

# SOUND CURRENCY.

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Each number contains a **special discussion** of some Sound Currency question.

*In his report for 1862, the N. Y. Superintendent of Banking, after referring to the recommendations of Secretary Chase, says: "The Secretary adds; 'the recent experience of several States in the valley of the Mississippi painfully illustrates the justice of these observations, and enforces by the most cogent practical arguments the duty of protecting commerce and industry against the recurrence of such disorders.' However truthful these remarks may be in regard to the institutions and currency of some portions of the country, they certainly do not apply to New York, and furnish no basis for interference with her institutions."*—H. H. VAN DYCK, N. Y. Bank Supt., in Report for 1862.

*"What I have stated in regard to the value of the local bank currency is well known to the country. Why, sir, I read to the Senate the day before yesterday the price at which this money was selling in the city of New York, and it was 2½ per cent. premium as quoted; and a banker from that city told me it was three the evening of that day. It is better and will ever remain better than greenbacks in my judgment."*—SENATOR LAZARUS W. POWELL, of Kentucky, February 13, 1863.

*"Our State banks have sustained the Government; they have been the Burings and Rothschilds to whom we have gone for our funds to carry on this war. When Congress met in July, 1861, we found our financial affairs in the utmost embarrassment; we passed a bill authorizing a loan of \$250,000,000. Where did we get the funds? The banks of the city of New York alone placed in his (the Secretary's) hands \$105,000,000—nearly double the amount of their capital; and at this day the banks of the State of New York alone hold 150% of their capital in stocks of the United States."*—SENATOR IRA HARRIS, Feb. 14, 1863.

## NEW YORK BANK CURRENCY.

### SAFETY FUND vs. BOND SECURITY.

L. CARROLL ROOT.

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## NEW YORK BANK CURRENCY.

### INTRODUCTION.

The history of banking in the State of New York naturally divides itself into three chapters. The first covers the period prior to the establishment of the so-called "Safety Fund" system in 1829, the early part of which is characterized by a slow and steady growth and conservative banking; the latter part—after the war of 1812—by somewhat more reckless methods and management. The second is the history of the "Safety Fund" system, extending from 1829 to 1866; while the third includes our experience under the "Free Banking" system, from 1838 until all state bank circulation was suppressed by the federal tax of 10% against other than National Bank notes.

The first and, to some extent, the early part of the second chapters deal with periods of political interference with, and political management of, banking corporations—when banking was regarded as a proper subject for monopoly, and when the political affiliations of the incorporators of a bank were considered as important as to-day they seem trivial; though the number of charters already in force, and the variety of the political situations in which they had been granted, had early made monopoly rather a theory than a situation, and left the slight extent to which favoritism might be shown in the organization of new institutions the only remnant of what had earlier been most important political factors. The third period was characterized by its assertion of the necessity of divorcing politics from the banking business; and, as a result of that assertion, the substitution of general laws instead of special charters.

### BANK CURRENCY IN NEW YORK PRIOR TO 1829.

#### PRIOR TO THE WAR OF 1812.

The history of banking in the State of New York practically begins with an Act passed by the Legislature in April, 1782, confirming for the State of New York the charter of the Bank of North America, granted by the Congress of the Confederate Colonies, and at the same time prohibiting the establishment of any other banking corporation within the State "during the present war with Great Britain." The Bank of North America, however, did not assume the national character that had been designed for it, and operated under a charter from the State of Pennsylvania; and, so far as concerns New York, about the only consequence of the Act of 1812 was the barrier it placed in the way of the incorporation of additional banks.

March 21, 1791, however, the Legislature incorporated the Bank of New York, which since 1784 had been doing business under articles of association drawn by Alexander Hamilton, to whose able management somewhat of the success of the institution in its early years was due. It was organized with a paid up capital of \$900,000, which was shortly afterward increased by a subscription of \$50,000 by the State. Its charter was several times extended, and it has passed through the various stages of experience which go to make up the banking history of the State of New York. In 1852, when its "Safety Fund" charter expired, it was reorganized under the free banking system, and in 1865, after further increase of capital, became a National Bank.

Following the Bank of New York came the establishment of the Bank of Albany, in 1792, and, in 1793, the Bank of Columbia at Hudson. But in New York City the Bank of New York continued until 1799 to monopolize the banking business. In that year under the leadership of Burr, the Manhattan Company obtained a perpetual charter ostensibly for the purpose of supplying the City of New York with water. The capital was \$2,000,000, one-half of which was immediately employed in banking, the authority for which was contained in a clause permitting the company, in case it was found impracticable to employ the whole of its capital in the water works, to employ the surplus in any moneyed transactions and operations not inconsistent with the laws or constitution of the State. Since 1840 the company has been purely a banking institution.

In the next ten years six additional banks were chartered. The expiration of the charter of the first Bank of the United States in 1811 acted as an incentive to the establishment of new banks, and in 1811 and 1812 no less than nine were chartered, the most important of which was the Bank of North America, whose capital—\$6,000,000—was paid in, \$5,000,000 in stock of the Bank of the United States, and \$1,000,000 in cash. By the terms of its charter, which was secured only after a most serious contest, the bank was required to pay a bonus of \$400,000 to the State, and to make large loans to the State at any time it might require. Both the requirements were remitted a few years later, however, in consideration of the reduction of its capital to \$4,000,000, and later to \$2,000,000.

The most of the charters granted during this period contained provisions authorizing the colleges of the State (Hamilton, Union and Columbia) to subscribe for portions of the stock, and in many the State itself was authorized to be a subscriber. The maximum of debts to be contracted was limited to three times the amount of the capital stock.

The following table shows the name, date of incorporation, etc., of each of the nineteen banks chartered in the period now under discussion:

	When Incorporated.	Amount of Incorporated Capital.	Safety Fund Charter.	Free Bank Charter.
Bank of New York.....	1791	\$1,000,000	1801	1853
Bank of Albany.....	1792	260,000	1829	1855
Bank of Columbia (a).....	1793	160,000	.....	.....
Manhattan Co.....	1799	2,000,000	.....	.....
Farmers' Bank (Lansingburg).....	1801	365,000	1829	1853
New York State Bank.....	1803	450,000	1829	1851
Mercantile Bank.....	1805	1,470,000	1831	1857
Mohawk Bank.....	1807	300,000	1829	1853
Bank of Hudson (b).....	1808	300,000	.....	.....
Mechanics' Bank.....	1810	2,000,000	1831	1855
Union Bank.....	1811	800,000	1851	1853
Mechanics and Farmers' Bank.....	1811	600,000	1829	1853
Bank of Troy.....	1811	500,000	1829	1853
Middle District Bank (a).....	1811	500,000	.....	.....
Bank of Newburgh.....	1811	400,000	1829	1851
Bank of Utica.....	1812	1,000,000	1829	1850
Bank of America.....	1812	6,000,000	1831	1853
N. Y. Manufacturing Co.*.....	1812	700,000	1831	1854
City Bank of New York.....	1812	2,000,000	1831	1852

(a) Failed in 1829. (b) Failed in 1830. \* Phoenix Bank.

Of the nineteen banks, therefore, incorporated under special charters in the twenty-two years commencing with 1791 not one had failed during the period; and when in 1865 their circulation was suppressed by the ten per cent tax fifteen of them were still enjoying a career of continuous success. Fourteen of them had thrived alike under their special charter, a safety fund charter, and the free banking system; and from these, the old state banks, was derived the early strength of the National Banking system, which so many of them promptly entered.

The circulation of each bank was unlimited and practically unguarded. The Restraining Act of 1804 prohibited banking by unincorporated companies, and declared their notes to be absolutely void.

PERIOD 1812-1829.

As noted above, the withdrawal of the capital of the Bank of the United States upon the expiration of its charter in 1811 opened a new field for banking.

In August and September, 1814, the banks throughout the country west of New England suspended specie payments, which were not resumed until early in 1817, when the action of the newly chartered second Bank of the United States led the way to a general resumption. In the interval there had been a very considerable expansion of bank issues. For example, in the country as a whole, Mr. Gallatin estimates† that within the first fifteen months after the suspension, the State bank circulation increased from \$45,500,000 to \$68,000,000. Difficult as it is to secure the statistics as to other States, there is none in regard to which there is so little basis for estimate as New York. Except as to the number of banks and amount of incorporated capital, there are almost no data obtainable as to the condition of its banks prior to 1830. Secretary Crawford, in a report to Congress in 1820, states that the circulation of the banks in New York State in 1819 amounted to \$12,500,000.

The following table gives the names, date of incorporation, capital, etc., of the twenty-four banks chartered during this period, the career of which was only less noteworthy than that of their predecessors noted above:

	Date of Incorporation.	Incorporated Capital.	Safety Fund Charter.	Free Bank Charter.
Ontario Bank.....	1813	\$500,000	1829	1856
Bank of Lansingburg.....	1813	200,000	1832	1855
Catskill Bank.....	1813	400,000	1829	1853
Bank of Orange County.....	1813	400,000	1832	1862
Bank of Niagara (e).....	1815	400,000	.....	.....
Jefferson County Bank.....	1815	400,000	1829	1854
Bank of Geneva.....	1817	400,000	1829	1853
Bank of Auburn.....	1817	400,000	1829	1850
Bank of Washington and Warren (d).....	1817	400,000	.....	.....
Bank of Plattsburg (d).....	1817	300,000	.....	.....
Aqueduct Association † (e).....	1818	90,000	.....	.....
Cherry Valley Bank§.....	1818	200,000	1829	1855
Bank of Chenango.....	1818	300,000	1829	1856
Franklin Bank (f).....	1818	500,000	.....	.....
North River Bank.....	1821	500,000	.....	1842
Tradesmen's Bank.....	1823	600,000	1831	1855
Bank of Rochester.....	1824	250,000	1830	1845
N. Y. Chemical Mfg. Co.....	1824	500,000	.....	1844
Fulton Bank.....	1824	500,000	.....	1844
Long Island Bank.....	1824	300,000	1830	1845
Delaware & Hind-on Canal Bank.....	1824	500,000	.....	.....
Commercial Bank of Albany.....	1825	300,000	.....	1847
Dutchess County Bank.....	1825	150,000	1836	.....
Dry Dock Company.....	1825	700,000	.....	.....

‡ Green County Bank. § Central Bank. ¶ Chemical Bank. (e) Failed in 1819. (d) Failed in 1825. (e) Failed in 1827. (f) Failed in 1830.

The first bank required by its charter to pay its notes in specie was the Bank of

4 Considerations on the currency and banking system of the U. S., p. 286.

Niagara, at Buffalo, incorporated in 1816. All charters subsequently granted contained such a requirement.

Governor Clinton, in his message to the Legislature in 1818, called attention to the extreme looseness of the system after the close of the war, and pointed out the evils and abuses that had arisen, though suggesting no remedy.

"The Restraining Act of 1804, to which reference has been made, passed with the special object of preventing the Merchants' Bank of New York from continuing business without a legislative enactment, prohibited any person under a penalty of one thousand dollars, from subscribing to or becoming a member of any corporation for the purpose of receiving deposits or of transacting any other business which incorporated banks may or do transact by virtue of their acts of incorporation. This restraining law is said to have been passed through the aid of influential men who controlled and were interested in banking corporations then in existence. This law, as is seen, prohibited associations of persons from doing a banking business, but it did not specifically prohibit individuals or incorporated institutions from engaging in banking and issuing notes, which they did in denominations as low as six, twelve, twenty-five, fifty and seventy-five cents, as well as bills of greater value. At the close of the war of 1812 this had become an evil of great magnitude. Among those engaging in this business were the Bankers' Exchange Bank, Utica Insurance Company, Little Falls Aqueduct Association, Catskill Aqueduct Association, small notes of Benj. Rathbone, Calvin Cheeseman and a host of individuals and corporations, tavern-keepers, glass makers, merchants, turnpike companies, etc. To put a stop to this the Restraining Act of 1818 was passed, which provided that no person, association of persons, or body corporate, except such bodies corporate as were expressly authorized by law, should keep an office for the purpose of receiving deposits or discounting notes or bills, or for issuing any evidence of debt to be loaned or put in circulation as money. The law of 1804, thus amended, remained upon the statute books for thirty-two years, and, after various unsuccessful attempts, was finally repealed in 1837, one year before the passage of the Free Banking Law."<sup>\*</sup>

It has been seen that the conservative banking in the period before the war of 1812 was attended by no bank failures; the looseness of the following years brought in its train the eight failures noted above.

No detailed information as to either the causes, circumstances or results of these failures is obtainable.

#### "SAFETY FUND" BANK NOTES.

In the years 1826, 1827 and 1828 no bank charters had been granted; while of the forty then in force, thirty would expire between 1829 and 1833. The banks were making most strenuous efforts to secure the renewal of their privileges "without conditions or restrictions, or, as the bank men expressed it, with clean charters;" but so strong an opposition had meanwhile developed that in none of the several attempts made in 1828 to extend the charters of various banks was the requisite two-thirds vote secured.

In his message to the Legislature in 1829 Governor Van Buren called attention to the opportunity for reform given by the expiration of so many charters, and briefly outlined in general terms a plan for the improvement of the banking system of the State, which he said had been presented to him by Mr. Joshua Forman, of Syracuse. This plan was more fully described by Governor Van Buren in a second communication to the Legislature, Jan. 26, 1829. In brief it contemplated a fund "to be raised from an annual payment of all the banks, according to capital, to be applied to the payment of the debts of such banks as shall fail; to go on accumulating until it shall amount to \$500,000 or \$1,000,000; and when diminished by payments, to be brought up by further contributions. As to the origin of the idea, Mr. Forman himself says: "The propriety of making the banks liable for each other was suggested by the regulations of the Hong merchants in Canton, where a number of men, each acting separately, have, by a grant of the Government, the exclusive right of trading with foreigners, and are all made liable for the debts of each in case of failure. The case of our banks is very similar; they enjoy in common the exclusive right of making a paper currency for the people of the State, and by the same rule should in common be answerable for that paper. This abstractly just principle, which has stood the test of experience for seventy years, and under which the bond of a Hong merchant has acquired a credit over the whole world not exceeded by that of any other security, modified and adapted to the milder features of our Republican institutions, constitutes the basis of the system."

#### LEGISLATION.

The recommendations of Governor Van Buren were favorably received by the Legislature, and were made the basis of the Act of April 2, 1829, commonly known as the "Safety Fund" Act.<sup>†</sup>

<sup>\*</sup> J. J. Knox, in *Rhodes' Journal of Banking*, April, 1892, p. 367.

<sup>†</sup> Laws of 1829, Chap. 94. "An Act to create a fund for the benefit of the creditors of certain moneyed corporations, and for other purposes."

**1829.**—The leading provisions of this act were that every bank thereafter established, or thereafter securing an extension of its charter, should pay to the Treasurer of the State, annually a sum equal to one-half per cent. of the capital stock of the bank, until the payments should amount to three per cent. of the capital stock. The "Bank Fund" thus created was to be invested by the State—a part of the income being used to pay the salaries of the Bank Commissioners, the remainder being paid over to the contributing banks as a dividend upon their respective contributions—and was to be "inviolably appropriated and applied to the payment of such portion of the debts, exclusive of the capital stock, of any of the said corporations which shall become insolvent, as shall remain unpaid after applying the property and effects of such insolvent corporations, as hereafter provided." The method of procedure provided for by the act, in case of a failure, was, *First*: The distribution of the assets of the bank in the customary way; *Second*: After all the assets should have been turned into money, and the final distribution thereof made among the creditors, a Court of Chancery should enter an order, showing the amount necessary to discharge the *remaining* debts, and authorize the Comptroller to pay such amount from the Bank Fund. Then, and not until then, could any part of the fund be applied to the purpose for which it was designed. Finally, whenever the fund should be reduced by such payment, the Comptroller should call upon the banks for additional contributions to the fund—not to exceed, however, one-half of one per cent. annually—to be continued until the fund should once more be made equal to three per cent. of the capital stock of the banks.

The act also authorized the appointment of three Bank Commissioners, and contained provisions limiting the circulation to twice the capital stock actually paid in, and the loans and discounts to two and one-half times the capital stock.

**1837.**—The act of May 8th, 1837, enabled the authorities to take such measures as might be necessary for the immediate payment of the notes of any insolvent bank whose liabilities in excess of assets should not exceed two-thirds of the Bank Fund and allowed the Comptroller to use his discretion as to the measures to be employed. The method actually adopted, in most cases, was the redemption, by the Comptroller in Albany, of the notes of any failed bank, due notice to all being given by publication. After the other creditors of the bank should be satisfied, the amounts thus paid from the Safety Fund in the redemption of bills, were to be repaid to the Comptroller from the remaining assets of the bank, if sufficient funds remained. At the final settlement of the affairs of the bank in this way, if the remaining assets should prove insufficient to fully reimburse the Bank Fund, the solvent banks should then be called upon to renew their contributions until the deficiency should be made good.

By the act of May 16, 1837—the act which authorized the suspension of specie payments—the amount of circulation permitted to be issued was restricted to \$150,000 on \$100,000 capital; \$200,000 on \$200,000 capital; \$300,000 on \$1,000,000 capital; \$1,200,000 on \$2,000,000 capital, etc.\*

**1840.**—By the act of May 14, 1840, all banks except those located in New York, Brooklyn or Albany, were required to arrange for the redemption of their notes in New York or Albany, at not to exceed one-half of one per cent. discount.

**1841.**—The Bank Commissioners in 1841, after one or two serious failures had occurred, proposed:

(1) That the application of any portion of the fund to the redemption of notes of any insolvent bank should be considered as an absolute reduction of the fund, to reimburse which the banks should be required to renew their contributions to the Safety Fund immediately; or,

(2) That the receiver shall sell at public action, after a short, stipulated period, the assets of the bank, and make the final dividend, with a view to bringing the case as speedily as possible within the provisions of the law of 1829.

The first of these provisions was subsequently adopted by the Legislature,† so that when the system was so severely shaken by the failures of 1841 and 1842, the Comptroller had authority to compel the banks to renew their contributions to the fund at once—an authority which he was not slow to utilize.

**1842.**—April 12, 1842, when nine Safety Fund banks had failed, an act was passed providing that after the payment of the liabilities then charged against the fund, it should thereafter be applied only to the payment of circulating notes of failed banks. In anticipation of the facts which will be brought out later, it may be said, however, that the total remaining contributions of all the banks until the expiration of their charters, at various dates between 1845 and 1865, were hardly more than sufficient to pay the amounts charged against the fund at the passage of this act; so that the change came too late to be of any practical benefit in the administration of the system. It was hardly more than the recognition of the fact that a serious mistake had been made.

The Act of 1842, also authorized the redemption of the notes of insolvent banks in the order of the injunctions granted against them, continued the

\* See p. 13.

