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For the National Intelligencer.

Mr. Editor,

A volume of that justly repnted work—Smith on the wealth of nations, having fallen lately into my hands, I was so forcibly struck with the application of his account of and observations on the Banking system in Scotland some years ago, to the Bank-mania which is now prevailing in this part of our country, that I have transcribed part of them, and take the liberty to send them to you for the purpose of giving them to the public, through the medium of your valuable paper, should you think them, or the few remarks with which they will be accompanied, worth inserting. In his chapter on "money, considered as a particular branch of the general stock &c." Mr. Smith says,

"It is now more than five and twenty years since the paper money issued by the different banking companies of Scotland was fully equal, or rather was somewhat more than fully equal, to what the circulation of the country could easily absorb and employ. Those companies, therefore, had so long ago given all the assistance to the traders and other undertakers of Scotland, which it is possible for banks and bankers, consistently with their own interest, to give. They had even done somewhat more. They had over-traded a little, and had brought upon themselves that loss, or at least that diminution of profit, which in this particular business never fails to attend the smallest degree of overtrading. Those traders and undertakers, having got so much assistance from banks and bankers, wished to get still more. The banks, they seem to have thought, could extend their credits to whatever sum might be wanted, without incurring any other expence besides that of a few reams of paper. They complained of the contracted views and dastardly spirit of the directors of those banks, which did not, they said, extend their credits in proportion to the extension of the trade of the country; meaning, no doubt, by the extension of that trade the extension of their own projects beyond what they could carry on, either with their own capital, or with what they had credit to borrow of private people in the usual way of bond or mortgage. The banks, they seem to have thought, were in honor bound to supply the deficiency, and to provide them with all the capital which they wanted to trade with. The banks, however, were of a different opinion, and upon their refusing to extend their credits, some of those traders had recourse to an expedient, which, for a time, served their purpose, though at a much greater expence, yet as effectually as the utmost extension of bank credits could have done. This expedient was no other than the well-known shift of drawing and re-drawing, the shift to which unfortunate traders have sometime recourse when they are upon the brink of Bankruptcy. The practice of raising money in this manner had been long known in England, and during the course of the late war, when the high profits of trade afforded a great temptation to overtrading, is said to have been carried on to a very great extent. From England it was brought into Scotland, where, in proportion to the very limited commerce, and to the very moderate capital of the country, it was soon carried on to a much greater extent than it ever had been in England."

"When two people; who are continually drawing and re-drawing upon one another, discount their bills always with the same Banker, he must immediately discover what they are about, and see clearly that they are trading, not with any capital of their own, but with the capital which he advances to them. But this discovery is not altogether so easy when they discount their bills sometimes with one banker, and sometimes with another, and when the same two persons do not constantly draw and re-draw upon one another, but occasionally run the round of a great circle of projectors, who find it for their interest to assist one another in this method of raising money, and to render it, upon that account, as difficult as possible to distinguish between a real and a fictitious bill of exchange; between a bill drawn by a real creditor upon a real debtor, and a bill for which there was properly no real creditor but the bank which discounted it; nor any real debtor but the projector who made use of the money. When a banker had even made this discovery, he might sometimes make it too late, and might find that he had already discounted the bills of those projectors to so great an extent, that, by refusing to discount any more, he would necessarily make them all bankrupts, and thus, by ruining them, might perhaps ruin himself. For his own interest and safety, therefore, he might find it necessary, in this very perilous situation, to go on for some time, endeavouring, however, to withdraw gradually, and upon that account making every day greater and greater difficulties about discounting, in order to force those projectors by degrees to have recourse, either to other Bankers, or to other methods of raising money; so as that he himself might, as soon as possible, get out of the circle. The difficulties, accordingly, which the Bank of England, which the principal bankers in London, and which even the more prudent Scotch Banks began, after a certain time, and when all of them had already gone too far, to make about discounting, not only alarmed, but enraged in the highest degree those projectors. Their own distress, of which this prudent and necessary reserve of the banks was, no doubt, the immediate occasion, they called the distress of the country; and this distress of the country, they said, was altogether owing to the ignorance, pusillanimity, and bad conduct of the Banks, which did not give a sufficiently liberal aid to the spirited undertakings of those who exerted themselves in order to beautify, improve, and enrich the country. It was the duty of the banks, they seemed to think, to lend for as long a time, and to as great an extent as they might wish to borrow. The banks, however, by refusing in this manner to give more credit to those, to whom they had already given a great deal too much, took the only method by which it was now possible to save either their own credit or the public credit of the country. In the midst of this clamour and distress a new bank was established in Scotland for the express purpose of relieving the distress of the country. The design was generous; but the execution was imprudent, and the nature and causes of the distress which it meant to relieve, were not, perhaps, well understood. This bank was more liberal than any other had ever been, both in granting cash accounts, & in discounting bills of exchange. With regard to the latter, it seems to have made scarce any distinction between real and circulating bills, but to have discounted all equally. It was the avowed principle of this bank to advance, upon any reasonable security the whole capital which was to be employed in those improvements of which the returns are the most slow and distant, such as the improvement of land.

