *stable*, but it should be directed by legislation into this channel of, what we may be allowed to call, the consumptive demand, or to the payment of purchases for consumption. Whatever tendency our laws may have had in this direction, or however strong the desire of the people may have been to live up to this principle, the "Suffolk System" sets at defiance both the laws and the natural desire of the people to be free from debt, and compels them to *sell*, and *buy*, and *consume* on *credit*.

The Suffolk Bank is at the head of, and transacts all the business for the associated banks, and by examining the condition of this bank, we shall be enabled to see by what means it is enabled to hold in check and control all the other banks in New England. By the special return of the banks in Massachusetts, made to the Legislature, and showing their condition on the second Saturday of February, 1838, it appears that the Suffolk bank has a capital of

	\$ 750,000 00
☞ Net profits on hand,	271,775 07
Holds funds of other banks,	1,593,163 69
Cash deposited,	133,575 42
	\$2,748,514 18

This large sum may be reckoned as so much capital; as so much concentrated means for affording aid to commerce, and advancing the arts of civilized life; and it may

be profitable to see how it is disposed of to accomplish these purposes.

And first, coined money on hand,	\$108,421 70
Banking house,	68,567 89
Bills of other banks taken up,	369,725 24
Due from other banks,	924,098 72
Due from individuals,	1,293,099 63
☞ Bills in circulation,	15,379
Less one third in other banks,	5,126

Real circulation, \$10,253 !!

Thus it is seen, that the Suffolk bank, with near three millions of means, furnishes for the use of the community less than eleven thousand dollars of currency. Where then lies its power? In the indebtedness of the banks and the people. Having so large a debt suspended over the heads of its customers, on "short business paper," and having no bills out, these customers bring in the bills of other banks, and this brings the banks indebted to the Suffolk, and these in their turn have to send in bills of other banks, and thus creating an endless chain of indebtedness, and always in the power, more or less, of the Suffolk bank. All the other banks in Boston are similarly situated to the Suffolk; holding a great *debt*, and having a small circulation, the balance is continually tending, now, against the country banks, and compelling them to reduce their circulation to the lowest possible limits.

The thirty-two Boston banks, with a capital of \$20,-700,000, have a circulation nominally of	\$3,688,532
Less one third taken up by other banks,	1,229,510
Real circulation,	<u>\$2,459,022</u>
Specie in the banks,	1,256,772
	<u>\$1,202,250</u>

Showing a net increased amount of circulation furnished by these 32 banks, of about one million two hundred thousand dollars. The total amount of the resources of these banks, is \$37,095,353 42, and the sum of individual indebtedness to them, is over thirty and a half millions of dollars.

This indebtedness to the banks is the beginning, the entering wedge to the credit system, and it therefore becomes, not merely a question of curiosity only, but one of deep interest, as regards this subject of the currency, to know what is the full amount of the indebtedness of the citizens of Boston? The decision of this question must be with us a matter of mere conjecture, and no one, therefore, will be deceived, if we err in our estimate, when we state it to be *one hundred and twenty-two millions!* One quarter due the banks, and three quarters elsewhere. This may seem a high estimate, but when we consider that comparatively few persons are thought worthy to become bank debtors—that but few can give *business paper*—and when we know that every body are in debt; every body, creditors and debtors, in turn, each in his calling; from the *millionaire* down to the *barber*, the *shoe-black*, and the *washwoman*, who *lather*, and *brush*, and *rub*, to give their wealthy customers *credit by the quarter*, because it is too expensive to buy change, and too troublesome to carry it; we think it must be conceded that one hundred and twenty-two millions, or sixteen hundred and twenty-six dollars for each inhabitant, is not an *over* estimate.

To use the language of an eminent Bostonian, in a lecture before the Boston Mechanics' Institute, when speaking of the amount of the circulation of the Bank of England, at one time twenty-four million pounds, but six million of dollars less than the estimated debts of the people of Bos-

ton: "It is rather difficult," says he, "to realise what an amount this is. If it were brought into American dollars, and they were placed so that the edges would touch, they would occupy a plain containing 253 square miles! If they were piled one above another, the column (allowing 10 to an inch) would be 168 miles! If it were placed in teams and drawn by oxen, (allowing one ton's weight to each pair of oxen,) it would take *all Boston Common for the oxen to stand upon!!*"

If the people of Boston should yoke up this team to cart home their indebtedness, it would require 3812 yoke of oxen—and allowing four hours for the working day of a bank, from 10 to 2 o'clock, and allowing each team ten minutes to unload, or to exhibit its emptiness (of aught but *paper past due.*) it would occupy 158 days.