† Act of May 26, 1841, ch. 262, sec. 5.

contributions from the banks, and provided that the annual contributions for the next four, five, or six years might be commuted by advance payments made in the notes of any insolvent bank at par, with an allowance of interest at the rate of 7 per cent. to such dates as the contributions would regularly have become due. This provision, it will be noted, made a practical exception to the previously prescribed rule that the notes of all banks should be redeemed from the fund in the order of the injunctions, inasmuch as it allowed the notes of the bank last failing to be redeemed in this way alongside the notes of the earlier cases. This was an advantage accruing only to the banks; individuals holding the notes of the banks last failing could obtain no benefit from it.

**1843.**—In 1843, to guard against over issues, an act was passed providing for the substitution of notes registered and countersigned by the Comptroller, to be delivered to the banks in blank, for the hitherto unrecorded issues—their original plates being surrendered by the banks. The office of Bank Commissioner was abolished at this time, and the duties of that office assigned the Comptroller, to whom each bank was required to make quarterly reports.

**1845.**—By the Act of April 28, 1845, the Comptroller was authorized to issue stock on behalf of the State, redeemable from subsequent contributions to the Bank Fund, with which to secure funds promptly to settle with the creditors of the eleven Safety Fund banks which were then insolvent.

**1846.**—The next step of importance in the development of the bank-note currency of the State was the Constitution of 1846, making the notes a first charge upon all the assets of any bank or banking association, and making the stockholders individually responsible, each to the amount of the stock held by him, for all debts or liabilities contracted after January 1, 1850.

**1848.**—By the Act of April 12, 1848, it was provided that any bank with a capital of more than \$200,000 might issue notes up to the amount of capital paid in. The increase thus authorized was required to be secured by pledge of stocks in the same manner as the notes of "Free Banking" associations.

**1866.**—By Act of April 13, 1866, the Superintendent of Banking was directed to apportion the remnant of the Safety Fund then in his hands to the payment of circulation of failed banks still outstanding.

#### EXPERIENCE.

During the same session of the Legislature in which the original act of 1829 was passed, sixteen banks were rechartered in accordance with its provisions, and eleven new banks, also subject to this law, were established. The New York City banks at first refused to accept charters under the law, though they were glad enough to do so later on, when it became apparent that it would be impossible for them to secure any extension of their charters except under the "Safety Fund" Act. In 1830, nine new banks were chartered; in 1831, eight (all New York City banks) were re-chartered, and nine were newly established; in 1832, two were re-chartered and seven were chartered; in the years 1833 to 1836, inclusive, twenty-eight new banks were chartered. In 1836 the capital of one bank—the Dutchess County Bank—was increased to \$450,000, and the bank placed under the provisions of the Safety Fund law, although the period of incorporation was not extended—it having then nine years yet to run. In 1839, two banks whose charters were about to expire were rechartered under the provisions of the Safety Fund law—their existence being continued until July 1st, 1845. This makes a total of ninety-three banks, with an aggregate original capital of nearly \$38,000,000, either established or re-chartered under this act; although the largest number ever in operation at any one time was ninety-one, with an actual capital of \$32,951,460.

The table below contains the name, amount of capital, date of incorporation or re-incorporation, and expiration of charter of each of these banks—the names of banks which afterwards failed being put in italics.

BANKS CHARTERED AND RECHARTERED BY THE STATE OF NEW YORK UNDER THE SAFETY FUND SYSTEM.

Year Chartered.	Charter Expired.	Name of Bank.	Location.	Capital.
Banks Rechartered.				
1829	Jan. 1, 1855	Bank of Albany	Albany	\$240,000
"	" 1850	Bank of Auburn	Auburn	200,000
"	" 1853	Bank of Catskill	Catskill	150,000
"	" 1855	Central Bank	Cherry Valley	120,000
"	" 1856	Bank of Chenango	Norwich	120,000
"	" 1856	Farmers' Bank	Troy	278,000
"	" 1853	Bank of Geneva	Geneva	400,000
"	" 1854	Jefferson County Bank	Watertown	200,000
"	" 1853	Mechanics' & Farmers' Bank	Albany	442,000
"	See Note A	(Middle District Bank)		(500,000)
"	Jan. 1, 1853	Mohawk Bank	Schenectady	165,000
"	" 1851	Bank of Newburgh	Newburgh	140,000
"	" 1851	New York State Bank	Albany	368,000
"	" 1856	Ontario Bank & branch	Canandaigua & Utica	500,000

BANKS CHARTERED AND RECHARTERED BY THE STATE OF NEW YORK UNDER THE SAFETY FUND SYSTEM—*Continued.*

Year Chartered.	Charter Expired.	Name of Bank.	Location.	Capital.	
Banks Rechartered.					
1829	Jan. 1, 1853	Bank of Troy	Troy	814,000	
"	"	" 1850	Utica	600,000	
1831	"	Bank of America	New York	2,001,200	
"	July 1, 1852	City Bank	"	750,000	
"	Jan. 1, 1855	Mechanics' Bank	"	2,000,000	
"	"	Bank of New York	"	1,000,000	
"	"	Merchants' Bank	"	1,490,000	
"	"	Tradesmen's Bank	"	400,000	
"	"	Union Bank	"	1,000,000	
"	"	Phoenix Bank	"	1,500,000	
1832	July 1, 1855	Bank of Lansingburg	Lansingburg	120,000	
"	Jan. 1, 1862	Bank of Orange County	Goshen	105,000	
1836	July 1, 1845	Dutchess County Bank	Poughkeepsie	600,000	
1839	"	Long Island Bank	Brooklyn	300,000	
"	"	Bank of Rochester	Rochester	250,000	
Banks Chartered.					
1829	July 1, 1837	National Bank	New York	750,000	
"	Failed 1848	Canal Bank of Albany	Albany	300,000	
"	Jan. 1, 1832	Bank of Genesee	Batavia	100,000	
"	"	1850	Ithaca	200,000	
"	See Note B	Lockport Bank	Lockport	100,000	
"	Jan. 1, 1854	Merchants' & Mechanics' Bank	Troy	300,000	
"	June 4, 1849	Merchants' Exchange Bank	New York	750,000	
"	Jan. 1, 1850	Bank of Monroe	Rochester	300,000	
"	"	1850	Ogdensburg	100,000	
"	Failed 1840	Wayne County Bank	Palmyra	100,000	
"	June 14, 1859	Bank of Whitehall	Whitehall	100,000	
1830	Jan. 1, 1853	Butchers' & Drovers' Bank	New York	500,000	
"	June 4, 1855	Greenwich Bank	"	200,000	
"	" 12, 1855	Hudson River Bank	Hudson	150,000	
"	July 1, 1855	Livingston County Bank	Genesee	100,000	
"	Jan. 1, 1857	Mechanics' & Traders' Bank	New York	200,000	
"	"	1854	Onondaga County Bank	Syracuse	150,000
"	"	"	Otsego County Bank	Cooperstown	100,000
"	"	1838	Bank of Poughkeepsie	Poughkeepsie	100,000
"	"	1857	Saratoga County Bank	Waterford	100,000
"	"	1855	Broomes County Bank	Winchampton	100,000
1831	Failed	Bank of Buffalo	Buffalo	200,000	
"	Jan. 1, 1840	Chautauque County Bank	Jamestown	100,000	
"	"	1856	Madison County Bank	Cazenovia	100,000
"	"	1857	Montgomery County Bank	Johnston	100,000
"	Failed 1842	Oswego County Bank	Oswego	150,000	
"	Jan. 1, 1860	Tanners' Bank	Catskill	100,000	
"	June 1, 1861	Uster County Bank	Kingston	100,000	
"	Failed 1837	Yates County Bank	Penn Yan	100,000	
1832	Jan. 1, 1860	Brooklyn Bank	Brooklyn	300,000	
"	"	1862	Essex County Bank	Keesville	100,000
"	June 1, 1862	Leather Manufacturers' Bank	New York	600,000	
"	Jan. 1, 1866	Bank of Rome	Rome	100,000	
"	"	1862	Bank of Selina	Selina	150,000
"	"	1862	Schenectady Bank	Schenectady	150,000
"	"	1862	Stenben County Bank	Bath	150,000
1833	"	1863	Cayuga County Bank	Anburn	250,000
"	"	"	Chemung Canal Bank	Elmira	200,000
"	"	"	Herkimer County Bank	Little Falls	200,000
"	Failed 1854	Lewis County Bank	Martinburgh	100,000	
"	Jan. 1, 1863	Seneca County Bank	Waterloo	200,000	
"	"	"	Seventh Ward Bank	New York	500,000
"	"	"	Troy City Bank	Troy	300,000
"	"	"	Westchester County Bank	Poekskill	200,000
1834	"	1864	Albany City Bank	Albany	500,000
"	Failed 1841	Commercial Bank of Buffalo	Buffalo	400,000	
"	"	"	Commercial Bank of New York	New York	500,000
"	Jan. 1, 1864	Farmers' & Manufacturers' Bank	Poughkeepsie	300,000	
"	"	"	Highland Bank	Newburgh	200,000
"	Failed 1842	Lafayette Bank	New York	500,000	
"	"	1857	Bank of Orleans	Albion	200,000
"	"	1857	Sacket's Harbor Bank	Sacket's Harbor C.	200,000
1836	Jan. 1, 1866	Atlantic Bank	Brooklyn	500,000	
"	Failed 1840	City Bank of Buffalo	Buffalo	400,000	
"	"	1842	Canton County Bank	Plattsburgh	300,000
"	"	1851	Commercial Bank of Oswego	Oswego	250,000
"	Jan. 1, 1849	Kingston Bank	Kingston	200,000	
"	Failed 1842	Bank of Lyons	Lyons	200,000	
"	"	"	Onelida Bank	Utica	400,000
"	Jan. 1, 1866	Bank of Oswego	Oswego	200,000	
"	"	"	Rochester City Bank	Rochester	400,000
"	"	"	Bank of the State of New York	New York	2,000,000
"	"	"	Tompkins County Bank	Ithaca	210,000
"	Failed 1842	Waterliet Bank	Waterliet	250,000	

Total, 93 banks. Aggregate capital, \$39,551,400

NOTE A.—The Middle District Bank ought hardly to be included in this list, as it failed in 1829, just after its charter was extended, but before the first contributions to the Safety Fund were due, and before its liabilities could become a charge upon the Fund.

NOTE B.—Charter of the Lockport Bank annulled by the Legislature in 1837.

NOTE C.—The location of Sacket's Harbor Bank was changed in 1852 to Buffalo, and its name shortly afterwards changed to "Reciprocity Bank."

## FIRST RESORT TO THE SAFETY FUND.

The first occasion for the use of the Safety Fund occurred in 1837. Early in May of that year injunctions were issued against three banks in Buffalo—the City Bank of Buffalo, the Bank of Buffalo and the Commercial Bank of Buffalo. Immediately upon the passage of the Act of May 8, 1837, mentioned above, the Chancellor authorized the Comptroller to take such measures as he might deem necessary for the immediate payment of the ordinary notes of these banks.

Their outstanding circulation at the time was reported by the Bank Commissioners to be:

Bank of Buffalo.....	\$111,294
Commercial Bank of Buffalo.....	174,782
City Bank of Buffalo.....	127,845
Total.....	\$413,921

The "measures deemed necessary" by the Comptroller were to authorize and give public notice that the bills of those banks would be received in payment of canal tolls and all other debts to the State; a measure which gave general credit to the bills in actual circulation. Between May 8 and June 30 there had been redeemed from the Bank Fund, of the notes of the Bank of Buffalo, \$21,815; of the Commercial Bank of Buffalo, \$18,173; and of the City Bank of Buffalo, \$24,495. These advances, together with interest at 7 per cent., were repaid to the Safety Fund by the several banks on whose account they had been made.

In the same year the charters of two banks were repealed by the Legislature. These were the Sacket's Harbor Bank (charter repealed May 12, 1837) and the Lockport Bank (charter repealed May 15, 1837). On the 20th of May orders similar to those issued in the case of the Buffalo banks were issued authorizing the Comptroller to take measures for the immediate payment of the bills of these banks, after providing for the payment of the bills of the three banks against which prior injunctions had been granted. The reported circulation of the Sacket's Harbor Bank at the time was \$154,552; and that of the Lockport Bank, \$65,172.

"Notice was immediately given by the Comptroller that the bills of those banks would be received for canal tolls, and all payments to the State Treasury; \* \* \* and the Comptroller did not deem it necessary to make any other provision than that before alluded to for the redemption of these bills, until a general arrangement was entered into by the banks for redeeming their bills in New York City. When this took effect notice was given that the bills of the Sacket's Harbor and Lockport banks would be redeemed at the bank where the Treasury deposits are kept in the city of Albany."\*

The charter of the Sacket's Harbor Bank was shortly afterwards revived and all the charges on the fund on account of that bank were reimbursed by it as follows: Notes redeemed, \$92,361; accrued interest, \$814.29; total, \$93,175.29.

The charter of the Lockport Bank, however, was not renewed. The amount of bills redeemed from the Fund was \$36,168, in addition to which the bank itself redeemed at its own counters some \$29,000. The trustees of the bank paid over to the Comptroller, for the benefit of the Bank Fund, \$35,189.75, leaving unsettled a balance of \$978.25, together with \$2,021.75 accrued interest, which amounts were involved in controversy between the Comptroller and the bank. This was finally settled in 1841 by a special act of the Legislature which recognized the claim of the bank—the latter giving satisfactory security for the redemption of all its outstanding notes, and pledging itself to indemnify the Bank Fund against all claims upon it on account of any debts of the bank. The Safety Fund was therefore practically intact in 1840 when the first really serious failures occurred and stood at \$870,615.76.

## DISASTROUS FAILURES.

In the years 1840-42 there came following, one upon another, eleven important failures, viz:

(1.) City Bank of Buffalo.....	Feb. 3, 1840.
(2.) Wayne County Bank.....	Dec., 1840.
(3.) Commercial Bank of New York.....	Sept., 1841.
(4.) Bank of Buffalo.....	Nov. 2, 1841.
(5.) Commercial Bank of Buffalo.....	Nov. 15, 1841.
(6.) Commercial Bank of Oswego.....	Dec. 7, 1841.
(7.) Watervliet Bank.....	Mar. 9, 1842.
(8.) Chnton County Bank.....	Apr. 9, 1842.
(9.) Lafayette Bank.....	Feb., 1842.
(10.) Bank of Lyons.....	Sept. 13, 1842.
(11.) Bank of Oswego.....	, 1842.

In the case of the first three of these the Comptroller at once proceeded, in accordance with the Act of 1837, to redeem the notes as fast as presented. By the

\* Comptroller's Report, 1838, p. 16.



contributions of the banks in January, 1841, the fund was brought up to about \$914,000.

From the terms of the Act of 1837 the Comptroller considered it manifest that the immediate redemption of notes of failed banks was to be provided for only so long as one-third of the Bank Fund should still be left untouched and that until further contributions were made to the fund he had at his disposal, for the purpose of redeeming notes, only two-thirds the aggregate contributions up to date, or less than \$610,000. When the Commercial Bank of New York failed in September, 1841, \$427,876 of this had already been exhausted in the redemption of the notes of the City Bank of Buffalo and the Wayne County Bank. The redemption of the bills of the Commercial Bank of New York took \$118,631 more before the close of the year. This left the Comptroller only about \$60,000 from the amount he felt authorized to apply to this purpose, and when the Bank of Buffalo failed in November, 1841, with a reported circulation of \$290,000,\* the Comptroller expressed his belief that there was no legal authority for undertaking the redemption of the bills of this bank.

The Bank Commissioners, however, interpreting the law to mean that the redemption of notes should be provided for if the liabilities, over and above the assets, did not exceed two-thirds of the *balance of the bank fund* then unexpended, authorized the Comptroller to take measures for the payment of the notes of the Bank of Buffalo. The immediate question in dispute was rendered of less importance by the fact that the Comptroller had already issued a call for a further contribution of  $\frac{1}{2}$  of one per cent. from each bank, to be paid on or before Jan. 1, 1842, which added \$161,899.19 to the fund.

Though several other failures followed closely on that of the Bank of Buffalo, it was deemed impossible to utilize any portion of the Bank Fund for the redemption of their bills, the balance then being only about \$300,000—which must be set apart for the depositors and other creditors of the banks previously failed.

At this juncture came the passage of the Act of 1842, permitting the banks to participate their annual contributions for the next four, five or six years by advance payments in which the notes of any of the then insolvent banks would be received.

The banks quite generally took advantage of this provision, as considerable amounts of the bills of broken banks had collected in their hands, in most cases accepted at a considerable discount, and the opportunity to invest them at par in such shape that they would be drawing 7 per cent. interest was eagerly seized. Within the six months allowed them by the act sixty-four banks had paid up nearly half a million dollars, in the notes of the following banks—all of which became insolvent subsequent to the Bank of Buffalo:

Commercial Bank of Buffalo, .....	\$138,528
Commercial Bank of Oswego, .....	140,330
Wayne Co. Bank, .....	98,877
Lewis County Bank, .....	636
Bank of Lewis, .....	25,545
Lathrop's Bank, .....	14
Wayne County Bank, .....	73,679
Total, .....	\$477,609

In addition to the \$477,609 thus annually redeemed from the Bank Fund, the Comptroller exchanged \$100,000 of 7 per cent. Bank Fund stock for \$60,000 in notes of the Bank of Buffalo, \$20,000 in notes of the Commercial Bank of Buffalo, and \$20,000 in Government Bonds.

In May, 1843, the Comptroller was enjoined from using any portion of the Bank Fund for the purpose of paying creditors of any bank that may have become insolvent since the failure of the Bank of Buffalo, without reserving enough to pay all the creditors of the Bank of Buffalo and the three banks whose failures had preceded it. The object of this was, of course, to protect the interests of the depositors and other general creditors of the City Bank of Buffalo, the Wayne County Bank, the Commercial Bank of New York, and the Bank of Buffalo. Until all the debts of these four banks were provided for not even the notes of the banks that failed later could be redeemed.

During the next year the Comptroller continued the redemption of the notes of the four first mentioned banks and by Sept. 30, 1844, the total redemptions—including also the amounts received in commutation of contributions to the safety fund and the amounts for which stock had been exchanged—amounted to \$1,502,470; while the bank fund on hand at the same date amounted to \$145,493.72.

In accordance with the Act of April 28, 1845, the Comptroller issued stock for the payment of which the future contributions of the remaining banks of the system were pledged, and with the proceeds prepared to settle up all charges against the Safety Fund. June 6th, 1845, he gave notice that he would redeem at

\* The actual circulation, as shown by subsequent developments, was over \$400,000.