"To promote such improvements was even said to be the chief of the public spirited purposes for which it was instituted. By its liberality in granting cash accounts, and in discounting bills of exchange, it no doubt issued great quantities of its bank notes.

"But those bank notes being, the greater part of them, over and above what the circulation of the country could easily absorb and employ, returned upon it, in order to be exchanged for gold and silver, as fast as they were issued. Its coffers were never well filled. The capital which had been subscribed to this bank at two different subscriptions, amounted to 160,000 pounds, of which eighty per cent. only was paid up. This sum ought to have been paid in at several different installments.

"A great part of the proprietors, when they paid in their first instalment, opened a cash account with the bank; and the Directors, thinking themselves obliged to treat their own proprietors with the same liberality with which they treated all other men; allowed many of them to borrow upon this cash account what they paid in upon all their subsequent instalments. Such payments, therefore, only put into one coffer, what had the moment before been taken out of another. But had the coffers of this bank been filled ever so well, its excessive circulation must have emptied them faster than they could have been replenished by any other expedient but the ruinous one of drawing upon London, and when the bill became due, paying it, with interest and commission, by another draught upon the same place. Its coffers having been filled so very ill, it is said to have been driven to this resource within a very few months after it began to do business. The estates of the proprietors of this bank were worth seven millions, and by their subscription to the original bond or contract of the bank were really pledged for answering all its engagements. By means of the great credit which so great a pledge necessarily gave it, it was, notwithstanding its too liberal conduct, enabled to carry on business for more than two years. When it was obliged to stop, it had in circulation about 200,000 pounds in bank notes."—"The operations of this bank seem to have produced effects quite opposite to those which were intended by the particular persons who planned and directed it. They seem to have intended to support the spirited undertakings, for as such they considered them, which were at that time carrying on in different parts of the country; and at the same time, by drawing the whole banking business to themselves, to supplant all the other Scotch banks; particularly those established at Edinburgh, whose backwardness in discounting bills of exchange had given some offence. This bank, no doubt, gave some temporary relief to those projectors, and enabled them to carry on their projects for about two years longer than they could otherwise have done. But it thereby only enabled them to get so much deeper into debt, so that when ruin came, it fell so much the heavier both upon them & their creditors. The operations of this Bank, therefore, instead of relieving, in reality aggravated in the long run the distress which those projectors had brought both upon themselves and upon their country. It would have been much better for themselves, their creditors and their country, had the greater part of them been obliged to stop two years sooner than they actually did."

It does appear to me evidently, that most of the newly projected institutions of this nature have originated in the chimeras or distresses of that class of projectors which our author describes, that the real wants of the country require no such additional artificial capital, for artificial I must consider it, when I reflect that, in a community, in which the Banking system had been already dealt out with a most liberal hand by the legislative authority, by encreasing those institutions no additional specie capital is called into action—but the operation is to divide with the banks previously established the deposits of specie before placed in their vaults, thereby lessening the power of the older establishments to make loans, and taking only a part of the means they before held to circulate their paper; and so far it might be innocent as related to the community at large, but from the forcing the circulation to a point beyond what the capital and resources of the country will bear, & which to accommodate their friends and to produce a good interest to their stockholders they will all, in this rival state, undoubtedly attempt, incalculable mischiefs must sooner or later be expected—The legislatures of some of the states seem to have turned their attention latterly to this abuse of banks. In New-York by a law of their last session they have dissolved, what is called the merchants bank in the city of New-York, which had gone into operation without a charter;—in Massachusetts, they have passed a law prohibiting under heavy penalties the erecting any bank without a charter previously obtained, and making it necessary to the petition for a charter, that the company proposing such an establishment, should have first obtained their whole contemplated capital in specie, and by importation; it is very much to be wished that some such legislative provision, as this last, was made to embrace every portion of the union.