But where is the *currency* to pay this debt? Let us first suppose the debt renewed on banking principles, but without grace, for 4 and 6 months, thus:—

61 millions, interest 4 months, is	\$1,220,000
61 " " " 6 "	1,830,000
	<hr/>
	\$3,050,000
Circulation of all the Boston banks,	2,459,022
	<hr/>
	590,978

Thus it is seen that the currency furnished by the Boston banks is not sufficient to pay the interest on the sum of the people's indebtedness for five months, by the sum of 590,938, and requiring a further loan to that amount to pay interest, and yet these people are continually exclaiming, that they have the very best system of "currency and credit" the "world has yet seen."

This is what the Bank Commissioners have informed

your honorable bodies, “*confining the circulation within just and proper limits!!*”

We feel authorized to say, that the entire circulation in New England will not pay the interest on the sum of the people’s indebtedness, for a year, if it will for half that time.

The Bank Commissioners, in their Annual Report, have alluded to the currency of England, *for which we thank them*, for it will be some apology for the reference we may make to it.

In round numbers, the capital of the Bank of England, is a little over 11 1-2 millions sterling, or 56 millions of dollars, and the circulation 18 to 20 millions, say 19, and the amount of securities held by the bank 21 to 23, say 22 millions, or

	\$106,700,000
Circulation, 19 millions, or	92,150,000


Balance of debt over circulation,	\$14,550,000
Coin and bullion in the bank, 19 millions, or	42,650,000

It should be borne in mind that the government is indebted to the bank to half the amount of its capital, and that its great circulation is maintained by its disbursements on account of government, and therefore the individual debtors could pay every dollar they owe the bank, and still leave over forty millions in circulation for the use of the people, *of the bills of the bank*.

We are told by the Bank Commissioners, that the people of England are supplied with “28 dollars” for every individual in the kingdom, which amounts to 672 millions of dollars. One hundred and fifty to two hundred millions of this sum is in gold and silver coin, and the balance is made up of Bank of England and country bank notes.

This specie was provided by the British government for the use of the people, as a basis to sustain individual credit,

and there is no power which can deprive them of it, for it is diffused into every day transactions; and the banks have no way of reaching it, for every dollar due the banks could be paid, and leave over three hundred millions of currency still in circulation, or twelve and a half dollars per head.

In this State, the currency is said to be \$4,65 to each inhabitant, but our banks furnish only  3 dollars, 11 cents and 2 mills, while the debt due to the banks is \$13,45 per head; and this again is, the "*just and proper limits*" of the currency.

One illustration more. The National debt of England is said to be 785 million pounds sterling, or three billions, eight hundred and seven millions two hundred and fifty thousand dollars! This is a vast sum—so vast that there are many well-informed men in this State who are looking for, and expecting to see, the downfall of the British Empire, by the enormous weight of this debt. But before dooming a nation to bankruptcy and ruin, it will be prudent to estimate the national resources; and in doing this, in the case before us, we discover that the currency in circulation, and coin and bullion in the banks, is sufficient to pay one *fifth* or *twenty* per cent. of the principal of the debt, without the application of any other property.

In New-England, the circulation and coin in the banks, is only sufficient to pay one *tenth* or *ten* per cent. of the debts due the banks!

In old England the National debt is never expected or desired to be paid; while in New-England, with only one tenth as much currency as debt, the *bank debt* has to be paid as often as every sixty or ninety days!

In England the banks discount at five per cent, the lawful rate of interest, and often for less; and the government can borrow for $2\frac{1}{2}$ to 3 per cent.

In New-England, the rate of interest at the banks varies from 7 to 12 per cent., while “*in the street*” and of “*brokers and note-shavers*” from 12 to three hundred per cent., and even one per cent. a day! This is what the Bank Commissioners call “*keeping the value of the currency to a uniform standard!*” Uniform indeed! how truly?

If the national debt of England was assessed equally upon the people, it would amount to \$158,63 per head. If the bank debt in Boston was assessed upon the people, (75,000) it would amount to \$406,66 per head!!

In old England the currency is provided and diffused throughout society in a manner to place *men*, as far as circumstances will admit, upon a par with one another—it gives credit to men in proportion to their means and wants, and thus secures to all, an equality in the market, and maintains individual credit on a par with bank paper or specie. While in New-England, *men* are every where distrusted and undervalued,—individual credit of the best men is placed below *par* when put in contrast with *currency* or *bank credits*. Under the specious pretence of “*confining the circulation within just and proper limits, and to keep the value of the currency to a uniform standard,*” a system of *rapacity* and *extortion* has been countenanced, to a degree, totally subversive of individual rights and security for property, and disgraceful to civilized society.