† The Lewis County Bank was temporarily enjoined during a part of the year 1842, which accounts for its appearance here. It shortly afterwards resumed business and thereafter redeemed its own notes.

par the outstanding notes of all insolvent banks, and between that date and Sept. 30, 1850, he did redeem such as were presented—amounting to about \$113,000—\$37,754 of which was by the issue of stock and the remainder by the payment of cash from the fund. This made the total redemptions on account of the notes of these banks, up to Sept. 30, 1850, as follows

City Bank of Buffalo.....	\$317,107
Wayne County Bank.....	113,131
Commercial Bank of New York.....	130,837
Bank of Buffalo.....	435,540
Commercial Bank of Buffalo.....	180,861
Commercial Bank of Oswego.....	163,162
Watervliet Bank.....	134,107
Clinton County Bank.....	71,896
Bank of Lyons.....	62,898
Lafayette Bank.....	38
Total.....	\$1,614,577

It would appear from later reports that subsequent to 1850, some \$725 was paid out in redemption of additional bills of these banks, but it is impossible to ascertain the individual banks to which this should be charged.

#### PAYMENT OF OTHER CREDITORS THAN NOTE-HOLDERS.

The Act of 1845 recognized the liability of the fund not only as towards the holders of the circulating notes, but also to the general creditors of the banks that had already failed, and provided the means for meeting their demands. It called, first, upon the several receivers to furnish estimates of the additional amounts required to enable them to pay all their creditors, and directed the Comptroller to issue State stock to an amount sufficient to meet all the demands against the fund.

In Dec., 1845, the receivers of six banks reported that the following amounts would be required to enable them to pay off their creditors: Bank of Buffalo, \$150,000; Commercial Bank of Buffalo, \$435,000; Watervliet Bank, \$100,000; Commercial Bank of Oswego, \$90,000; Clinton County Bank, \$142,000; Bank of Lyons, \$100,000, total, \$1,017,000.

The method of settlement followed by the Comptroller was, in general, taking up the creditors of only one or two banks at a time, to pay all debts of less than \$1,000 in cash, and issue stock in payment of all claims for larger sums. During the few months intervening between the passage of the Act and the close of the fiscal year, Sept. 30, 1845, he settled with all the general creditors of three banks, liquidating claims to the following amounts: Bank of Buffalo, \$149,241.22; Commercial Bank of New York, \$146,129.23; Commercial Bank of Oswego, \$78,351.63; Total, \$373,722.08—of which \$69,488 was by payments of cash from the Fund, and \$304,233.69 by the issue of stock. This was the first application of any portion of the Safety Fund to debts other than circulation. In the course of the next year the creditors of the Commercial Bank of Buffalo were settled with in full and a beginning made with the creditors of the other banks, which were shortly afterwards disposed of.

By 1851 the following amounts had been paid out in settlement of debts other than circulation:

Wayne County Bank.....	\$16,077.70
Commercial Bank of New York.....	146,129.23
Bank of Buffalo.....	149,241.22
Commercial Bank of Buffalo.....	424,514.87
Commercial Bank of Oswego.....	78,351.63
Watervliet Bank.....	77,484.09
Clinton County Bank.....	156,257.39
Bank of Lyons.....	40,053.08
Total.....	\$1,088,109.21

Of the whole eleven banks whose failures occurred so near together, only two—the Lafayette Bank of New York and the Bank of Oswego—found themselves able to settle with all their creditors and redeem all their circulating notes without calling upon the Bank Fund for assistance.

The contributions of the solvent banks had by this time so far surpassed the current demands upon the fund that by Sept., 1850, the Comptroller had been able to call in and pay off over \$200,000 of the Bank Fund stock, leaving outstanding on that date \$715,905.33.

The creditors of the banks having been in this way satisfied either by means of payments from the fund or the issue of Bank Fund stock, the Safety Fund became the natural claimant for whatever amounts should be realized from the remaining assets in the hands of the receivers, up to the full amount advanced.

In December, 1845, the receivers had reported the amounts of assets sold and on hand, and estimated the value of the remaining assets as follows:

	Assets at Failure.	Amount Realized.	Amount of Assets Un-oid.	Estimated Value of Un-oid Assets.
City Bank of Buffalo.....	\$730,017.35	\$166,576.08	\$570,000.00	\$50,405.00
Bank of Buffalo.....	1,421,843.30	82,836.69	.....	.....
Commercial Bank of Buffalo.....	985,063.92	172,864.64	456,447.31	49,680.86
Wayne County Bank.....	293,970.39	56,743.60	246,900.69	24,627.53
Bank of Lyons.....	383,608.08	87,444.64	236,329.34	11,524.47
Bank of Oswego.....	213,353.25	32,693.00	163,813.00	a
Clinton County Bank.....	543,429.66	76,019.47	64,381.57	12,732.65
Commercial Bank of New York.....	858,471.68	303,338.74	301,405.96	b
Watervliet Bank.....	202,378.91	19,158.73	204,137.49	.....
Commercial Bank of Oswego.....	507,173.36	80,632.59	94,087.19	10,525.15

(a) Receiver of the Bank of Oswego unable to affix any definite value to remaining assets. Thinks they will prove sufficient to pay all the debts of the bank by the following summer.

(b) The Commercial Bank of New York had already realized enough to declare a dividend of 70% to its creditors. Impossible to assign values to remaining assets; but thinks it quite probable that there will still be a deficiency to be met by the Safety Fund.

After the assumption and settlement of the debts of the several banks by the Comptroller, the conversion of the remaining assets into cash became slow. In some instances the receivers advertised and sold the assets at public auction, in which case the Comptroller usually appointed an agent to look after the interests of the Safety Fund and bid in such assets as seemed to be going at a sacrifice. In this way, in November, 1845, the Comptroller bid off for \$16,900 assets of the City Bank of Buffalo of a nominal value of \$470,000. Likewise the most of the remaining assets of the Watervliet Bank were bid off by the Comptroller. In the cases where the receiver continued the slow process of collecting the assets, the proceeds, after expenses were deducted, were turned over to the Comptroller from time to time, and where the assets themselves came into the hands of the latter, as fast as anything was realized from them it was turned into the Bank Fund. The amounts thus realized between 1845 and 1866 were as follows:

City Bank of Buffalo.....	\$90,995.52
Watervliet Bank.....	13,258.52
Bank of Lyons.....	3,760.60
Commercial Bank of Oswego.....	2,392.33
Commercial Bank of New York.....	7,188.17
Commercial Bank of Buffalo.....	5,000.00
Banks not specified in reports.....	6,482.24
<b>Total.....</b>	<b>\$138,077.38</b>

The Comptroller on several different occasions called attention to the fact that these assets were not being turned into money as rapidly or to so large an extent as they might be if in the hands of individuals, and requested authority to sell those still remaining in his hands for what they would bring. This authority, however, was not given him, and considerable amounts that could probably have been collected if they had been given careful attention, were allowed to remain uncollected until the statute of limitations effectually cut off all hope of realizing anything further.

To summarize the transactions between these insolvent banks and the Safety Fund and to present briefly the more important facts in regard to each, the following will prove valuable:

	Capital Stock.	Circulation allowed.	Circulation reported previous to failure.	Circulation outstanding at failure, as reported by Receiver.	Payments from the Bank Fund.		Receipts from assets, paid to Bank Fund.	BALANCE.
					In redemption of notes.	In payment of other debts.		
City Bk. of Buffalo	\$400,000	\$300,000	\$308,922	.....	\$317,107	.....	\$90,995.52	\$217,111.58
Wayne Co. Bk.	100,000	150,000	144,392	\$122,038	113,131	\$16,077.70	.....	129,208.70
Com. Bk. of N. Y.	500,000	350,000	121,370	17,354 a	139,837	146,129.23	7,188.17	278,778.06
Bank of Buffalo..	201,000	200,000	135,760	120,000	265,000	435,540	149,241.32	584,781.22
Com. Bk. of Buff'lo	400,000	300,000	246,062	25,000 a	488,257 c	421,514.87	5,000.00	606,775.87
Com Bk of Oswego	250,000	225,000	216,000	197,000	11,650 a	163,162	2,392.33	230,121.30
Watervliet Bank.	250,000	225,000	114,510	21,537 b	136,778	77,484.09	13,258.52	198,332.57
Clinton Co. Bk...	200,000	200,000	167,781	69,779	71,806	156,257.39	.....	258,153.39
Bank of Lyons...	200,000	200,000	80,825	80,424 a	169,000	52,898	3,960.60	88,920.48
Lafayette Bank...	500,000	350,000	71,598	.....	.....	38	.....	38.00
Oswego Bank....	150,000	175,000	95,450	.....	725	.....	6,482.24	.....
Not specified.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Total.....</b>	<b>\$3,150,000</b>	<b>\$2,675,000</b>	.....	.....	<b>\$1,615,302</b>	<b>\$1,088,169.21</b>	<b>6,482.24</b>	<b>\$2,565,133.88</b>

a. Claimed as belonging to the bank, mainly in the hands of redemption agents.

b. Held by other banks as collateral security.

c. About \$100,000 of these notes were claimed as being the property of the bank, held by others mainly as collateral security.

After the failure of these eleven banks, as already outlined, the Safety Fund was left in such shape as to afford little security for the circulation of the remaining banks, the future contributions being practically mortgaged to their full extent by the outstanding Bank Fund stock, amounting at one time to more than \$900,000. To the extinguishment of this debt the annual contributions of the remaining banks were applied.

Happily the failures of the remaining period were few, numbering but five.

The Canal Bank of Albany, with a capital stock of \$300,000, had outstanding in July, 1818, when it failed, circulating notes to the amount of \$185,531. But meanwhile the new Constitution of 1846 had made the circulating notes a first charge upon the assets. The receiver, accordingly, redeemed the circulation at once, and the Bank Fund, therefore, did not enter into the case at all. So far as can be ascertained, there was no depreciation of the notes in the hands of other banks or the public at the time of the failure.

The Lewis County Bank which failed in November, 1851, was not so fortunately situated. This institution, located at Martinsburg, had a nominal paid-up capital of \$100,000, and under the existing law was entitled to issue \$150,000 circulation. How near it came to being a bank of issue, pure and simple, can be determined from its last annual statement previous to failure, which reported the liabilities to the public to be:

Circulation .....	\$18,007
Deposits .....	1,908
Due other banks and corporations .....	964
<b>Total .....</b>	<b>\$20,879</b>

At the time the bank passed into the hands of the receiver there were no liabilities whatever on account of deposits of other debts than circulation.

Although it became apparent at once that the receiver would be unable to collect sufficient funds to redeem the notes of the bank, the Safety Fund could then afford no assistance. For, as has already been pointed out, all future contributions to that fund until after 1860 were pledged for the redemption of the Bank Fund stock which had been issued in 1845 and 1846 to settle with the creditors of the banks which had then become insolvent. Twenty years later arrangements were made whereby the notes still outstanding were finally redeemed from the surplus of the Safety Fund after the payment of the stock issued against it.

The crisis of 1857 brought in its train the downfall of three more safety fund banks, whose outstanding circulation at the time was reported as follows:

Bank of Orleans .....	\$20,000
Reciprocity Bank .....	7,000
Yates County Bank .....	7,800
<b>Total .....</b>	<b>\$34,800</b>

In these cases, however, the assets were such as to enable a much larger part of the circulation to be redeemed. By 1866 the outstanding notes had been reduced in amount to:

Bank of Orleans .....	\$ 7,500
Reciprocity Bank .....	10,744
Yates County Bank .....	18,445
<b>Total .....</b>	<b>\$36,689</b>

In his report for 1867 the Superintendent of Banking states the outstanding circulation of these four failed banks to have been reduced to \$429,499. The surplus fund remaining at his disposal after the loss of the Bank Fund stock had been generated for enabled him to declare a dividend of 40% on these notes. But at the end of the year a few of the notes had been presented—mainly owing, doubtless, to the destruction of the greater part of the notes of the Lewis County Bank in the great fire which had befallen since its failure—that the Superintendent was unable to cover in full the entire due for the unpaid 60% given upon payment of the principal amount of the notes. There was then still left a balance of \$33,144.19, which was paid into the Treasury. A part of it was afterward paid to the representative of the Bank of Orleans in excess of contribution in 1812.

From the redemption of the safety Fund to its close the total contributions therefrom amounted to \$1,101,527 and the total payments therefrom—including not only the circulating notes but, as to the earlier failed banks, all other liabilities, comprising deposited accounts—amounted to less than \$2,600,000, the remainder having been paid in interest for advances to the fund in 1845-6, to enable it to meet the extraordinary losses of that period.

#### DEFECTS AND REMEDIES.

##### *Political Charters.*

The practice of granting special banking charters gave way in 1838 to a system of banks incorporated under general law—a change brought about largely by a widespread reaction against the corruption which had crept into the establishment and management of the specially chartered banks during the previous decade.

It must be remembered that up to this time, in the State of New York, as in the greater part of the United States, banking was a monopoly; and the issue of a charter for bank purposes was the grant of an important privilege, for which concessions were occasionally required to be made the State, but which was more often included in the general distribution of the spoils of office among the friends of the dominant party in the Legislature. It is little wonder, therefore, that this became a favorite field for corruptionists, and that the legislative struggles over the granting of bank charters were oftentimes violent almost beyond description.

Even after the legislative battle had been fought and won, the distribution of the stock was still a matter for dispute. This was generally entrusted to the Bank Commissioners or to specially appointed agents, and was not often managed in such a way as to give the best of satisfaction.<sup>17</sup>

Nor was this most unsatisfactory method of inaugurating banking corporations lacking in effect upon their subsequent career. The means and methods employed in their establishment led to unsound and often deceptive management. Many of the banks chartered when the scandal was at its highest were originally organized and subsequently managed by a few individuals solely with a view to profitable speculation in their stock. That the real strength of the system was in its older banks, and its weakness in those chartered under the conditions suggested above, may be gathered from a glance at the table on page 7, where the names of those banks which afterward failed are printed in italics. It will be noticed that of the twenty-eight older banks rechartered and doing business under the safety fund system none failed. But of the sixty-four new banks chartered in the seven years following the passage of the Safety Fund Act, no less than sixteen afterwards failed, and the charter of one other was revoked by the Legislature on account of its unbusinesslike transactions.

#### *Speculative Banking.*

Then, too, the period following the expiration of the charter of the Second United States Bank was one of excessive speculation. There was not only an undue expansion of the field of banking by which banks were established where no legitimate demand for them ever existed, but the speculative mania which had fastened upon nearly every branch of business involved the customers of every banking institution, while the competition among banks themselves led to careless scrutiny of commercial paper.

In this connection it will prove most instructive to recur to the table on page 7. Of the forty-four banks newly chartered between 1829 and 1833, inclusive, seven afterwards failed; while of the twenty banks chartered in the speculative years 1834-36 no less than ten afterwards became insolvent. That record—a mortality of fifty per cent.—shows more plainly than any extended discussion can do that the failures which so shook the system in 1841-42 are traceable more or less directly to the management of these institutions organized during the era of speculation commencing early in the thirties and culminating in the commercial crisis of 1837-1839.

#### *Overissues.*

One of the first lessons learned was that the safety of the system demanded more positive security against fraudulent overissues of circulating notes.

From 1837 the circulation of the safety fund banks was limited by the rechartering to the amount of their capital stock. But by the act which authorized the \$200,000,000 of specie payments, further limitations were placed upon the issue of *banknotes* as follows:

Capital	Circulation	Capital	Circulation
\$100,000	\$100,000	\$50,000	\$250,000
150,000	150,000	60,000	300,000
200,000	200,000	70,000	350,000
250,000	250,000	100,000	500,000
300,000	300,000	1,000,000	1,700,000
500,000	500,000	2,000,000	1,200,000
1,000,000	1,000,000		

In 1848 the limit in the case of banks of more than \$250,000 capital was increased to the full amount of their capital.

In the case of the City Bank of Buffalo (see table on page 11) the actual redemption from the Bank Fund after failure exceeded the lawful circulation by \$17,167, and the previously reported circulation by nearly \$50,000. In the case of the Commercial Bank of the same city it was ascertained that the amount of its bank notes out of its control at the time of the failure was \$488,257—nearly twice the lawful issue—though in this case the larger part of the notes were returned to

<sup>17</sup>On this point the Bank Commissioners, in their report for 1837, say:

"The distribution of bank stocks created at the last session has in very few, if any, instances been productive of anything like general satisfaction. In most instances its fruits have been violent contention and bitter personal animosities, corrupting to the public mind and destructive of the peace and harmony of society."

the bank and the final redemptions from the Safety Fund fell within the prescribed limit.

But the most flagrant violation in the way of fraudulent over-issue occurred in connection with the Bank of Buffalo. This bank, having a capital of \$200,000, was lawfully entitled to issue notes only up to that amount. The discovery that its issues were \$13,000 in excess of this was one of the causes of the injunction granted in November, 1841. A thorough examination of the books and accounts of the bank led to the belief that there were about \$290,000 outstanding. The exact amount was never definitely ascertained, but aside from any amounts that may have been lost or that received by the bank itself in the settlement of its affairs, the Comptroller redeemed from the Safety Fund no less than \$435,540—\$235,540 in excess of the maximum prescribed by statute.

The over-issues of these two banks alone—the City Bank of Buffalo and the Bank of Buffalo—cost the Safety Fund \$252,647 more than the maximum circulation to which they were entitled; while an examination of the affairs of all the insolvent banks showed that their actual outstanding circulation at the time of failure amounted in the aggregate to \$600,000 more than that stated in their last annual returns, a difference much too great to be due to any actual increase in the circulation.

The act of 1843 corrected the defect noted by providing for issue by the Comptroller in blank and registry of all State Bank bills.

#### *Application of the Safety Fund.*

The experience in this regard has been too fully given above to make it necessary here to do more than note how illogical was the original use of the Safety Fund to pay local depositors as well as note holders; how disastrous in practice was the result, and how this was remedied.

#### *Mistaken Basis for the Assessment.*

The Safety Fund was to be made up and kept good by an assessment (when ever required) of one-half of one per cent. per annum upon the *capital* of the co-operating banks. It was only in the most imperfect way that in the case of each bank, after 1837, its capital corresponded to its authorized circulation; while almost exclusively it was the smaller banks which, deriving from their circulation the greater proportion of their profits, continually kept near the limit in this regard. As a consequence, not merely were the strong banks unduly burdened to guarantee the notes of the weak ones, but, since the assessment to be paid by each was unaffected by the amount of its outstanding notes, such assessment was no obstruction to increase of circulation. Had it been based instead upon the average amount of outstanding circulation, not merely would the law more promptly have provided against over-issues, but to some extent the tax itself would have been a brake upon excessive issues. Such were among the considerations which, at the very outset, were the grounds for complaints by the larger New York banks, and which would doubtless have been remedied had not an entirely different system been adopted before the safety fund plan itself had been perfected.

#### RESULTS.

As the weak points noted became apparent the Legislature was prompt to apply remedies, as noted in the chapter on legislation at pages 4-6. How appropriate and effective were the means thus adopted can perhaps be so well illustrated in no other way as by the calculations below of what would have been the actual experience of the Safety Fund Act had it included from the beginning the features which, on the suggestion of experience, were adopted by amendment.