I am one of those who consider the banking system as valuable to a certain extent, but that it may be very much abused; this abuse I think I see coming now much into practice; be this as it may institutions of this nature which have such intimate relations with the general interests of our society ought not to be permitted to take effect without previous legislative sanction. The interest of the community require this, that of their own stockholders make it necessary.—How far the property of every individual subscriber, over and above his stock, may be liable in case of an accident to an incorporated bank, I shall not undertake here to discuss: I know it is the opinion of some of our soundest lawyers, that no device which can be used in their articles of copartnership or in their promulgated terms of business, can subvert the great principle of the law of the land, that a partner in the profits of any trading company, no matter in how small a degree, shall be liable for the debts to the amount of his whole fortune if the company become insolvent; but a bank not incorporated is as in the case with the Merchants Bank at New-York, always liable to be dissolved by legislative interference.

In none of the newly proposed Banks, and many might be pointed out in each project, do I see such glaring inconsistencies as in the scheme of the Bank of Potomac, as it is to be called, at Alexandria. This is really *sui generis.* I have before heard of no Bank erected, or attempted to be erected, not having previously obtained legislative authority, that had not at least a charter in prospect, and which did not take originally some steps calculated to secure one. It has been reserved for the projectors of the Bank of Potomak, to undertake not only to establish a bank without the possibility of obtaining a charter, but to attempt to put such an institution into operation, under the palpable evasion of two existing laws; the one of the Congress of the United States, the other of the state of Virginia. The 12th section of the act of Congress incorporating the subscribers to the Bank of the United States, is in the following words—"*and be it further enacted that no other bank shall be established by any future law of the United States during the continuation of the corporation hereby created for which the faith of the United States is hereby pledged.*"—Now Alexandria is in the District of Columbia, placed some years since under the exclusive and absolute jurisdiction of Congress. If this newly designed bank be in Alexandria—to ask for a charter of the only competent authority would be vain—to obtain it would be impossible—and how far Congress may consider, that to tolerate such an institution, would be tantamount to their sanction, and a violation of their faith thus solemnly pledged, may be well worth the reflection of its advocates:—it is true, there is a provision in the articles of association, that in the event of their obtaining a charter from the state of Virginia, the bank may be removed out of town across the lines of the District into Virginia: but what possible chance is there for a charter from that quarter? Will Virginia be more disposed to favor the prayer of the advocates, foreigners to her, living under a different government, than that of her own citizens, who from the county neighbouring to Alexandria it appears have already petitioned for a branch of the institution in which the state has largely interested herself?

In December 1785 the legislature of Virginia passed the following law entitled "an act, *to prevent the circulation of private Bank notes*"—"Be it enacted, &c. *That it shall not be lawful for any person to offer in payment a private Bank bill or note for money payable to bearer; and whoever shall offend herein, shall not only forfeit to the informer ten times the value of the sum mentioned in such bill or note, but may be apprehended by warrant of a justice & upon due proof of the fact made to him or upon his own acknowledgment thereof, be bound to good behaviour, or if he afterwards offend in like manner it shall be deemed a breach of the recognizance.*" *Revised code, chap. xi.*