In old England the people individually are free from debt for small sums; for there, no note is given, check drawn, or account made, for a less sum than five pounds, or \$24,25; while in New England, *indebtedness*, for the smallest sums, and in every variety of form, presses upon all classes with the *iron hand of despotism*, and from which there is no hope of escape but in the overturning of the “*Suffolk System.*”

The difference which we have shown to exist between the condition of the people of Old England and New England, *in respect to currency*, is the result of a wise combination of *sound principles* of political economy, with sound principles of government, judiciously administered to promote the interests of commerce and advance the arts of civilized life, in the former ; while in the latter, an adherence to the "Suffolk System," has violated every sound principle, whether of economy or government, and has retarded commerce and the arts. We may not have gone back, it is true, but then we have not gone ahead—the energies of the people have been *repeatedly paralyzed*, clogged, fettered, and tied down by this ruinous system, and many choice *spirits, of men*, have been broken, and broken in fortune.

In establishing and regulating banks, of late years, the only object seems to have been, to confine the circulation within very narrow limits—to guard against *excessive issues*—but the extreme caution used on this point has only changed the evil from *excessive issues* to *ruinous contractions*—to the greater and more dangerous evil. The Suffolk System has now arrived at that point when its power over the *currency*, by contraction, is complete and absolute ; for, let the Boston banks *refuse to discount*, only for a *single day*, and consternation would be depicted in a thousands anxious faces—let them refuse discounts for *one day*, and the *value of money* would rise on that *day*, or the same thing, the *rate of interest would rise*; or, which is still the same thing, *every thing else would fall, if sold for money*. SUCH A POWER OUGHT NOT TO BE ENTRUSTED TO THE STATE ITSELF, and still less to the managers of any private bank, or association of banks ; for there can be no security for uniformity in the value of the currency, when its aug-

mentation or diminution depends solely upon the *will of the issuers*. The *will* of the Suffolk Bank is absolute in this matter. Ought it longer to be so ?

The effect of the contractions for the last few years, do not seem to be, generally, well understood. When the interest for money has risen from the lawful rate, in a few days, to twenty-four or forty-eight per cent., a man who gives his note for money, increased by twenty-four or forty-eight per cent., does not seem aware that his property or estate has fallen in value one quarter or one half in the course of a few days or weeks; or, which is the same thing, that money or bank credit has risen in that proportion in the same time. If property had been required to change hands, and real payments to have been made at the time of the *contractions*, or when the price of *interest* rose, most of the property and estates in New England would have changed hands in a short time, and the true state of things discovered and ascribed to *right cause*. But even now, the attention of the public is diverted from the *cause* to the *effect*—from the *contractions* to the “*paper past due*.”

It does not make the matter any better for the system, to say that the directors have not acquired wealth and riches for themselves, or for the institutions over which they preside, for such was the *design*, and such the *tendency*, and if such has not been the *result*, it is because of their *unskilfulness*—because they *bled* their customers too profusely—they *cut too deep*, and *too near the heart*!

Again. We object to the “Suffolk System,” that it affords the public no security against the evil of broken banks—one of its most vaunted powers.

The failure of *six of the associated banks in Boston*, within three years past, and *five others* in the immediate vicinity,

and all under the guardianship of the Suffolk Bank, and involving about *three millions of capital*, a sum greater than the aggregate capitals of all the banks previously broken in New England, must forever put at rest the argument in favor of *security* from that quarter.

The Bank Commissioners inform us that the currency of the United States is about 9 dollars per head, for New England 7,50, while Maine has 4,65 per head. We say less than \$4.

This proportion, half as much as the rest of the U. S., the Commissioners think is quite enough, and very complacently inform your honorable body, that "much prejudice has at times existed against what is called the Suffolk System; but we think when calmly considered it will be found to be advantageous to the public, as well as to the banks which avail themselves of it. Its effect is to confine the circulation within just and proper limits, and to keep the value of the currency to a uniform standard."

Now, does not every man know, and feel, that the most pressing want of the people of this State is, *more currency*? Does not almost every man feel, every day, that he is put to inconvenience, or submits to sacrifices for the want of more currency? Every business man knows that the productions of our *forests* and *fields* and *labor*, go to market to great disadvantage for the want of *more currency*. Was it because we had too much currency and too cheap, in years past, that our agricultural interests were neglected? Was it this cause which made it a matter of *State policy* to run the State in debt, to give a bounty to *farmers* to grow their own bread? We answer no. It was because we had too little money, and that little at too high a price. It was because the farmer could get for his money, 12, 18, or 24 per

cent. interest, that he forsook, or neglected his accustomed pursuits—changed his religion—became a Jew—to *shave notes!*

The bounty on wheat and corn, is but a bounty paid by the State to counteract the effects of the “Suffolk System.” Give to the farmers—the mechanics—to workingmen of Maine, a sound, adequate and stable currency, and they will ask you for no State bounty to stimulate their industry. We want more money infused into all our business operations—the people want to *buy money*—they want it in exchange for the produce of their lands and labor—and shall they be restricted in this? Merchandise, or commodities, in New England, is not represented by currency, but by credit—*credit* is the measure of *value*, and not *currency*.