In actual practice the Safety Fund was depleted by drafts not consistent with proper legislation; and which were actually stopped by amendment of the law—too late, however, to prevent serious results:

*First.*—As to obligations of banks accrued before April, 1842, the Safety Fund was used to pay depositors and other creditors, as well as to redeem outstanding circulation; and \$1,088,000 was thus used to pay debts other than circulation.

*Second.*—Prior to 1843 there was no registry of notes or safeguards against over-issues. As a consequence there were redeemed from the Safety Fund \$252,647 of notes in excess of legal issues, and a much larger amount in excess of reported issues.

*Third.*—On account of these illegitimate drafts the Safety Fund had to be made good by loans, the interest on which before they were repaid from the proceeds of the annual  $\frac{1}{2}\%$  assessments on bank capital was \$500,000.

Eliminating these alone, the following is a statement of what the results of the experience with the Safety Fund system would have been had the legislation before the failures of 1840-42 taken the form of the act as perfected by subsequent legislation

Aggregate demands upon the fund: Circulation, \$1,615,000, less \$255,000 over-issues (which would then have been impossible), or \$1,360,000. This demand, however, would not all have accrued at once. \$413,000 was on account of banks failing

prior to January 1, 1841; \$1,100,000 on account of banks failing prior to January 1, 1842; and \$1,360,000 for banks failing prior to January 1, 1843. Annual contributions being resumed as soon as the fund was in any way depleted, in January, 1841, it would have amounted to \$1,076,000; \$1,238,000 January 1, 1842, and \$1,400,000 January 1, 1843. The Comptroller, being hampered by no necessity for reserving a part of the fund to pay general creditors, would have been free to redeem the outstanding notes of each bank immediately upon the granting of the injunction against it. There would, therefore, have been no cause for depreciation of the bills of any of these banks; but all would have been promptly redeemed at par. And after all note-holders were paid there would still have been a small surplus, which the regular one-half per cent. contributions of the banks would soon have raised to the required three per cent. Not only, therefore, would the fund have been adequate to meet, as it was presented, the circulation of the banks that failed in 1840-42, but would have afforded ample security for the circulation of the remaining banks until the expiration of their charters, redeeming at once and in full the notes of the four banks which failed in 1854 and 1857, and still leaving a surplus to be returned to the contributing banks upon the expiration of their charters.

In this summary nothing is said of the first lien given the notes of an insolvent bank by the constitution of 1846, which alone would have reduced the charge upon the Bank Fund by more than \$800,000.

Nor has the effect of the individual liability of bank stockholders, under the Constitution, accruing after 1850, been taken into account.

And a most important factor is still to be noted. The natural effect of a system can be seen only when it is allowed its natural development. Had not the "Free Banking" system been adopted in 1838, the Safety Fund assessments would have been based on a constantly widening basis. As it was, they were paid on a constantly diminishing capital, as the charters of the Safety Fund banks expired.

Taking these considerations into account, it is plain, as the result of calculation from experience of 36 years (1829-1865), that, had the Safety Fund system—as perfected prior to and in the constitution of 1846—been left untouched as that upon which New York State bank currency was based, not merely would every dollar of circulation have been kept good, but the total assessment to keep the fund good would have averaged less than  $\frac{1}{4}\%$  on the banking capital, or about  $\frac{3}{8}\%$  on the average circulation outstanding.

#### *Why the Safety Fund System was Superseded.*

The system of granting special charters had given rise to such abuses, both in the distribution of the stock of the safety fund banks and in their subsequent management by bank commissioners, whose appointment was within the field of political spoils, that the whole system was abandoned and in 1838, a general banking law enacted, under which individuals or associations with requisite capital might engage in the business of banking by depositing with the Comptroller certain specified securities upon which circulating notes were issued. After the passage of this general law no new special charters were granted, though two of the older chartered banks after this entered the safety fund system with extended charters.

The safety fund system was thus *the* banking system of the State during the years 1829-38—all the charters granted in this period being under it; while from 1838 until 1866, when the last charters expired, it was an organized, working system, existing alongside the banks incorporated under the general law. It is a fact perhaps worthy of notice that this abandonment of the system took place before any real failure had occurred to try its strength, and was not due to any failure of the safety fund to afford the requisite security to the bill-holder. On the contrary, upon each of the occasions when its assistance had been invoked—involving the redemption of the notes of five different institutions—it had met every requirement; all advances on account of the suspensions had either been entirely restored or were fast being repaid; and not a dollar had been finally lost on any bank note issued under the system during the nine years it had then been in force.

#### **BOND DEPOSIT SYSTEM—"FREE BANKING."**

For years prior to 1838 the political situation in New York had been such as to tempt criticism of Safety Fund banking as something for which the Federalists were responsible, and now the Democrats, after having made the question an issue for several campaigns, found themselves in a position to put into legislation the counter theories they had advocated. The Free Banking Act of 1838 was the result; to the perfection of which was devoted such of financial experience and tact as could then be utilized in behalf of a special security system.

The Safety Fund law had been a comparatively novel application to banking of principles long familiar in the conduct of other business; the Free Banking Act was the development of the rival principle of special security, which had maintained from time immemorial in the banking business as well. Had the Safety

Fund not been pre-empted by their political opponents there was no reason why the free banking advocates should not have adapted it to their plans. As it was, however, their criticism had been too universal to make it easy for them to adopt any part of the system they had denounced. As a result, the Free Banking Act was carefully drawn, not merely to do away with the "monopoly" which had been denounced as an incident of the Safety Fund system, but to exploit as far as possible the theories opposed to those upon which it was based; and, since the Safety Fund system still continued in operation, a most instructive experience, under similar conditions, of contrasting systems was the result.

#### LEGISLATION.

**1838.** The Free Banking Act, based upon a bill drawn by Abijah Mann, bears date of April 18, 1838. Under it individuals or associations were authorized to engage in the business of banking, and to receive from the Comptroller circulating notes in blank, duly registered and countersigned, upon depositing with him the stocks of the United States, of the State of New York, or of any other State approved by the Comptroller, made equal to a five per cent. stock of the State of New York, or bonds and mortgages on improved, productive, and unincumbered real estate, worth double the amount secured by the mortgage, and bearing interest at not less than six per cent. per annum. The banks might deposit stocks only, in which case the notes were printed in a manner to indicate that they were so secured; or they might deposit half stocks and half bonds and mortgages, when that fact was likewise shown by the notes.

By this general act each association desiring to operate under its provisions was authorized to fix its own corporate name; determine the amount of its capital, and the period of its corporate existence; designate the place where its banking operations shall be carried on, and to provide by its articles of association for an increase of its capital, should it be so desired.

Associations were required to have a paid up capital of \$100,000. Individuals, being subject to unlimited liability in any event, were not required to show evidence of any special amount of paid up capital; and neither associations nor individual bankers were required to deposit any specified amount of securities.

In case of failure or refusal on the part of the association or individual issuing notes to redeem them on demand at the place where they were made payable, after ten days' public notice of protest for nonpayment, the Comptroller was authorized to apply the trust funds deposited for their security to the payment and redemption of the notes. The State, however, was liable for nothing beyond the proper application of the securities pledged.

Detailed semi-annual reports were required to be made.

The act of 1838 also provided for a specie reserve of not less than 12½ per cent. to be kept by each association, against its circulating notes.

**1840.** By the act of May 11, 1840, all banks, banking associations, or individual bankers, except those located in New York, Brooklyn or Albany, were required to arrange for the appointment of agents in the city of New York or Albany for the redemption of their notes at a discount not exceeding one-half of one per cent.

A wave of repudiation, or semi-repudiation, of State indebtedness having begun in 1839, as a result of which attention was drawn to the uncertainty and undesirability of stocks of other States as security for notes issued under the General Banking act, the Legislature, by the act of May 11, 1840, excluded from future deposits all stocks except those issued by the State of New York. This, however, did not require the stocks of other States already on deposit to be replaced by New York State stocks.

This same act provided that no association should commence the business of banking until it had deposited with the Comptroller the securities required by law to the amount of \$100,000, and effectually cut off the issue of post notes—a practice which was becoming quite prevalent—by an express inhibition against any banking association or individual banker issuing any bill or note "unless the same shall be made payable on demand and without interest."

The 12½ per cent. specie reserve requirement was repealed by this act.

**1841.** The provisions of the original act in regard to the application of "the State trust funds belonging to the makers of such protested notes to the payment and redemption of such notes" having been held to authorize payment in full of the holders of protested notes at the expense of the holders of the remainder of the circulation, the act of March 15, 1841, was passed, providing for the "payment *pro rata*, of all such circulating notes, whether protested or not."

By the act of May 26, 1841, annual reports to the bank commissioners were substituted for the semi-annual reports to the Comptroller theretofore required. Provision was also made that any bank having redeemed 90 per cent. of its circulation, after two years' published notice, should receive from the Comptroller any securities he may hold for the payment of its unredeemed notes.

**1843.** The "act to abolish the office of Bank Commissioner," April 18, 1843, substituted for annual reports detailed quarterly reports to the Comptroller.



**1844.** To guard more carefully the business of individual bankers it was provided by the act of May 6, 1844, that no individual banker shall receive circulating notes until he shall have deposited with the Comptroller the securities required by law to the amount of \$50,000; that every such banker shall state in his reports what persons, if any, are interested with him; and shall file with the Comptroller "a certificate, stating the town, city, or village, in which he resides; and thereafter it shall not be lawful for such individual banker to transact business under said act in any other place than in which he resides."

**1846.** The new State Constitution required that provision should be made by law for all notes circulating as money, and for ample security for their redemption in specie; also that shareholders of note-issuing banks should be individually responsible to the amount of their respective shares for debts contracted after January 1, 1850; also that in case of insolvency bill holders should be entitled to preference in payment over all other creditors of the bank, etc.

**1847.** By the act of December 4th, 1847, the method of calling for quarterly reports was so changed as to require them to be made out after the first of each quarter for some day during the preceding quarter, then designated by the Comptroller.

**1848.** By the act of April 12, 1848, it was required that "all banking associations or individual bankers," organized under the general banking law, "shall be banks of discount and deposit as well as of circulation, and the usual business of banking shall be transacted at the place where such banking associations or individual bankers shall be located," as designated in certificate, "and not elsewhere;" and in each report it is required to be stated that "the business of said association or banker has been transacted at such location."

This same act required that New York stocks thereafter deposited should be, or be made equal to, six per cent. stock, instead of 5 per cent. as theretofore. The basis of mortgages was at the same time raised to seven per cent., in amount not exceeding two-fifths the value of the lands exclusive of buildings, and no mortgage to be for a greater amount than \$5,000.

**1849.** The Legislature in 1849 (April 5) passed a comprehensive act providing for the enforcement of the double liability of stockholders of banks and banking associations subsequent to Jan. 1, 1850, in accordance with the Constitution of 1846.

By the act of April 10th, 1849, United States 6 per cent. stock were admitted for deposit on equal terms with New York stocks, except that at least one-half of the stocks deposited must still be New York State stocks.

**1850.** By the act of April 10, 1850, the method of final distribution of funds arising from sale of securities deposited by associations or individual bankers when shall have failed, was more definitely prescribed. After the expiration of six years after sale of the securities, the balance of the fund remaining after six weeks' published notice, was to be put to the credit of outstanding certificates if the notes previously redeemed had not been redeemed at par; otherwise, turned over to the association by which they had been deposited.

**1851.** By the act of April 12, 1851, "To organize a Bank Department," the appointment of a Superintendent of Banking was authorized, to whom all reports were thereafter made.

By the act of April 15, 1851, the city of Troy was added to the redemption cities, and the maximum discount at redemption agencies reduced to one-fourth of one per cent.

**1863.** By the act of April 29, 1863, bonds and mortgages were finally discarded as a basis for circulation, and securities for deposit restricted solely to stocks of the State of New York and of the United States, not more than two-thirds of which might be United States stock.

#### EXPERIENCE.

By January 1, 1839, 48 persons or associations had filed the requisite certificates in the office of the Secretary of State. The amount of capital subscribed by them was \$10,838,175, the total amount of stocks transferred as security for circulating notes by the 16 associations which had commenced operations was \$1,170,090, and the total amount of mortgages transferred was \$422,910; about \$75,000 were rejected as unsatisfactory. The amount of circulation actually issued at that time, however, was but \$396,300. By December 1, 1839, the number of associations had increased to 133, of which 76, with a total capital of \$21,000,000, and circulation of about \$6,000,000, were in full operation.

Already, however, it was evident that all would not be smooth sailing. The Comptroller, in his report for 1840, called attention to the fact that a sort of banking mania seemed to prevail, at the extent and possible results of which the community was becoming alarmed. One bank had already been wound up during the year, fortunately without loss to the bill holders; and similar results in the case of two others were in prospect. The Comptroller, realizing that if in these early cases of failure the securities proved adequate to meet the circulation, additional confidence in the circulation would result, made every effort to secure that end.

Before the first of January, 1841, eight banking associations had ceased to do business. Four of these,\* discontinued without loss to the holders of their circulating notes. The securities of one other—the Tenth Ward Bank—were sold and produced sufficient to pay 94 cents on the dollar. In the case of the bank of Tonawanda the depreciation in the value of the securities was such that the dividend on the notes was but 68 per cent. Each of the other banks—The Farmers' Bank of Seneca County and The Millers' Bank (Clyde)—had two classes of bills in circulation; those issued on the security of State stocks alone, and those based on State stocks and mortgages. In the case of each bank the proceeds of the securities were sufficient to redeem in full the notes issued upon the pledge of State stocks alone; but of those secured by stocks and real estate, the notes of the Farmers' Bank were redeemed at 74 per cent, and those of the Millers' Bank at 94 per cent.

This, however, was only a beginning of the failures. Eighteen more followed in the course of the next year. Those notes secured by deposit of State stocks were redeemed at an average discount of 20 per cent., and those secured by stock and real estate at a discount of about 25 per cent.

In 1844, the Comptroller reported that, up to that date, 93 free banks had deposited securities and received and issued circulation. Of these, eight had voluntarily closed business and retired their circulation. Twenty-six had failed, and their circulation, amounting to in the aggregate to \$1,197,547, was taken up by the Comptroller at an average of 76 cents on the dollar. The remaining 59 associations and individuals had on deposit with the Comptroller, New York State stocks amounting to \$1,774,484; stock, \$52,000; cash, \$17,731; stocks of Mich., Ind., U. S., Ill. Ark., Ala., Ky., and Me., of the nominal value of \$3,744,829, but then valued by the Comptroller at \$2,745,156.†

By 1848 the number of free banks was fifty-three, and of individual bankers fifty-one, with an aggregate circulation of \$9,993,762 against securities amounting to \$10,640,182. Of these securities, \$7,627,092 were New York State stocks, \$114,000 United States stocks, \$1,514,979 bonds and mortgages, and the remainder, except \$49,906 cash, consisted of stocks of Illinois, Arkansas, Indiana, Alabama and Michigan. In 1848 the Legislature, admonished by the insufficiency of the security in the case of earlier failures, made a change in the law, requiring that thereafter only New York stocks, made equal to six per cent., and bonds and mortgages bearing seven per cent. interest on real estate to the extent of two-fifths of the value of improved real estate, exclusive of the buildings thereon, could be received as security for circulation.

Millard Fillmore, Comptroller, in his report dated December 30, 1848, made just after his election as Vice-President of the United States, states that the average amount for which bonds and mortgages held as security for circulation had sold during the previous ten years was 67.71 per cent., while five per cent. New York State stock had sold at an average of 92.86 per cent. He recommended legislation providing for the gradual withdrawal of the bond and mortgage security and the substitution of New York State stocks.‡

In his report for 1844 the Comptroller called attention to the fact that "during the past year a number of applications have been made for the establishment of individual banks at points remote from the general channels of business, and where no necessity seemed to exist for banking facilities. Many of these individual banks have originated in the City of New York, and some in Albany. \* \* \* The redemption at a discount of one-half of one per cent. allowed by law is probably one of the principal inducements for establishing banks of this description. The notes are signed and circulated in the City of New York, and by fixing the place of redemption at some inaccessible point, the holder is compelled to go to the office where the note was really issued in Wall Street, and pay half of one per cent. for its redemption. If all the banks in the State were required to redeem their notes at par in the City of New York, the motive for multiplying these shaving shops would probably be removed."

Considerable importance attaches to the practice which had thus developed of establishing banks for circulation purposes only, which did no real banking business. In a report made by a Senate Committee in 1845 the names of eight such associations are given, whose combined capital amounted to \$377,000; loans and discounts, \$37,920; and circulation, \$545,000. "It really could never have been the intent of the Legislature," continues the report, "to authorize the creation of such banks as

\* The Willoughby Bank (Brooklyn); The Farmers' Bank of Penn Yan; The N. Y. City Trust and Banking Co., and The Chelsea Bank.

† Finding the small banks unsafe, the Legislature in 1844 required individual bankers to deposit securities to the amount of at least \$50,000; and associations to the amount of \$100,000, before they were entitled to any notes for circulation.

‡ The Superintendent of Banks, in his report for 1854, says upon the same subject: "It is believed that all the bonds and mortgages that have been sold under the provisions of the free banking law, since the passage of the Act of 1848, have not produced over 73 per cent., in cash, on their par value.

"The experience of sixteen years has, therefore, demonstrated the fact that bonds and mortgages do not prove to be a certain and ample security to bill holders, and it cannot be supposed that bonds and mortgages can be negotiated or converted into cash, on short notice, by the superintendent at their par value."

those; and if they now have legal existence, it can scarcely be deemed sound policy to permit their continuance, or to sanction the establishment of others of like character."

The legislation of 1848, providing that "all banking associations and individual bankers shall be banks of discount and deposit, as well as of circulation," was an attempt to do away with these "circulation" banks. It seems, however, to have been ineffectual.\*

Following is a tabular statement of data as to failed banks under Free Banking system.