That part of the District of Columbia to the south of Potomac in which Alexandria lies contains at most a territory of four square miles. This was cut off from Virginia; all its internal trading relations are with that state; every thing she exports she buys of Virginia; every thing she imports she sells to Virginia; all the circulation then of this projected bank, if there be any, must be in Virginia, and yet, the moment her circulation begins there, it is stared full in the face, by *an act entitled an act "to prevent the circulation of private Bank notes."* If this bank be not authorised by law, it must be, in the full import of the term, a *private bank.* But it may be said the notes will not be made payable to bearer in the body of the bill—that they will be filled to the teller, or any other officer of the bank, who will endorse them in blank, and thus the law will not reach the case.— Surely when this blank endorsement is put on, it is intended as a means to make them payable to bearer, and it will still be a circulation "*of private bank notes;*" which by the title the law is intended to prevent—yet admit that this evasion of the letter, in the teeth of the spirit of the law, should be permitted by the courts of justice, which I cannot conceive, is it to be presumed that the state of Virginia will thus permit a paper to pervade her country long ago guarded against—and the more particularly *now* to the injury of the institutions she has lately established, and become interested in? Will early notice not be taken of it by her legislature, and the evasion be provided for?

Placed then as will be this singularly constituted bank between Scylla and Charybdis, should it go into operation, it is not very difficult to foresee what will be the course and duration of its career.

N. P.

August 16th, 1804.

CONGRESS.

HOUSE OF REPRESENTATIVES.

DEBATE on *Georgia Claims.*

Continued.

SATURDAY, March 10.

Mr. LYON. Although, sir, I have no wish to assume the character of the cunning and sagacious fox of the temperate zone, I am willing to be allowed to possess a share of the magnanimity of the animal whose name has accidentally fallen to my lot, with which magnanimity I will meet the resolutions of the gentleman from Virginia. Certain I am that I come forward on this occasion with clean hands and a pure heart, wishing for a discussion of this subject, on the broadest basis. I wish to let my constituents and all the world know, the principles that govern me; I am willing to publish my creed, on all questions of civil policy involved in this or any other subject that shall come before this house.

The gentleman from Virginia has brought forward certain resolutions, which have been published, and have been called the articles of the creed of the democrats. I am a democrat, and I am very free to declare that they are not the articles of my faith. Those articles in their present shape contain what I call political heresy, and rather than be obliged to swallow them, I would be willing to risk the imputation of schism, and should it take place in the democratic church, I am willing to leave the democratic republicans of America to judge who has been the cause of this schism. He who attempts to force his unqualified creed on the public and on Congress, or he who offers amendments and cannot swallow it, in its present crude state.

A few days since I mentioned my intention of introducing in the course of the discussion of this subject some amendments, which with others, that on deliberation I think necessary, I will now read in order to declare my intention of getting them incorporated with the original resolutions—(here Mr. Lyon read twenty-one amendments with the original resolutions of Mr. Randolph, as they would read when such amendments were incorporated) as follows:*

1. Resolved, That the legislature of the state of Georgia were, at no time, invested with the power of alienating the right of soil possessed by the good people of that state in and to the vacant territory of the same, but in a rightful manner, and for the public good: *of which such legislatures are the constitutional judges.*

2. That when the governors of any people shall have betrayed the confidence reposed in them; and shall have exercised that authority with which they have been clothed for the general welfare, to promote their own private ends under the basest motives, and to the public detriment, it is the unalienable right of a people, so circumstanced to revoke the authority thus abused: to resume the rights thus attempted to be bartered, and to abrogate the act thus endeavouring to betray them: *provided that the public faith, and the confidence necessary to be placed by men in each other, and the confidence necessary between the government and individuals, be not impaired.*

3. That it is in evidence to this house, *by ex parte depositions,* that the act of the legislature of Georgia passed on the seventh of January, 1795, intituled "an act for appropriating a part of the unlocated territory of this state for the payment of the late state troops and for other purposes," was passed by persons under the influence of gross and palpable corruption practised by the grantees of the lands attempted to be alienated by the aforesaid act, tending to enrich and aggrandise to a degree, almost incalculable, a few individuals, and ruinous to the public interest: *but whether it is so or not this house is by no means competent to decide, nor does it possess the means of forming a just and impartial decision upon the subject.*

4. That the good people of Georgia impressed with general indignation at this act of *supposed* atrocious perfidy and unparalleled corruption, with a promptitude of decision highly honorable to their character, *under such impressions,* did by the act of a subsequent legislature passed on the thirteenth of February, 1796, under circumstances of peculiar solemnity and finally sanctioned by the people, who have subsequently engrafted it on their constitution, *which*

* The parts in italic, with several omissions and alterations of words, are Mr. Lyon's amendments.