The Bank Commissioners tell us that two fifths of all the circulation of the banks of this State, comes back to the banks by the way of the Suffolk bank, *every month!* How, then, can it serve the people of Maine, as a currency, scattered as they are over a territory larger than all New England beside? It does not *serve them*, for it has no *time to reach them*.

We object to the Suffolk System, that it annually drives thousands of valuable citizens to other States. Ask a man that is emigrating, why it is that he forsakes the place of his nativity—the cherished land of his fathers? And if he can stop to answer, he will tell you, *because I am in debt*. Ask him why he is in debt, and he will tell you, *because I cannot get my pay*, and poverty, disgrace and a jail, await me here. May not, and ought not, all such to thank God most devoutly, that there is a *land of better promise*, where the *victims* to this system can flee for *refuge* and find a resting place? All attempts to stay this

tendency to emigration, by legislation, by giving lands, &c. act only as a bounty to counteract the "Suffolk System."

We object to the Suffolk System, that it breaks down the prospects and fortunes of men. The continual fluctuations in the currency, causes a corresponding fluctuation in business, and turns men out of business, and at every turn serves to make the rich richer, and the poor poorer. Since the introduction of the system, about fifteen years since, there have been more failures and bankruptcies, and involving a larger aggregate amount of liabilities, than in all the previous failures from the first settlement of the country up to the time of its introduction. We state this with a strong conviction of its truth, founded on some knowledge of facts; but should we be in error, the Bank Commissioners can, *no doubt*, set the matter right, for they would never recommend the system until they had examined it in all its bearings and effects.

We object to the Suffolk System, because its advocates hold to the doctrine, practically, if not in theory, that the debtor, "for capital advanced, or credit given," is laid under a wait of obligation which the payment of the debt does not discharge—there is a debt still—"of *gratitude*"—which no money can pay—nothing but a cringing, fawning dependence can satisfy. This feeling is not confined to individuals, but is *carried into banks*. To take credit, according to this system, is the very best thing in the world, but he who takes it beyond "business paper," must be the lender's slave. This is the natural tendency of the system; a tendency we hold to be totally at variance with those *principles* of civil liberty from whence are deduced our personal rights—principles which every man should strive to support while he lives, and be willing to *die*, rather than surrender.

The banks in this State are authorized by law to have bills in circulation to the amount of five millions of dollars, but the Commissioners have discovered that the "just and proper limit" is precisely, 1,556,312! If, therefore, there is any value in this discovery, the duty is imperative upon the Legislature to pass a law to confine the circulation at this just and proper limit; for it would relieve the Suffolk bank of a great weight of responsibility in regulating our banks, and it would relieve the banks of part, at least, of their "tribute money" burthen, and the people would be relieved from a great deal of unavailing discussion on the subject of the currency. Fix by law the circulation at the "*just and proper limit*," and what more could they have? What more could they ask for?

It is said that business is reviving—that *confidence is being restored*, and that we shall soon be well again. And how has this been accomplished? Simply by a return to the practical observance of the principle we have endeavored to enforce. When the contractions took place, confidence and credit were destroyed, and it became necessary, to a considerable extent, to *pay for purchases* for consumption, or *starve*; and the inclination to *eat* and *drink*, and *wear clothes*, being stronger than to pay bank notes, what little circulation there was, went immediately into the channel of the consumptive demand, which before had been supplied on credit, and the currency having been reduced to the "just and proper limit" to supply only one of these demands, the bank debtors, (with many others) were "left out in the cold"—to the amount of 37 7-10 of all the bank debt, and it remains "past due." Ought we not to guard against a recurrence of those reverses which we have had to pass through within the last five years?

Finally, gentlemen, we have greatly exceeded the limits we had prescribed for this address, and have said but very little of what may be urged against the "Suffolk System"; but we trust enough has been said to satisfy you, if you needed to be convinced, that the prayer of our petition is a *just* and *proper prayer*, and ought to be granted; and as in duty bound we ever pray.

PHILIP MORRILL,
JOEL HILLS,
EDWARD P. BALDWIN,
DAVID PEARCE, Jr.

Bangor, January 21, 1839.



STATE OF MAINE.

HOUSE OF REPRESENTATIVES, }
February 18, 1839. }

This Memorial, on being read, was laid on the table,
and 500 copies thereof ordered to be printed for the use
of the Legislature.

CHARLES WATERHOUSE, *Clerk.*