Banks.	Failed.	Circulation Outstanding.	Rate.	Loss.	Banks.	Failed.	Circulation Outstanding.	Rate.	Loss.
Tenth Ward Bank...	1840	\$11,303 a	94	678	Bank of Brockport...	1844	25,000 b	80	5,000
Bank of Tonawanda...	1840	15,485 a	68	4,355	Hamilton Bank...	1844	8,245 b	Par	.....
Miller's Bk. of Clyde	1840	137,380 b	94	8,243	F'm'rs' & D'vrs' Bk.	1846	5,971 b	Par	.....
Farmers' Bank of Seneca County...	1840	45,980 a	Par	.....	Atlas Bank, Clymc'r.	1848	129,998 b	75	32,500
		27,343 b	74	7,109	Waiter Joy's Bank...	1850	50,700	Par	.....
		22,234 a	74	.....					
City Trust & Bkg. Co.	1840	1,200 a	Par	.....					
C. Olsen Bank	1840	695 <sup>a</sup>	25	550			\$1,468,245		\$325,48.
Allegany Co. Bank...	1841	23,346 b	50	11,673	James Bank.....	1851	76,743	91	6,908
		3,051 a	36	1,956	Bank of N. Rochelle	1851	85,113 <sup>3</sup>	81 b	15,300
Bk. America, Buffalo	1841	69,920 b	76	15,541	F'm'ers' Bk. On'ndaga	1852	81,000	85	12,150
Bk. Commerce Buff.	1841	6,980 a	78	1,535	Mer. & Mec. Bk. Os.	1853	88,000	77	20,240
Bank of Lodi.....	1841	31,766 b	97	953	Eighth Ave. Bank...	1854	100,000	94	6,000
		8,846 a	83	1,504	Bank of Carthage...	1854	55,643	Par	.....
Bank of Orleans.....	1841	50,124 b	74	13,052	Empire Cy. Bk. N. Y.	1854	110,404	Par	.....
		3,224 a	87	419	Exchange Bk., Buff.	1854	17,325	Par	.....
Bk. Western N. Y....	1841	74,393 a	75	18,600	S. Bk. Sacket's Har.	1856	48,402	Par	.....
		16,235 b	74	4,244	Island City Bank...	1857	60,328	Par	.....
Binghamton Bank...	1841	8,960 a	70	1,881	Hamilton Exc. Bk...	1857	43,016	84	6,882
		53,019 b	77	11,194	Ontario County Bk.	1857	49,063	Par	.....
Cattaraugus Co. Bk.	1841	6,181 a	85	927	Pratt Bank of Buff.	1857	31,000	94	1,860
		37,413 b	60	5,521	Chemung Co. Bank...	1857	58,167	Par	.....
Eric County Bank...	1841	19,730 a	72	34,926	Pine Plains Bank...	1857	66,956	Par	.....
		94,306 b	63	23,182	Dairymen's Bank...	1857	91,470	Par	.....
Mechanics' Bk., Buff	1841	66,225 b	65	9,074	Ageic. Bk. Herkimer	1857	80,528	Par	.....
Merchants' Exc. Bk.	1841	47,760 a	81	7,122	Lake Mahopac Bk...	1859	40,400	Par	.....
Phoenix Bank, Buff.	1841	27,490 b	73	8,689	Cataract Bank.....	1861	51,556	93	3,600
Staten Island Bank...	1841	19,702 b	56	2,959	Bank of Albany...	1861	65,673	Par	.....
		40,475 a	50	8,768	Bank of the Capitol.	1861	73,449	Par	.....
St. Lawrence Bank...	1841	19,499 a	32	9,574	J. W. Rumsey & Co. Bk	1861	31,150	Par	.....
Union Bank, Buffalo.	1841	46,150 a	81	7,574	Nat. Bank of Albany	1861	61,150	Par	.....
U. S. Bank, Buffalo.	1841	41,627 b	77	.....	Medina Bank.....	1861	100,168	Par	.....
Washington Bk. Buff.	1841	19,335 b	Par	.....	Brockport Exc. Bk...	1861	41,516	Par	.....
New York Bk. Co., 1842		11,240 a	42	6,519			\$1,648,000		\$72,840
State Bk. N. Y., Buff.	1842	2,800 a	30	2,023					
F'm'rs' Bk. of Orleans	1843	24,825 b	Par	.....					
Clinton Bank.....	1844	2,582 a	60	1,132					

\* This case is one of deterioration, during years of delay, in securities left to redeem a remnant of circulation, the bank having itself redeemed at par all of its circulation that it could reach, and the greater part of the \$695 noted, never being in fact presented for payment.

a. Secured by pledge of stocks alone.

b. Secured by pledge of stocks and mortgages.

DEFECTS AND REMEDIES.

Ten years' experience under the safety fund system made it possible to avoid from the very origin of the free banking system numerous mistakes which might otherwise have been involved. But even with this advantage the novel conditions resulting from the new legislation developed peculiar defects.

First.—It was found that the acceptance of public stocks other than those of New York, tended to create a market in New York, to serve as a basis for bank circulation, for stocks which were otherwise comparatively unsalable. As a consequence, when by the failure of banks depositing them, State officials attempted to realize upon them, the result was disastrous, and note holders suffered heavy losses.

\* It is believed that this provision of the law is in many cases entirely evaded. The quarterly reports received show that they are not banks of discount and deposit, having neither; or if they have, it is a mere nominal sum incorporated into their reports to comply with the form and not the spirit of the law.

They are mere banks of circulation, and are established for that purpose alone. The business of circulating their notes is done exclusively through agents and brokers in commercial cities distant from the location of the bank. In many instances, it is believed, the banker does not even sign the notes issued from this department and put in circulation, but gives that power to an agent. \* \* \* In this manner are evaded the provisions of the law of 1848, which makes it obligatory for banks and bankers to transact their usual business at the places where they are located.

These banks afford no facilities to the business portion of the community, and in a time of pressure or embarrassment in the money market, not unfrequently allow their notes to be discredited, thereby creating a panic and subjecting the bill holders to losses.—Report of Comptroller, 1851.

The following is a summary of the results of the sales of securities prior to Jan. 1, 1849:

\$40,000 Indiana stock sold for .....	\$20,381 25, or 49 per cent.
239,000 Illinois stock sold for .....	117,421 25, " 49 1/2 "
176,000 Arkansas stock sold for .....	103,445 75, " 58 1/2 "
66,000 Michigan stock sold for .....	48,147 25, " 72 1/2 "
79,000 Alabama stock sold for .....	56,142 50, " 71 1/4 "
257,535 New York stock sold for .....	230,143 64, " 89 3/8 "
472,988 Bonds and Mortgages sold for .....	320,261 00, " 67 1/2 "
\$1,739,543 .....	Total .....
	\$1,044,944 14, " 60 1/4 "

*Second.*—A similar result attended the use of bonds with mortgage collateral as a basis for currency. On sudden forced sale, no matter how good the security, they were frequently sacrificed at less than their face. Again, it was found that ordinary precautions were not sufficient to insure a proper margin in steady value of real estate collateral above the bond to secure which it was mortgaged.

*Third.*—The business of currency issue being thus encouraged without reference to its connection with discount or other financial business, an incentive was offered to sanguine and visionary individuals to exploit their credit—with results scarcely less disastrous to themselves than to the community whose business they helped demoralize.

*Fourth.*—The law encouraged petty banking under more or less amateur management, with the resulting certainty of frequent petty failures however sound might be general conditions.

*Fifth.*—No adequate distinction was made between security and availability. The result was that any serious strain must force upon the market a large amount of securities, the sale of which below their par or valuation by the State officials was as inevitable as was the consequent result of somewhat of loss to noteholders.

*Sixth.*—There was a tendency to rigidity of circulation. Though the securities accepted by the bank department were in general procurable at such rates as did not involve either large premiums or peculiarly low interest, yet any prompt response to legitimate demands for more currency was none the less obstructed. Experience elsewhere has shown that a 20 to 25 per cent. increase in the wants of a community at one season of the year above those of another is not unusual or abnormal. For the banks to create a new investment demand for securities equal to one-fourth or one-fifth of their circulation would be as sure to involve somewhat of a rise in price as would the throwing of an equal amount of securities upon the market, when the currency was no longer needed, bring about a substantial depreciation. To make the process pay, interest upon the additional currency thus secured for the short time involved, must be sufficient, not merely to provide compensatory interest, but to make up for the loss thus involved. In practice this was prohibitory, and increase of currency was ordinarily limited to such as might be obtained by the deposit of whatever securities a bank might happen to have; while the possession of securities involved a tendency to keep them on deposit at the Bank Department, and to take out the full amount of currency even during the season when there was little demand for it. The actual result was the natural one—a practical rigidity of free bank circulation—not, however, so great as has of late been the case under the National banking system, which the sacrifice involved in government bond investments, and the effect of Federal legislation intentionally prescribing rigidity, has left a petrification.

*Seventh.*—There was an absolute lack of mutual support among the banks of the system. As a result, however it might be perfected without remedying this defect, from time to time, in individual cases, noteholders would suffer petty losses. Experience showed that this was the ease, and the uncertainty thus kept alive as to the safety of well secured notes, was much more serious than the actual loss suffered.

#### REMEDIES.

The *first* defect noted was corrected by the act of 1840, to which reference has already been made, restricting the state stocks admitted on deposit to those of the State of New York alone (even United States stocks not being accepted until 1849), and the earlier basis—a 5 per cent. stock at par—having proved too high a rating, the act of 1848 raised the basis to 6 per cent. As to *second*, it was not until 1863 that the Legislature went so far as to discard mortgages altogether as a basis for circulation; but the terms upon which they might be accepted were earlier made so strict as effectually to discourage their deposit. The *third* and *fourth* of the defects noted were to a certain extent corrected by the legislation of 1840 and 1844, requiring associations to deposit at least \$100,000, and individual bankers at least \$50,000, in approved securities before they could receive blank circulating notes.

As to the *fifth*, *sixth*, and *seventh* of the points noted above no reform was ever had. As to the margin of availability, a mere limitation of notes to be issued to say 90 or some other per cent. less than par or official valuation would be perfectly easy, and if carried to the proper extent would meet the difficulty.

As to the comparative rigidity of the circulation, this is a defect involved in

the system itself, and, with all its faults, is not without somewhat of compensation—though it seems generally agreed that the balance of considerations is against rigidity.

As to the *seventh* defect noted, the mutual support desirable to perfect in this regard the free banking system, would have been so much less than that necessary in the Safety Fund system (where such mutual support was the main security offered) that it could have been, and probably would have been, provided in some one of numerous practicable ways, which would not have been complicated in administration or burdensome to the banks.

#### RESULTS.

In the case of free banking, as earlier in the Safety Fund experience, legislation, to remedy such defects as were disclosed by experience, was on the whole prompt and effective, as noted at pages 16 and 17.

It was during the first twelve years that were suffered most of the disasters which were afterwards made impossible. Abstracting as to banks which failed before 1850 the results shown at page 19, it is found that for twelve years, with an average circulation of \$6,000,000, the actual loss to noteholders was for the whole period \$326,000, or \$27,200 per year—less than half of one per cent. on the average circulation. For the latter period, 1851–65, the total failures resulted in an average loss of \$4,800 per annum upon an average circulation of \$22,000,000 outstanding; while the experience of the last few years seems to indicate that, with the exception of rare petty losses of a small part of the circulation of individual banks, there were no other against which to perfect the security of the system it was necessary to provide.

In its experimental days the Free Banking system had made but a poor showing in comparison with its Safety Fund rival \*; but after it had been perfected in the light of experiment, it was so nearly a secure system as to have been accepted with universal approval as the model upon which National banking should be planned.

### SAFETY FUND vs. BOND DEPOSIT.

#### (a) AS TO SECURITY.

A comparison of the two systems so thoroughly tested in New York State seems to leave little room for preference between them on the mere matter of security. From its very nature, being, as it were, a Lloyds Insurance system, the Safety Fund plan avoided from the first the one defect in this regard which in the case of the Free Banking system remained uncorrected to the end—that of unsupported responsibility of individual petty institutions and of separate petty funds. The losses on this account had, however, proved so petty in the latter years of the Free Banking system, and so easy and certain would have been a remedy had the matter ever become a serious one, that it is hardly fair to consider it as a make-weight in the comparison. It may, therefore, be assumed that, in its perfected shape, each, the Safety Fund and the Bond Deposit system of New York, was satisfactory as regards the security of the circulation.

#### (b) AS TO COST.

In this regard the essential comparison is between the net expense and trouble to banks, connected with similar amounts of circulation under the respective systems. Eliminating features common to both, this comes down to a comparison of the average rate of the insurance assessment required by the safety fund system and the average loss by the investment requirements of the bond deposit plan. So long as the required safety fund assessment was above one-half per cent. annually, and the bond deposits permitted to be made in a large range of investment securities, the bond deposit plan was undoubtedly at least as economical as the other. But in the face of experience showing that the safety fund plan as perfected would have required less than  $\frac{1}{2}$  per cent. annual insurance assessment upon circulation—while it had proved necessary, in order to make the bond deposit system safe, to limit the securities deposited to a few of gilt edged classes—the comparison steadily turns in favor of superior economy of the safety fund system.

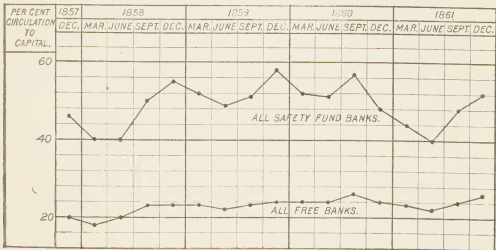
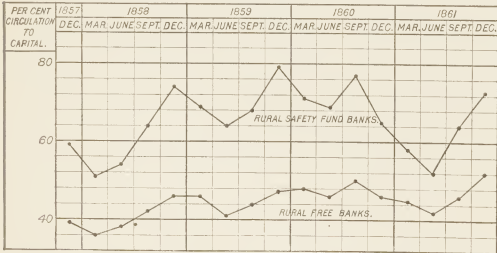
#### (c) AS TO ELASTICITY.

As compared with (b), which includes expense directly paid by the banker, this head involves the opportunities offered him to serve the public. For, whatever

\* In the security of the public under each system, our experience in the failure of ten Safety Fund banks, and about three times that number of free banks, proves that the contributions of half of one per cent. annually on the capital of the Safety Fund Banks, has thus far afforded as much protection, as the deposit with the Comptroller, by the free banks, of a sum nominally equal to all the bills issued to them. It will be seen, by reference to a statement under the head of insolvent free banks, that the loss to bill holders, on the supposition that all the securities had been stocks of this State and bonds and mortgages, would have been over 16 per cent., while the actual loss has been nearly 39 per cent.—Comptroller A. C. Flagg, 1846.

may be speculative rates of interest caused by plethora or stringency of currency, the legitimate borrower is mainly interested in the rate at which during the seasons when he most needs advances he can secure them; and this depends almost entirely upon the relative ease or difficulty with which an increase of currency can be had to meet temporary business demands.

Elasticity is the essential feature of a safety fund as compared with a bond deposit system. The limitations upon elasticity — obstructions to temporary increase of circulation — are noted at page 20 above. It only remains here to compare the actual results of these two systems co-existing in the same State, under similar circumstances, during the years when both were in successful operation. The two diagrams which follow are their own best explanation, and the character of the exhibit is so marked that comment is superfluous.



### STATUS WHEN SUPPRESSED BY FEDERAL LEGISLATION.

Such had been the career of New York State bank currency, which was arbitrarily closed by the act of 1863, providing for national banks and their currency, and by later acts, including that of 1865, by which State bank notes were driven by a ten per cent. tax from the rivalry they still maintained. The experience had been most instructive, and its results most satisfactory—creditable alike to the business habits and legislative aptitude of the State.

Under the old charters securing a monopoly of banking in a comparatively few large institutions, during the first quarter century—1791-1815—no noteholder had lost a dollar. Even during the next fourteen years of indiscriminate banking—1815-1829—the loss to noteholders had averaged less than  $1\frac{1}{2}$  per cent., and probably less than 1 per cent. of the circulation.

The Safety Fund act then ran twelve years—1829-1841—before a single noteholder suffered—though the panic of 1837 had meanwhile swept the country, and with the amendments to the Safety Fund act that were promptly made as their

necessity was developed, not merely were the actual losses to the noteholders less than one-eighth of one per cent. per annum upon the circulation for the full period 1839-1866, but they were such in character as to show that, had the amendments subsequently adopted been originally incorporated in the law, and the system left undisturbed to serve the whole State, not only would the noteholders never have lost a dollar, but the annual assessment necessary to secure this would have averaged less than one-fourth of one per cent. upon the capital, or three-eighths per cent. upon circulation.

The Free Banking system, adopted in 1838 as a political, rather than a financial reform, had in its turn learned by its mistakes until, with a loss for the whole period averaging less than one-tenth of one per cent. a year on its circulation, there had not been a failure since 1861 in which the notes were not at once redeemed in full; while the success of the system had made it the model upon which Secretary Chase planned the National Banking system.

It is, of course, not intended to suggest that noteholders had not been subjected to many charges other than those above calculated. These charges, however, were the faults of the imperfect commerce of the time, were not chargeable to any system of banking, and were cured as commercial facilities developed. For example, before the arrangements by which all notes were issued in blank and registered by a State official, the loss to the community by counterfeits was large, though not entering into the reports of or concerning banks. Again, during the early part of the century communication was so imperfect, and commercial organization so lacking, that for these reasons alone exchange often commanded high rates until, arrangements having been made for redemption agencies at New York, Albany and afterwards Troy, this factor became unimportant, and—the banks voluntarily bettering the provisions of the law—soon practically disappeared.\*

Nor is it intimated here that either system was perfect. As already noted, the safety fund assessments on capital should have been transferred to circulation—and doubtless would have been, except that for its last twenty-five years the safety fund system was a survival, albeit a vigorous one, and already superseded by "Free Banking." On the other hand the comparative rigidity of the free banking circulation was so supplemented by the perfect elasticity of the safety fund system, until both were alike pushed aside by the national banking acts, that its inconvenience was not felt. Though the free banking system had had ten years of safety fund experience to guide it, its own earlier years were those of greater disaster than that

\* The apprehension, that a redemption at par in New York would send back the notes upon the bank, and leave their place to be filled by a less valuable currency; or, that the banks thus redeeming at par would be restricted in their circulation and curtailed in their profits, is not borne out by the experience of those banks which have for a long time kept their notes at par in the city of New York.

In the following table, five banks have been selected, which keep their notes at par in New York and five with corresponding capitals, which redeem under the law at half of one per cent. The comparison extends to four quarters, and the aggregate circulation for the year for the five banks which redeem at par is:

While the circulation of the other five is.....	\$3,329,975
Excess in favor of par redemptions.....	3,332,218
The details are given below:	\$71,757

	Capital.	Registered Circulation.				Total Circulation of the 4 quarters.
		Feb. 1, '45	May 1.	Aug. 1.	Nov. 1.	
<b>REDEEM AT PAR:</b>						
Farmers' & Manufacturers' Bank.....	\$300,000	\$207,013	\$238,954	\$186,516	\$234,228	\$866,711
Highland Bank.....	200,000	190,229	189,923	173,121	189,528	744,801
Westchester County Bank.....	200,000	177,171	170,411	127,852	180,580	656,030
Hudson River Bank.....	150,000	131,322	129,293	126,029	180,586	532,511
Bank of Poughkeepsie.....	100,000	126,141	141,887	119,132	142,132	529,332
						\$3,329,975
<b>REDEEM AT 1/2% DISCOUNT.</b>						
Bank of Monroe.....	\$300,000	\$146,308	\$141,261	\$181,122	\$240,971	\$709,662
Herkimer County Bank.....	200,000	189,678	161,380	130,578	168,581	650,236
Jefferson County Bank.....	200,000	183,261	177,870	153,092	187,552	701,775
Steuben County Bank.....	150,000	151,145	167,874	154,147	161,021	634,490
Livingston County Bank.....	100,000	127,365	134,051	130,611	134,138	526,165
						\$3,232,218

The following comparison between the Farmers' Bank of Troy, which redeems its notes at par in the city of New York, and the other incorporated banks of the same place, the notes of which are at a discount, shows a more striking result than the above. The comparison is made for the same period of time:

	Capital.	Circulation.				Total.
		Feb. 1.	May 1.	Aug. 1.	Nov. 1.	
Farmers' Bank.....	\$278,000	\$160,761	\$180,920	\$152,975	\$196,981	\$691,637
Bank of Troy.....	410,000	121,861	130,498	98,047	120,040	470,896
Merchants' and Mechanics' Bank.....	300,000	84,003	101,777	91,174	187,743	464,699
Troy City Bank.....	300,000	145,700	198,480	96,699	192,549	543,698

which befell its rival in the same period; but, by 1861, it had so corrected its peculiar faults that its circulation was everywhere accepted as perfectly secure—and in fact was so nearly so as scarcely to be criticized in that regard, except by noting that it depended entirely upon the credit of the State, so far as concerned its only satisfactory basis; while the safety fund system would have remained intact through any public disaster that did not involve anarchy and the wiping out of private obligations.

The well earned reputation of New York State bank currency is nowhere better shown than in the discussions in Congress of the National Banking Act and the echoes thereby waked in New York. In bringing his pet measure forward Senator Sherman not merely admitted the soundness of New York State bank currency, but urged as a grievance that it was in such high repute and great demand throughout the West as to command a premium over local circulation and constituted a great source of profit to New Yorkers, which he urged should be transferred to the Federal Government.\* During the debates it developed that New York State bank currency was selling at the rate of three per cent. premium over greenbacks; while New York Senators and Representatives bore unanimous witness to its soundness and to the patriotism of her banks; and her bank superintendent protested in vain against the fiat that drove her State Bank Currency out of circulation.†

Even after the issuing banks had become National Banking associations so great was the confidence of the people in the old State Bank notes that they were kept in circulation together with the National Bank Currency,—to the amazement and disgust of Senator Sherman and other National Bank advocates—whereupon the *coup de grace* was given, and—not because it was too bad, but because it was too good; not because the people had no confidence in it, but because they preferred it to National Bank notes—was State Bank Currency suppressed by a prohibitory tax of 10 per cent.

\* "According to a recent statement which I have before me, the circulation of banks in the Eastern States has now reached about \$130,000,000; and of that amount one-third is computed to be in the Western country. I have no doubt that we are now circulating in the West \$40,000,000 of paper money issued by the banks of the East, and we are paying to the East the interest on this \$40,000,000, which we had much rather in these times of difficulty pay to the United States."—*Senator John Sherman*, January 8, 1863.

† "The National Banks were intended to supersede the State Bank. Both cannot exist together. Yet while the national system is extending, the issues of State Banks have not materially decreased. Indeed, many local banks have been converted into National Banks and yet carefully kept on their State Bank circulation. \* \* \* It is far better at once to abandon the National Banking system than to leave it as a cloak for State Bank issues."—*Senator John Sherman*, February 17, 1863.

§ "What I have stated in regard to the value of the local bank currency is well known to the country. Why, sir, I read to the Senate the day before yesterday the price at which this money was selling in the City of New York, and it was 2½ per cent. premium as quoted; and a banker from that city told me it was three the evening of that day. It is better and will ever remain better than greenbacks in my judgment."—*Senator Lazarus W. Powell, of Kentucky*, February 13, 1863.

"I shall vote against this proposition because it involves in itself a declaration that Congress means that State banks shall wind up their affairs. \* \* \* Our State banks have sustained the Government. They have been the Rothschilds and the Barings to whom we have gone for our funds in order to carry on this war. When Congress met in July, 1861, we found our financial affairs in the utmost embarrassment. We passed a bill authorizing a loan of \$25,000,000. What was done? Where did we get the funds? The Secretary of the Treasury went to New York with trembling. The bankers there met him nobly, generously, and provided him with the means of carrying on the Government. The banks of the City of New York alone placed in his hands \$105,000,000—nearly double the amount of their capital; and at this day the banks of the State of New York alone hold 150 per cent. of their capital in the stocks of the United States; and here we are declaring hostility against these institutions from which we have derived our pecuniary support during the existence of this rebellion."—*Senator I. A. Harris, of New York*, Feb. 14, 1863.

In his report for 1862, the N. Y. Superintendent of Banking, after referring to the recommendations of Secretary Chase, says: "The Secretary adds: 'the recent experience of several States in the valley of the Mississippi painfully illustrates the justice of these observations, and enforces by the most cogent practical arguments the duty of protecting commerce and industry against the recurrence of such disorders.' However truthful these remarks may be in regard to the institutions and currency of some portions of the country, they certainly do not apply to New York, and furnish no basis for interference with her institutions;" while in 1863 he added:—

"Whatever may be the action of Congress in the premises, I have full faith that the Legislature of New York will protect its honor, and the interests of a common constituency, with dignity and firmness. Under the existing laws no person can issue, within this State, notes to circulate as money, without depositing the required securities in this department. Without legislative instruction to the contrary, it will be my duty, during my continuance in office, to enforce this provision against all associations of individuals claiming authority from any other source. If occasion require, I shall not hesitate to bring the question to the test of judicial decision, that we may learn authoritatively what powers over local institutions are still left to the States."



# SOUND CURRENCY.

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Each number contains a **special discussion** of some Sound Currency question.

*The experience of August-September, 1893, was unique. There were no gradually developed plans for mutual assistance. Mutual helpfulness there was in plenty between individuals and localities; but it was in prompt response to sudden appeals; and before any general system could be devised the occasion for it was over. Financial clouds had long been lowering; but it was within a single month that currency famine became general, its worst effects felt, such relief extended as was had, and the crisis over, with a tendency toward a glut of circulating medium.*

*In other cases nations or communities had simply found themselves thrown upon their own resources. Our people found themselves not merely drained of currency, but forbidden by most carefully drawn statutes to utilize the expedients which would have been most natural and most effective. No civilized nation has ever experienced such a currency famine. None has ever found itself so fettered by positive law in its efforts to rescue itself. None ever so promptly rose to the emergency. Never was there so prompt a return to normal conditions.*

## THE CURRENCY FAMINE OF 1893.

JOHN DEWITT WARNER.

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## CIRCUMSTANCES THAT PRECEDED THE CRISIS.

### GENERAL CONDITIONS.

The circumstances that preceded the currency famine of 1893 are as yet too recent to be free from controversy as to their causes and consequences. In a general way, however, the situation has already become historic, so that somewhat of an apparently significant succession of facts may properly be noted.

For the ten years preceding 1890, though local disturbances had not been lacking, the commercial, manufacturing and agricultural world as a whole had been enjoying steady prosperity, until the accumulation of raw materials and manufactures was greater than ever before in the world's history; and ten years of prosperity had made general throughout the world that state of mind which prompts borrowers to new enterprises and induces lenders freely to extend credits.

From the beginning of the year 1890, however, growing caution and watchfulness seemed as general as theretofore had been confidence approaching carelessness. The first symptom was generally an attempt to dispose of surplus stocks even at a sacrifice. This brought about a shrinkage of values, which, in its turn, lessened margins and increased the apprehensions of creditors.

On this side of the water a suggestion of the situation is found in the foreclosure during the first six months of 1890 of no less than twenty-one railroad companies, with an aggregate of stock and bonds of \$92,000,000; while the collapse of the Baring's in England during the autumn of 1890 called attention to the shrinkage in colonial and South American securities, and to the precarious standing of world famous houses.

### THE SHERMAN ACT.

It was just at this time, too, that the agitation for cheap money reached its highest tide in Congress and the Sherman Act became a law. By this, instead of coinage at \$2,000,000 per month, bullion certificates at the rate of \$4,500,000 per month were added to our currency, already out of all proportion to the commercial wants of our people; while free coinage—that is, forced coinage of silver at a par of 16 to 1 of gold—was pressed on every hand, largely by those who confessed their aim to be partial repudiation.

It may be questioned how far this last factor contributed to the gravity of the situation here; there can be no doubt that it increased it. For, just at this time, creditor Europe was forced by her necessities to return in large measure our securities which she had theretofore eagerly taken, and we were thrown more and more upon our own resources for capital wherewith to develop our country. To the flood of our own obligations, thus thrust upon us, were now added those of holders who had become apprehensive of American good faith, and who hastened to realize, even at a sacrifice, before they should be made worse off by the repudiation which some of them thought close at hand.

Again, to the sentimental factors noted there was now added what might almost be termed a physical force, tending to drive gold out of the country, and, through our currency system, draining the treasury as well. Just how much currency the business of a country will absorb at any given moment, it is hard to say; but it is nevertheless certain that when the channels of finance are full, additions will cause them to overflow, and that the overflow will be of that portion which is acceptable elsewhere. As is pretty generally agreed, the growing dullness of business had left our currency superabundant as far back as 1890; while in that year the rate at which depreciated silver was poured into it was increased from \$24,000,000 a year to more than double that rate. The effect was as though water were poured into a measure already filled with oil. The Sherman notes, whose circulation was bounded by national lines, went to the bottom of the measure—that is stayed in this country; the gold, free to move—that is, current everywhere—overflowed to foreign countries.

Another effect now began to be prominent. To a small extent our holders of mortgages (which in this country are usually for short terms, even though intended as permanent investments) promptly secured themselves by requiring renewals under contracts payable in gold; but many lenders—to some extent from individual hesitancy in exacting unusual terms of borrowers, and to some extent from apprehension lest the legislation threatened in many States against such discrimination might prove valid—refused to make or renew time loans, thus forcing a stagnation of enterprise in many directions and in many others a realization of assets under unfavorable circumstances.

### HOARDING OF GOLD IN UNITED STATES.

Concurrent with this was developed a disposition to hoard gold and to discriminate in its favor by withholding it from payments. That this was markedly true

in 1893 is universally understood. It seems to have been forgotten in many quarters how much earlier than that year this practice became general; though an inspection of the treasury accounts shows that in September, 1890, the first month after the passage of the Sherman act, the Treasury lost \$38,000,000 of its gold reserve.

June 30, 1890, the net treasury assets were \$255,893,000, of which \$190,232,000 was in gold and gold bullion. A year later similar assets were \$176,459,000, of which \$117,667,000 was in gold and gold bullion—the "free gold," that is the amount above the \$100,000,000 reserve for greenback redemption, having been reduced during the year from \$90,232,000 to \$17,667,000.

Recalling that the customs receipts are the principal streams which feed the Treasury, we can investigate one step further. In June, 1890, above ninety per cent. of our customs receipts were in gold. The proportion of gold steadily declined thereafter until in June, 1891, but twelve per cent. of the customs receipts were in gold.

The circle of investigation is complete for the period. The Treasury was diluting the currency by silver inflation at the rate of \$4,500,000 each month; and at the same time it was rapidly losing power to maintain its parity in gold; while the selection by which gold was retained and silver used for payments to Government indicated that gold was being hoarded outside.

#### TREASURY EXPEDIENTS.

The National Administration, though doing nothing to avert the crisis, was sensible of its approach. In the spring of 1891 the Treasury by refusing to furnish gold bars, of which it had plenty, practically charged gold exporters one-tenth per cent. premium; at which price during that year they took above \$60,000,000; and during the summer of 1891 the Government attempted to gain gold by selling legal tender Western exchange at a price sixty cents per \$1,000 less than the normal rates, on condition of being paid in gold, some \$12,000,000 of which was promptly thus secured.

Finally, to accelerate the rate at which we were moving toward disaster, the joint effect of the tariff revision of 1890 and the liberal appropriations of the fifty-second Congress had been to turn the late annual surplus, averaging \$110,000,000 per annum for the years 1888-1890, into a deficit which for the year beginning July 1, 1893, amounted to more than \$69,000,000; so that a constantly weaker Treasury faced a steadily increasing responsibility. The time thus rapidly approached when the sole resource to maintain our currency upon a natural basis would be the steadily diminishing gold receipts of the Treasury; which, so far as concerned customs revenues, had shrunken to less than four per cent. in September, 1892, and never again rose above ten per cent. until in the currency famine of 1893 the hoarded gold coin was forced from the bank vaults.

Such was the course along which the Treasury steadily drifted for years, until in February, 1893, the outgoing Administration by private appeal to its friends secured some \$6,500,000 of gold from New York bankers, just in time to enable it, going out on the 4th of March, to escape the breaking of the dam behind which for years it had seen the waters steadily piling.

As the Cleveland Administration settled into its place the flood was still rising, though not faster than had been the case for months previous. But soon the actual impairment of the \$100,000,000 Treasury gold reserve showed the water trickling over the levee, and on every side each weak spot seemed about to give way.

#### THE CURRENCY FAMINE.

For years liquidation had been progressing, and really solvent institutions had been contracting their loans and centralizing their resources, so that they were never better buttressed; but the same process of liquidation had drained the weaker ones of their available funds, and left them with holdings of unmerchantable assets, enormous in the aggregate, which the first break would throw upon an already overburdened market. The very air was charged with ruin. In April, 1893, business failures reported by *Bradstreet's* were 905, as compared with 703 in the same month of 1892; in May there were 969, as compared with 680 the May previous, and by June not merely had the ratio of disaster further increased above the average, but all over the country, especially in the West, the banks were breaking. Up to May 9th the number of bank suspensions had not been extraordinary—only eleven of National Banks during the preceding six months—but on that date the Chemical National Bank of Chicago closed its doors; on the 11th the Columbia National Bank of the same city and the Capital National Bank of Indianapolis

followed its example; on the 16th the First National Bank of Cedar Falls, Ia., and on the 18th the First National and Oglethorpe National of Brunswick, Ga., and the Evanston National of Evanston, Ill., suspended. Before the month was over six other National banks had broken; in June twenty-five, and in July seventy-three others followed suit; while the mortality was equally marked among State banking associations and private bankers, so that by August first the condition was one of panic.

Then developed the feature that will forever characterize the stringency of 1893—instructive to those who have not already learned how immaterial is any ordinary supply of legal currency when compared with credit in its various forms, the real currency of the country. For years business credit had been shrinking in the United States—this largely, though by no means wholly, as the result of the constant inflation of our currency by silver legislation at a time when normal business demands for currency were growing less and less; and now this credit was largely destroyed; so that each (largely in proportion to the extent to which his lack of information left him a ready victim to fear) preferred currency in hand to any credit account, however “gilt-edged.” Almost between morning and night the scramble for currency had begun and culminated all over the country, and the preposterous bulk of our circulating medium had been swallowed up as effectually as, in a scarcely less brief period, gold and silver had disappeared before the premium on specie a generation before. Currency was hoarded until it became so scarce that it had to be bought as merchandise at a premium of 1% to 3% in checks payable through the clearing house; and to enable their families to meet petty bills at the summer resorts the merchants and professional men of the cities were forced to purchase and send by express packages of bills or coin; while savings banks hawked their government bond investments about the money centers in a vain effort to secure currency. The panic was naturally worst among those of too little financial standing to use bank accounts for their ordinary business, so that the action of bank depositors but inadequately suggests the general tendency. But the deposits in National banks alone, which had been \$1,750,000,000 May 1st, 1893, were but \$1,550,000,000 on July 1st, and by October 1st but \$1,450,000,000.

It is with the most striking result of this situation that we have to deal. It involved an absolutely unique experience—that of a highly ingenious and enterprising people, inhabiting a wealthy and civilized country, and brought face to face with an absolute necessity for the use of an extraordinary amount of currency, at the same time that they were inhibited by law from ordinary sources of supply.

#### FAILURE OF NATIONAL BANK CURRENCY SYSTEM.

Our laws provided but one resource—additional issues of National-bank notes. The National banks were urgently summoned to perform their most important legitimate function—that of giving elasticity to a currency admittedly rigid at every other point. The only result was to demonstrate the worthlessness of the National banking system itself.

We had had it for thirty years. Its original aim had really been, not to provide bank note currency—there was a plethora of that when the National banking system was established—but rather to starve the business public into purchasing Government bonds as a condition of being permitted to do business at all.

So far was it from accommodating itself to the wants of developing communities that it took \$11 in funds free for investment in any given locality to secure for that locality \$9 in currency. So far was it from expanding to meet the growing demands of the country that, while twenty years ago the then outstanding \$340,000,000 of National-bank notes represented more than 45 per cent. of all our circulation, ten years later the \$347,000,000 of similar notes then outstanding represented but 28 per cent. of our currency, and in June, 1893—the latest date at which conditions were normal—the \$172,000,000 of National-bank notes then in circulation outside of the Treasury were less than 11 per cent. of our currency, of which they had ceased to be a material factor.

So far was it from being elastic that we had come to expect a period of stringency in each year—in the late summer and early autumn—which invariably arrived; while a careful survey of the course of our National-bank note circulation showed that the general tendency, at first to its increase and afterwards to its withdrawal, had absolutely no connection with present or prospective, however certain, business demands for currency. National banks had long since ceased even pretended obedience to law, and habitually made discounts in times of stringency in the face of depleted reserves. This practice was possible because the initiative was in the hands of the banks, and the Government had power only to punish; a power which it forebore to exercise.

In the other particular, however, that of furnishing currency, the initiative was in the hands of the Comptroller. The banks were thus powerless to break the

law, no matter how beneficent might have been such violation. And nothing is more instructive than to contemplate the futile writhing and contortions of our National-bank note currency system in the strait jacket with which it had been pinioned, and to see the not merely inadequate, but positively ludicrous, results of its strenuous efforts to respond to the most urgent demands for relief that this generation has heard.

The increase of our currency by additions to National-bank circulation during the stringency was only about  $1\frac{1}{2}$  per cent, and was far less than the amount by which the banks of a single city virtually increased it by clearing-house certificates alone—little more than half the amount by which individual bankers increased it by actually buying gold in Europe and shipping it hither—and was in great part accomplished only after the necessity for it was over, millions of dollars of the additional currency taken out being returned to the treasury with the packages unbroken.

It was to such a dead fetich that our stricken business appealed when caught in the panic of August, 1893. Never was there offered a more conclusive proof of the self reliance of our citizens and the superiority of business expedients over Government direction. Not merely by financiers in our great cities, and by great corporations experienced in handling such crises but in every part of the country, with the exception of the far Southwest, did the people work out their own salvation.

#### EMERGENCY CURRENCY.

The experience of August-September, 1893, was unique. There were no gradually developed plans for mutual assistance. Mutual helpfulness there was in plenty between individuals and localities; but it was in prompt response to sudden appeals; and before any general system could be devised the occasion for it was over. Financial clouds had long been lowering; but it was within a single month that the currency famine became general, its worst effect felt, such relief as was had extended, and the crisis over, with a tendency toward a glut of circulating medium.

In other cases, nations or communities had simply found themselves thrown upon their own resources. Our people found themselves not merely drained of currency but forbidden by most carefully drawn statutes to utilize the expedients which would have been most natural and most effective. No civilized nation has ever experienced such a currency famine. None has ever found itself so fettered by positive law in its efforts to rescue itself. None ever so promptly arose to the emergency. Never was there so prompt a return to normal conditions.

It is this that I have found a peculiarly interesting study. Not that I have been able to estimate or even trace it in anything like full measure. One of its most striking peculiarities was the extent to which—partly on account of the suddenness with which it was called for and the promptness with which the need of it was over—partly, perhaps, because everyone assumed that its use was in defiance of law—the actual practice in each locality was in general unknown outside of it, and evidence and mention of it hard to secure afterwards.

The specimens I quote are, therefore, but a few score of the hundreds of cases that careful inquiry would reveal; and, except in the case of clearing house certificates proper, give but a faint idea of the extent to which in all parts of the country this emergency currency sprang into being. They are, however, I trust sufficiently varied to illustrate the methods used and the more characteristic sorts of currency—as distinguished from more strictly "credit" expedients—that were thus called into being.

#### *Clearing House Certificates.*

First come actual clearing house certificates—new, not in invention, but rather in the novel extent of their use. Their office was simply to extend indefinitely the brief term of mutual credit involved in all clearing house settlements. Contrary to the general impression, they were not used as currency; but their effect was to add just their face to the volume of currency in circulation, by releasing, for use outside, that which would otherwise have been reserved for clearing house settlements. So far as the banks using them transgressed law, it was in renewing loans and extending discounts when their reserves were depleted below the legal limit. The use of clearing house certificates simply enabled this to be done with less risk of other than legal consequences.

And to the writer, not the least interesting of the data that he has gathered in this connection has been the proof—in instance after instance—where he has been proudly assured that a particular city had not been forced to extraordinary expedients such as had been seized upon in their desperation by less favored centers—either that the boaster had been saved by aid extended by those whom he so patronizingly pitied, or that the self-sufficient town had already adopted such practices that its ordinary way of doing business left nothing in the way of liberal financiering yet to

be exploited. It was to the banks that did use clearing house certificates in the emergency that the country owes its escape from unparalleled disaster; and at once to anticipate and answer all inquiries as to the form and use of the legitimate clearing house certificates. I append, in reduced fac-simile, copies of specimens from each city where they were used (see pp. 9 and 10).

Denominations were as follows: New York, \$20,000, \$10,000 and \$5,000; Philadelphia, \$5,000 only; Boston, \$10,000 and \$5,000; New Orleans, \$500 to \$10,000; Baltimore, \$6,000, \$3,000 and \$1,000; Pittsburg, \$10,000, \$5,000 and \$1,000; Detroit, \$5,000 only; Buffalo, \$5,000 and \$1,000. Their issue, it will be noticed, was mainly in the Northeast, New Orleans being the only Southern and Detroit the most Western example. And in each case it will be observed that use of the certificate is limited strictly to settlement of mutual accounts between members of the clearing house association in question.

Other devices of similar character were "Clearing House Due Bills," of which the following is a copy: \* exchanges of clearing house balances, such as are so generally used at Chicago, that an extension of their use made unnecessary special issues of clearing house certificates; and utilization of the custom in smaller cities of considering exchange drawn on "reserve cities" as equivalent to cash in transactions between banks.

No. 695.

.....189.

Issued to *Seventh*  
*National Bank.*

Number 695.	[CLEARING HOUSE DUE BILL.]
	THE SEVENTEENTH NATIONAL BANK. PHILADELPHIA,.....189.
Countersigned,	Due by THE SEVENTEENTH NATIONAL BANK To SEVENTH NATIONAL BANK.....
	..... thousand ..... hundred and..... Dollars
	<i>This Due Bill is only good when signed by one and and countersigned by another authorized person, and is payable only in the Exchanges through the Clearing- House the day after issue.</i>
	\$.....100.....
	Teller.

### "Clearing House Certificates."

Next in order, and in some respects the most interesting of all, were the notes called clearing house certificates, but in fact intended for circulation, frequently issued by temporary committees of banks in towns where no clearing house existed, and—though thoroughly effectual for the worthy purpose for which they were issued—a travesty on the paper after which they were named. The term "clearing house certificates" was, however, used, not with the idea of deceiving any one, but as the only ready-made term that indicated the one fact that the public cared to know—viz., that the associated banks of the locality were bound to make them good.

These cases were practically confined to the Southeast. The denominations in the cases noted were: Atlanta, \$100 and \$500; Albany, Ga., \$10, \$5 and \$1; Columbia, \$50, \$20, \$10, \$5 and \$1; Chester, \$10, \$5 and \$1; Danville, \$100, \$50, \$20, \$10, \$5, \$2 and \$1; Newnan, \$10, \$5, and \$1; Rock Hill, \$5, \$2 and \$1; while the Birmingham series, including denominations of \$1,000, \$500, \$100, \$50, \$10, \$5, \$2, \$1, 50c. and 25c., merits special commemoration as the most frank and comprehensive currency system supplied by the associated banks of any single locality (see pp. 11, 12, 13 and 14).

### Certified Checks.

Another expedient, favored in all parts of the country, was the sale by banks of certified checks against themselves for currency denominations which, when signed by the purchaser, were used by him as currency. The few given are illustrations of hundreds of instances which seem to have been pretty evenly distributed in all parts of the country except the Southwest (see p. 15).

### Pay Checks.

Most generally used of all, however, were pay checks in currency denominations, which, in scores of manufacturing towns, mainly in the Northeast, but

\* A person presenting one or more large checks for payment at the counter of a bank member of the Clearing House Association, in the ordinary course of business, would receive for the amount of such check or checks one of these due bills signed by the paying teller and countersigned by one of the officers. In issuing the due bill the teller would ask the party what bank he desired to deposit the due bill in and would insert after the word "to" the number of that bank in the Clearing House, or if no particular bank should be named the word "banks" would be inserted after the word "to." Occasionally a due bill might be drawn to the order of the party presenting the checks, but that seldom occurs. It will be noticed that the due bill is intended to be deposited in some one of the clearing house banks, from which it will reach the issuing bank through the exchanges of the following day.

largely in the West and Southeast, were the only currency that was available for weekly payrolls and cash purchases by wage earners. (See pp. 16 and 17.)

#### Miscellaneous Expedients.

In addition to these well defined classes, there were others so varied that but a suggestion of them can be made here—negotiable certificates of deposit; ninety-day and other short time paper in currency denominations, with and without interest; bond certificates; grain purchase notes; credit and corporation store orders; improvement fund orders; teachers' warrants; shingle scrip; specimens of each of which are given below, and which are noteworthy here as the adaptation to use for general circulation, by issue in small currency denominations, of paper devised for other and widely differing purposes. (See pp. 18, 19 and 20.)

The foregoing will, I trust, have indicated somewhat of the resourceful vigor with which we met a sudden demand. And the result was as creditable as was the promptness with which our people arose to the occasion.

#### THE COURSE OF NATIONAL BANK CURRENCY.

But the performances of the National banking system turned tragedy into farce. The table which I now quote is itself a conclusive exposure:

National-bank notes outstanding *—	Surplus reserve in New York banks, week ending—
June 1, 1893.....	\$177,164,254
July 1, 1893.....	178,713,872
August 1, 1893.....	183,755,147
September 1, 1893.....	198,080,368
October 1, 1893.....	208,600,579
November 1, 1893.....	209,311,963
December 1, 1893.....	208,948 105
January 1, 1894.....	208,538,844
February 1, 1894.....	207,862,107
March 1, 1894.....	207,479,520
April 1, 1894.....	207,875,635
May 1, 1894.....	207,833,032
June 1, 1894.....	207,245,019
July 1, 1894.....	207,353,244
August 1, 1894.....	207,539,066
September 1, 1894.....	207,592,215
October 1, 1894.....	207,564,458
November 1, 1894.....	207,565,090
December 1, 1894.....	206,686,337
January 1, 1895.....	206,605,710
February 1, 1895.....	205,297,571
June 3, 1893.....	\$20,087,500
July 1, 1893.....	1,251,725
August 5, 1893†.....	-14,017,800
September 2, 1893†.....	-1,567,525
October 7, 1893.....	28,628,725
November 4, 1893.....	52,013,450
December 2, 1893.....	76,096,900
January 6, 1894.....	83,796,650
February 3, 1894.....	111,033,000
March 3, 1894*.....	75,773,900
April 7, 1894.....	80,797,970
May 5, 1894.....	82,808,150
June 2, 1894.....	77,965,100
July 7, 1894.....	72,134,125
August 4, 1894.....	69,053,700
September 1, 1894.....	65,820,825
October 6, 1894.....	59,450,950
November 3, 1894.....	63,204,275
December 1, 1894***.....	52,820,800
January 5, 1895.....	35,862,050
February 2, 1895.....	36,751,500

\* Including those temporarily in the United States Treasury and subtreasuries.

\*\* After \$50,000,000 loan.

\*\*\* After second \$50,000,000 loan.

† Deficit.

June 1, 1893, there was a surplus of about \$21,000,000 in excess of legal reserve lying in New York banks awaiting investment, and the amount of National bank currency then outstanding was about \$177,000,000. During that month the surplus reserve in the New York banks decreased to \$1,250,000, while the National bank notes outstanding increased to \$178,700,000. August 1, the bank funds were drained \$14,000,000 below their legal reserve; the demand for money to move the crops was increasing, the stress was almost a panic; yet the National bank currency had increased but \$5,000,000. September 1, the situation was improving, and the deficit had fallen to \$1,500,000; and, now that it was less needed, the National bank note circulation began to expand rapidly and stood at \$199,000,000.

October 1, the deficit had turned to an embarrassing surplus of \$28,000,000; but the National bank currency expansion was as hard to stop as it had been to start, and aggravated the plethora by an increase of \$10,000,000 during September—on October 1 standing at \$208,700,000. November 1, the idle funds had increased to over \$50,000,000, but the National bank issues were still expanding, standing on that date at \$209,300,000. December 1, the unused surplus had risen to \$76,000,000, but the National bank circulation had contracted less than \$500,000. January 1, 1894, the banks had \$80,000,000 more than anybody wanted, but the National bank issues had remained stationary for three months at above \$208,000,000. By February 1, the surplus seeking employment had risen to \$110,000,000, while the National bank note circulation was still about \$208,000,000; during February the \$50,000,000 loan to the Treasury was floated, the most of which was taken from this surplus; yet it stood on March 1 at \$76,000,000; on April 1, at \$81,000,000; on May 1, at \$83,000,000, and meanwhile the National bank currency had remained stationary at about \$208,000,000.

In June, 1893, therefore, when there was the greatest demand that this country had ever seen for currency, the National bank issues constituted a smaller percentage of our total circulation than at any other time except during the preceding

year; the almost frenzied efforts of the National banks were utterly futile in bringing material assistance until after the crisis had passed; and the result of their attempt to aid us has been to keep an increased volume of National bank currency outstanding, while the amount of unemployed currency was greater than it had ever been before, at the highest point it has reached for five years. And this is not all. The law permits but \$3,000,000 contraction monthly in any event. It will not be possible, therefore, to get back to a normal basis before the annual stringency due next September.

#### RESULTS.

Throughout New England, so generally that it may be deemed to have characterized its manufacturing centers; in so many portions of the South that it might be considered general there; in the West and in the Northwest; sporadically in the Middle States, the necessity for local currency developed at once a supply of it; and, where this was not the case, from city after city comes the word of how unfortunate were those who, not assisted by the enterprise of others, had none of their own to fall back upon. There is one general exception to be made—an exception which, however, proves the rule. It is this:

To the precise extent that—either by the use of clearing house certificates within the law, or by the violation of law in continuing discounts when their reserves were depleted—the banks of any section thus met the emergency, their customers and the community dependent upon them were relieved from the necessity which so generally came upon others of providing a special local currency. It was the New York banks that issued the greatest amount of clearing house certificates, and at the same time continued to assist their customers, even while their reserves were depleted; and, therefore, it was in the neighborhood of New York and her own great manufacturing establishments, in those of Newark, of Brooklyn, and of Long Island City, that it was unnecessary to look further for a supply of the currency they needed. The same was the case in Philadelphia, Chicago, Boston and their neighborhoods, in each of which cases either clearing house certificates, or loans of clearing house credits, enabled strong banks to aid weak ones. But in every case where the associated banks of a section were not in a position to supply the lack of currency or obviate the necessity of its use, individuals and corporations were compelled to do this.

In this, way after the machinery so carefully adjusted by Government had utterly failed to work, the business common sense of our people readjusted its finances; and in every part of the land business started up again, manufacture continued, the laborer received his hire, and the merchant disposed of his goods. In not an instance, so far as I have been able to learn, did any community find any trouble in the use of what, in the absence of all restrictive laws, would have been—and what in defiance of them actually was—a perfectly natural bank-note currency. The whole American people promptly accepted—each locality upon its knowledge of the conditions there—the paper of individuals and institutions. And as a result of this experience—most widespread, and had under conditions least favorable to security other than the integrity of those who issued the notes, and the intelligence of those who were asked to accept them—there was not a single dollar lost.

Such was the honorable record of the emergency currency of 1893.

#### HOW RELIEF CAME.

By September 1st, 1893, the passage by the House of the repeal of the purchasing clause of the Sherman Act had both stopped inflation and quieted the worst apprehensions; and to \$30,000,000 additional national bank currency and the volume of the emergency currency noted, which can be but vaguely estimated at \$80,000,000, was already being added the \$40,000,000 of gold which had been purchased in Europe for import hither. The panic collapsed as suddenly as it had been blown up; and, with dull business conditions for a year to come, the currency proved excessive.

With accession of confidence among the masses the petty hoards were returned to the savings banks or paid out to merchants, and by them used to swell their bank credits; so that from \$1,450,000,000 in October 1, 1893, the aggregate deposits in National banks alone rose to \$1,520,000,000, December 19, 1894; \$1,586,000,000, February 2, 1894; \$1,671,000,000, May 4, 1894; \$1,678,000,000, July 18, 1894, and \$1,728,000,000, October 2, 1894. The emergency currency gave no trouble. By the process of natural redemption it disappeared so promptly that before the end of the year specimens became curiosities.

Such was the crisis of 1893, a situation brought about by the wanton interference of Government with business not its own; aggravated by legislation which had to be broken before the people could help themselves; relieved by enterprise overriding and evading restrictive law; and turned into a theme for the gaudy of nations by the grotesque exhibition thus afforded of how depraved was the elaborate bank note currency system, upon which had been lavished so much of thankless labor.





Five Thousand Dollars.

No. 499

Loan Committee of the

\$5000.

# Bankers Association of Buffalo.

Buffalo, N.Y. \_\_\_\_\_ 1890

This Certifies that the \_\_\_\_\_

has deposited with this Committee securities in accordance with the proceedings of a Meeting of the Association held January 22nd, 1890, upon which this Certificate is issued. This Certificate will be received in payment of balances at the Clearing House for the sum of Five Thousand Dollars from any Member of the Clearing House Association.

On the surrender of this Certificate by the Depositing Bank above named the Committee will endorse the amount as a payment on the obligation of said Bank held by them, and surrender a proportionate share of the collateral securities held therefor.

\$5000.



COMMITTEE

**BALTIMORE CLEARING HOUSE.** No. 341 **Baltimore Clearing House,** Baltimore, \_\_\_\_\_

**This is to Certify:**

That the \_\_\_\_\_ has deposited with the Committee appointed by the Associated Banks an \_\_\_\_\_ Approved Securities which are held as a Special Deposit to secure the redemption of the Certificates on compliance with resolutions adopted by said Banks on the day above named. This Certificate will be received for the sum of **SIX THOUSAND DOLLARS,** without endorsement, in settlement of balances resulting from the exchanges between the Banks, and will bear interest at the rate of six per cent per annum until redeemed, and will be negotiable only between the Associated Banks.

\$6000. \_\_\_\_\_ Manager.

No. \_\_\_\_\_ **LOAN COMMITTEE** \$5,000. OF THE

**New Orleans Clearing House Association.** New Orleans, \_\_\_\_\_ 1890

This Certifies, That the \_\_\_\_\_ has deposited with the Committee, Securities in accordance with the proceedings of a meeting of the Association, held \_\_\_\_\_, upon which THIS CERTIFICATE is issued. This Certificate will be received in payment of balances resulting from the exchanges at the Clearing House, for the sum of \_\_\_\_\_ from any member of the **CLEARING HOUSE ASSOCIATION.**

\_\_\_\_\_ } \_\_\_\_\_


No. \_\_\_\_\_ Loan Committee of the **Bluer Association** \$5000. Detroit, Mich. \_\_\_\_\_

This Certifies that \_\_\_\_\_ has deposited with this Committee securities in accordance with the proceedings of a meeting of the Association held \_\_\_\_\_ upon which this certificate is issued. This certificate will be received in payment of balances at the Clearing House for the sum of **FIVE THOUSAND DOLLARS,** from any member of the Clearing House Association.


On the surrender of this certificate by the Depositing Bank, above named, the Committee will, with the amount as a payment on the obligation of said Bank held by them and surrender a proportionate part of the collateral securities held therefor.

**FIVE THOUSAND DOLLARS**

\_\_\_\_\_

No. \_\_\_\_\_ **Atlanta Clearing House Association Certificate,** 

SERIES A. ATLANTA, GA.



This Certifies That the Banks composing the Atlanta Clearing House Association have deposited with the undersigned Trustees of said Clearing House Association, securities of the value of SEVEN HUNDRED AND FIFTY DOLLARS, to secure to the bearer hereof the payment of the sum of

**FIVE HUNDRED DOLLARS**

In lawful money of the United States, payable on or before the first day of January, 1894. This Certificate is issued in accordance with the regulations of said Association, and on the fifteenth day of August, 1893, and will be received on Deposit or in payment of debts due any Bank in said Clearing House.

TRUSTEES

No. 1 **Columbia Clearing House Association,** **50**

CERTIFICATE.

COLUMBIA, S. C., August 19th, 1893.


This Certifies, that the Banks composing the "COLUMBIA CLEARING HOUSE ASSOCIATION" have deposited with the undersigned Trustees of said Clearing House Association, securities of the approved value of Seventy-Five Dollars, to secure to the bearer hereof the sum of

**FIFTY DOLLARS**

lawful money of the United States, payable on or before the first day of January, 1894.

This Certificate is issued in accordance with the proceedings of the "COLUMBIA CLEARING HOUSE ASSOCIATION," at a meeting thereof held on the 19th day of August, 1893, and is receivable for any and all dues to the Banks which are members of said Association, and is also receivable on deposit in any of said Banks, and also in settlement of all balances due from one of said Banks to another.

COUNTERSIGNED,



Secretary

Trustees

WELLS, FARGO & COMPANY, CH. 151903

**CLEARING HOUSE CERTIFICATE**

OF THE **ASSOCIATED BANKS OF ROCK HILL S.C.** **60575**

SEPT. 4th 1893.


This Certifies that the FIRST NATIONAL BANK of ROCK HILL S.C. and the SAVINGS BANK of ROCK HILL S.C. have deposited with the Committee herein, in accordance with the proceedings of a meeting of the Association held September 4, 1893, upon which this Certificate is issued, this Certificate will be received in payment of balances at the clearing house for the sum of

**FIVE DOLLARS**

I am any member of the CLEARING HOUSE ASSOCIATION

in the presence of two members of the said Association, who are not Trustees, and will receive the amount hereof in payment of the obligations of said Banks, held by him and payable in a proportionate share of the collections on notes held thereby.

Countersigned by



Committee

The First National Bank of Rock Hill, S.C.

Secretary

**\$10.00. CLEARING CERTIFICATE No. \_\_\_\_\_**

Of the Associated Banks, of Danville, Va.

Danville, Virginia, August 14th, 1893.

Any of the Banks, whose names are printed below, will pay to bearer, on demand, TEN DOLLARS, ninety days after the above date, with interest at the rate of 6 per cent. per annum.

THIS CERTIFICATE is negotiable and payable at any time.

Interest will cease 90 days from the above named date. The payment of this certificate is secured by the combined capital of these Banks; also by collateral worth one third more than all the interest issued.

The following 6 Banks are jointly bound for the payment of this paper - Planters National Bank; Commercial Bank; Merchants Bank; Danville Savings Bank Loan and Improvement Co.; Border Grange Bank; Citizens Savings Bank.

SEEV AND TRUMP IN THE ASSOCIATION

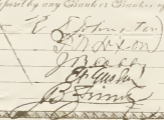
No. 27 \$1000.

## Birmingham Clearing House Certificate.

Birmingham, Ala. 1893.

This Certifies that the \_\_\_\_\_ Bank, of Birmingham, Ala., has deposited with the undersigned Trustees of the Birmingham Clearing House, securities to the value of Two Thousand Dollars to secure to the bearer hereof the payment of the sum of **ONE THOUSAND DOLLARS** in lawful money of the United States, payable at any time after ninety days from date hereof.

This Certificate will be received on deposit by any Bank or Treasurer of the Birmingham Clearing House at par.

  
 Trustees.

## ALBANY CLEARING HOUSE CERTIFICATE. \$10.

ALBANY, - - - GEORGIA.

Albany, Ga., August 29th, 1893.

THIS CERTIFIES, That the **FIRST NATIONAL BANK**, of Albany, Ga., has deposited with the undersigned Trustees of the Albany Clearing House, securities of the value of Twenty Dollars for the payment of the sum of

# TEN DOLLARS

to said bank or bearer in lawful money of the United States, at Six Months from date, or earlier, at option of said bank. But no Certificate is to be issued bearing date later than January 1st, 1894. This Certificate will be received on deposit by any bank or banker belonging to the Clearing House Association of Albany at par at any time before its maturity.


Sec'y. Pres't.

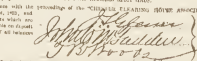
## NEWNAN CLEARING HOUSE ASSOCIATION CERTIFICATE. \$10.

NEWNAN, GEORGIA.

No. 771

THIS CERTIFIES, That the Banks composing the Newnan Clearing House Association, have deposited with the Trustees of said Clearing House Association, securities to the value of **TEN DOLLARS**, to secure to the bearer hereof the payment of the sum of **TEN DOLLARS** in lawful money of the United States, payable on or before the first day of January, 1894. This Certificate will be received on deposit by any Bank or Treasurer of said Clearing House Association, and will be received on deposit or in payment of debts due either Bank in said Clearing House.




 TRUSTEES.

\$1.00. \$1.00

## Chester Clearing House Association CERTIFICATE


CHESTER, S. C. 1893. No. 971

This Certifies, that the Banks composing the **CHESTER CLEARING HOUSE ASSOCIATION** have deposited with the undersigned Trustees of said Clearing House Association, securities of the approved value of **Two Dollars**, to secure to the bearer hereof the sum of

# ONE DOLLAR

in lawful money of the United States, payable on or before four months after date.

This Certificate is issued in accordance with the proceedings of the **CHESTER CLEARING HOUSE ASSOCIATION**, and is receivable for any and all debts to the Banks within the territory of said Association, and are also receivable on deposit by any Bank or Treasurer of said Association, and will be received on deposit or in payment of debts due either Bank in said Clearing House.


 TRUSTEES.

No. 423 \$100.00

**Birmingham Clearing House Certificate.**

Birmingham, Ala. \_\_\_\_\_ 1893.

This Certifies that the \_\_\_\_\_ Bank  
of Birmingham, Ala., has deposited with the undersigned Committee of the Birmingham  
Clearing House, securities to the value of Two Hundred Dollars, to secure to the bearer  
hereof the payment of the sum of **ONE HUNDRED DOLLARS** in lawful money  
of the United States, payable at any time after ninety days from date hereof.

This Certificate will be received on deposit by any Bank or Banker of the Birmingham  
Clearing House at par.

Committee

*J. D. Johnston*  
*E. M. Dixon*  
*J. C. Call*  
*A. G. Miller*  
*L. J. Jones*

No. \_\_\_\_\_ \$50.00

**Birmingham Clearing House Certificate.**

Birmingham, Ala. \_\_\_\_\_ 1893.

This Certifies that the \_\_\_\_\_ Bank  
of Birmingham, Ala., has deposited with the undersigned Committee of the Birmingham  
Clearing House, securities to the value of One Hundred Dollars, to secure to the bearer  
hereof the payment of the sum of **FIFTY DOLLARS** in lawful money of the  
United States, payable at any time after ninety days from date hereof.

This Certificate will be received on deposit by any Bank or Banker of the Birmingham  
Clearing House at par.

Committee

*J. D. Johnston*  
*E. M. Dixon*  
*J. C. Call*  
*A. G. Miller*  
*L. J. Jones*

No. A. 719 \$10.00

**Birmingham Clearing House Certificate.**

Birmingham, Ala. \_\_\_\_\_ 1893.

This Certifies that the \_\_\_\_\_ Bank  
of Birmingham, Ala., has deposited with the undersigned Committee of the Birmingham Clearing  
House, securities to the value of **TWENTY DOLLARS**, to secure to the bearer hereof the payment  
of the sum of **TEN DOLLARS** in lawful money of the United States,  
payable at any time after ninety days from date hereof.

This Certificate will be received on deposit by any Bank or Banker of the  
Birmingham Clearing House at par.

COUNTERSIGNED \_\_\_\_\_

Committee

*J. D. Johnston*  
*E. M. Dixon*  
*J. C. Call*  
*A. G. Miller*  
*L. J. Jones*

No. A. 2144 \$5.00

**Birmingham Clearing House Certificate.**

Birmingham, Ala. \_\_\_\_\_ 1893.

This Certifies that the \_\_\_\_\_ Bank  
of Birmingham, Ala., has deposited with the undersigned Committee of the Birmingham Clearing  
House, securities to the value of **TEN DOLLARS**, to secure to the bearer hereof the payment  
of the sum of **FIVE DOLLARS** in lawful money of the United States,  
payable at any time after ninety days from date hereof.

This Certificate will be received on deposit by any Bank or Banker of the  
Birmingham Clearing House at par.

COUNTERSIGNED \_\_\_\_\_

Committee

*J. D. Johnston*  
*E. M. Dixon*  
*J. C. Call*  
*A. G. Miller*  
*L. J. Jones*

No. A 2927 \$2.00

## Birmingham Clearing House Certificate.

Birmingham, Ala., \_\_\_\_\_ 1893

This Certifies that the \_\_\_\_\_ Bank, of Birmingham, Ala. has deposited with the undersigned Committee of the Birmingham Clearing House securities to the value of FOUR DOLLARS, to secure to the bearer hereof the payment of the sum of **TWO DOLLARS**, in lawful money of the United States payable at any time after ninety days from date hereof.

This Certificate will be received on deposit by any Bank or Banker of the Birmingham Clearing House at par.

COUNTERSIGNED \_\_\_\_\_

Committee

CASHIER

*J. D. Johnston*  
*E. M. Dixon*  
*J. B. Cobb*  
*C. G. Walker*  
*B. J. Farmer*

No. A 7649 \$1.00

## Birmingham Clearing House Certificate.

Birmingham, Ala., \_\_\_\_\_ 1893

This Certifies that the \_\_\_\_\_ Bank, of Birmingham, Ala. has deposited with the undersigned Committee of the Birmingham Clearing House securities to the value of TWO DOLLARS, to secure to the bearer hereof the payment of the sum of **ONE DOLLAR**, in lawful money of the United States, payable at any time after ninety days from date hereof.

This Certificate will be received on deposit by any Bank or Banker of the Birmingham Clearing House at par.

COUNTERSIGNED \_\_\_\_\_

Committee

CASHIER

*J. D. Johnston*  
*E. M. Dixon*  
*J. B. Cobb*  
*C. G. Walker*  
*B. J. Farmer*

**1/2** **BIRMINGHAM CLEARING HOUSE CERTIFICATE.** 50c.

No. 7569 Birmingham, Ala. 1893.

This Certifies that the \_\_\_\_\_ Bank, of Birmingham, Ala., has deposited with the undersigned Committee of the Birmingham Clearing House securities to the value of ONE DOLLAR, to secure to the bearer hereof the payment of the sum of **FIFTY CENTS**, in lawful money of the United States, payable at any time after ninety days from date hereof.

This Certificate will be received on deposit by any Bank or Banker of the Birmingham Clearing House at par.

COUNTERSIGNED \_\_\_\_\_

Committee

CASHIER

*J. D. Johnston*  
*E. M. Dixon*  
*J. B. Cobb*  
*C. G. Walker*  
*B. J. Farmer*

**1/4** **BIRMINGHAM CLEARING HOUSE CERTIFICATE.** 25c.

No. 7274 Birmingham, Ala. 1893.

This Certifies that the \_\_\_\_\_ Bank, of Birmingham, Ala., has deposited with the undersigned Committee of the Birmingham Clearing House securities to the value of FIFTY CENTS, to secure to the bearer hereof the payment of the sum of **TWENTY-FIVE CENTS**, in lawful money of the United States, payable at any time after ninety days from date hereof.

This Certificate will be received on deposit by any Bank or Banker of the Birmingham Clearing House at par.

COUNTERSIGNED \_\_\_\_\_

Committee

CASHIER

*J. D. Johnston*  
*E. M. Dixon*  
*J. B. Cobb*  
*C. G. Walker*  
*B. J. Farmer*







Arnold Print Works.

\$10.00

North Adams, Mass, August 15, 1893.

To either of the MERCHANTS or TRADESMEN of North Adams, Please deliver to the Bearer, GOODS, CREDIT OR MONEY to the value of **TEN DOLLARS** and this Order will be received on Deposit or Collected by any Bank in Town

At \_\_\_\_\_, year 18\_\_.

ARNOLD PRINT WORKS.

Treas.

ONE

**EAGLE & PHENIX MANFG CO.**

No. 18201

**\$1**

**\$1**

To A. S. MATHEWSON, SUPY  
EAGLE & PHENIX MANFG CO.  
COLUMBUS, GA.

TREASURER.

ONE



**\$1**

**SWIFT MANUFACTURING CO.**

Columbus, Ga., August 15, 1893.

No. \_\_\_\_\_

**\$1**

**PAY TO BEARER**

**ONE DOLLAR IN SWIFT MERCHANDISE at Retail.**

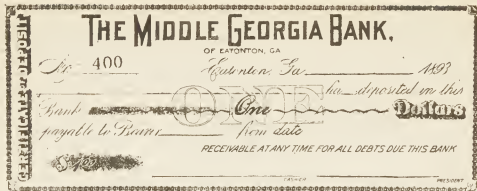
**\$1**

To G. M. WILLIAMS, PRES.  
SWIFT MFG. CO.,  
COLUMBUS, GA.

TREASURER.

**\$1**

Shoreville July 21/93  
 Stan Hall  
 Please give H. F. Lee - for  
 five dollars & charge the same to me. Payable  
 Dec-1/93  
 \$5.00  
 John Lee  
 L



THIS IS TO CERTIFY, THAT THERE HAS BEEN DEPOSITED IN THIS BANK FIVE DOLLARS, PAYABLE TO THE BEARER OF THIS CERTIFICATE, IN CURRENT FUNDS FOUR MONTHS FROM DATE.  
CHATTANOOGA, TENN. AUG. 19, 1893.

**SOUTH CHATTANOOGA SAVINGS BANK**

THIS CERTIFICATE WILL BE RECEIVED ON DEPOSIT, OR IN PAYMENT OF ANY DEBT OR OBLIGATION TO THE

**FIRST NATIONAL BANK, CHATTANOOGA NATIONAL BANK, SOUTH CHATTANOOGA SAVINGS BANK, CITIZENS BANK & TRUST CO., WIEHL, PROBASCO & CO., CHATTANOOGA SAVINGS BANK.**

THIS CERTIFICATE IS SECURED BY THE DEPOSIT OF APPROVED SECURITIES IN THE HANDS OF T. G. MONTAGUE, PRESIDENT FIRST NATIONAL BANK, AS CUSTODIAN TO DUBIUS THE AMOUNT ALL SUCH CERTIFICATES.

*T. G. Montague*  
MANAGER,  
CHATTANOOGA CLEARING HOUSE ASSOCIATION.



**MOUNT VERNON SHINGLE SCRIPT**

No. 27  
15<sup>00</sup>

Mount Vernon, Wash., July 14<sup>th</sup> 1893

Due to Red Cedar Shingle Company or Order

Five \_\_\_\_\_ Dollars, to be paid out of the proceeds of shipment of shingles made July 14<sup>th</sup> 1893 by said Red Cedar Shingle Company being Car No. 46948 containing 205 1/4 Thousand of Shingles, the shipping bill of which has been assigned to me.

This is one of a series of said instruments, each amounting to 75 per cent. of the purchase price of said shingles. My liability herein extends only to said proceeds and to no more than said 75 per cent. It remains to be paid pro rata with balance of said series.

Ed. Moody Trustee.

Tacoma Wash. SEP 18 1893 No. 115

By Order of the **CITY COUNCIL** of the **CITY OF TACOMA**  
The Treasurer of said City will pay

to the Tacoma Bituminous Paving Company, or Bearer  
the sum of **ONE DOLLAR**

from the PACIFIC AVENUE "from the Center Line of South 4th Street to 320 feet South of the Center Line of South Fourth Street" IMPROVEMENT FUND. On Contract.

COUNTY CLERK: W. Slaughter City Auditor

President Council: J. T. Lee  
City Clerk: A. J. Smith

**FIVE** Minneapolis Minn. Sept 14 1893 **\$5.00**

ON DEMAND WE PROMISE TO PAY TO BEARER

**FIVE DOLLARS**

FOR COINS PURCHASED. THE VALIDITY IS GOOD ONLY WHEN CONFIRMED BY COMMISSIONER TREASURER AND IS PAYABLE AT THE SWEDISH AMERICAN BANK MINNEAPOLIS, MINN.

MINNEAPOLIS & NORTHERN ELEVATOR CO.

By Chas. A. Pillsbury President

Counter signed  
C. M. A. Pillsbury  
Minneapolis & Northern Elevator Co.


**Richmond Locomotive & Machine Works.**

Richmond, Virginia, August 12<sup>th</sup> 1893.

**\$1** On demand, sixty days after date the Richmond Locomotive & Machine Works, promises to pay to Bearer **One Dollar** with interest at the percent per annum from date. This obligation is issued for Wages due.

Richmond Locomotive & Machine Works.  
by W. S. Johnson Treasurer

No. 239



**CITY OF RICHMOND 6 PER CENT BOND**  
 TWELVE MONTHS AFTER DATE

**THE City of Richmond, STATE OF VIRGINIA,**  
 promises to pay to the Bearer, with interest at Six percent,  
**TEN DOLLARS**

After the expiration of twelve months from date and subject to the provisions of this ordinance, the holder of this certificate is to receive the sum of ten dollars and all legal interest thereon due the bearer, any day or days of the month of August and the first day of the month of September, 1893.

8480

ISSUED UNDER RESOLUTION OF COUNCIL APPROVED AUGUST 21ST 1893

**BOND CERTIFICATE**

**JOHNSTOWN, PA. 1903, SERIES NO. 2**

THIS IS TO CERTIFY THAT THE BEARER IS THE OWNER OF ONE TWENTY THOUSANDTH (1/20000) OF THE INTEREST BEARING SECURITIES NOW IN THE HANDS OF THE TRUSTEES FOR THE EMPLOYEES OF THE JOHNSON COMPANY AND THAT OUT OF THE PROCEEDS OF SUCH BONDS THE TRUSTEES WILL PAY TO THE BEARER AS SUCH CERTIFICATE IS MARKETED

THIS CERTIFICATE IS ONE OF AN ISSUE OF TWENTY THOUSAND DOLLARS (\$20,000.00) THAT BEING THE MARKET VALUE OF THE APPROVED SECURITY OF WHICH THIS IS AN EVIDENCE OF PART OWNERSHIP. THE EVIDENCE OF THE OWNERSHIP OF SUCH SECURITIES IS IN THE FORM OF A TRUSTEES' CERTIFICATE WHICH HAS BEEN DEPOSITED FOR SAFE KEEPING, WITH THE CITY OF JOHNSTOWN, PA. DEPOSITARY.

SHOULD THE PROCEEDS OF THE SALE OF SUCH CERTIFICATES YIELD MORE THAN THE FACE VALUE OF THE CERTIFICATE, THE SURPLUS WILL BE DIVIDED PRO RATA AMONG THE HOLDERS HEREOF.

*W. H. Birkley*  
 THE TRUSTEES FOR THE EMPLOYEES OF THE JOHNSON COMPANY

*W. H. Birkley*  
 THE TRUSTEES FOR THE EMPLOYEES OF THE JOHNSON COMPANY

N<sup>o</sup> A4102

**ONE DOLLAR**

*The Loomis & Hart Mfg. Co.*  
 Chattanooga, Tennessee, *Aug 19<sup>th</sup> 1893.*

On demand at any time after ninety days from date we promise to pay to bearer **ONE DOLLAR**, with interest at 6 per cent. per annum, interest to cease after six months from date. This note is given in payment of wages due *W. Hood*

*W. Hood*  
 By *W. Hood*  
 THE LOOMIS & HART MFG. CO.  
 CHATTANOOGA, TENN.

**PAY-ROLL CHECK**