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Final Version of the Second Report on the Further Provision Necessary for Establishing Public Credit (Report on a National Bank), 13 December 1790¹⁵²

Treasury Department
December 13th, 1790
[Communicated on December 14, 1790]¹⁵³

[To the Speaker of the House of Representatives]

In obedience to the order of the House of Representatives of the ninth day of August last,¹⁵⁴ requiring the Secretary of the Treasury to prepare and report on this day such further provision as may, in his opinion, be necessary for establishing the public Credit

The said Secretary further respectfully reports

That from a conviction (as suggested in his report No. 1¹⁵⁵ herewith presented) That a National Bank is an Institution of primary importance to the prosperous administration of the Finances, and would be of the greatest utility in the operations connected with the support of the Public Credit, his attention has been drawn to devising the plan of such an institution, upon a scale, which will intitle it to the confidence, and be likely to render it equal to the exigencies of the Public.

Previously to entering upon the detail of this plan, he entreats the indulgence of the House, towards some preliminary reflections naturally arising out of the subject, which he hopes will be deemed, neither useless, nor out of place. Public opinion being the ultimate arbiter of every measure of Government, it can scarcely appear improper, in deference to that, to accompany the origination of any new proposition with explanations, which the superior information of those, to whom it is immediately addressed, would render superfluous.

It is a fact well understood, that public Banks have found admission and patronage among the principal and most enlightened commercial nations. They have successively obtained in Italy, Germany, Holland, England and France, as well as in the United States. And it is a circumstance, which cannot but have considerable weight, in a candid estimate of their tendency, that after an experience of centuries, there exists not a question about their util<ity> in the countries in which they have been so long established. Theorists and men of business unite in the acknowlegment of it.

Trade and industry, wherever they have been tried, have been indebted to them for important aid. And Government has been repeatedly under the greatest obligations to them, in dangerous and distressing

emergencies. That of the United States, as well in some of the most critical conjunctures of the late war, as since the peace, has received assistance from those established among us, with which it could not have dispensed.

With this two fold evidence before us, it might be expected, that there would be a perfect union of opinions in their favour. Yet doubts have been entertained; jealousies and prejudices have circulated: and though the experiment is every day dissipating them, within the spheres in which effects are best known; yet there are still persons by whom they have not been intirely renounced. To give a full and accurate view of the subject would be to make a Treatise of a report; but there are certain aspects in which it may be cursorily exhibited, which may perhaps conduce to a just impression of its merits. These will involve a comparison of the advantages, with the disadvantages, real or supposed, of such institutions.

The following are among the principal advantages of a Bank.

First. The augmentation of the active or productive capital of a country. Gold and Silver, when they are employed merely as the instruments of exchange and alienation, have been not improperly denominated dead Stock; but when deposited in Banks, to become the basis of a paper circulation, which takes their character and place, as the signs or representatives of value, they then acquire life, or, in other words, an active and productive quality. This idea, which appears rather subtil and abstract, in a general form, may be made obvious and palpable, by entering into a few particulars. It is evident, for instance, that the money, which a merchant keeps in his chest, waiting for a favourable opportunity to employ it, produces nothing 'till that opportunity arrives. But if instead of locking it up in this manner, he either deposits it in a Bank, or invests it in the Stock of a Bank, it yields a profit, during the interval; in which he partakes, or not, according to the choice he may have made of being a depositor or a proprietor; and when any advantageous speculation offers, in order to be able to embrace it, he has only to withdraw his money, if a depositor, or if a proprietor to obtain a loan from the Bank, or to dispose of his Stock; an alternative seldom or never attended with difficulty, when the affairs of the institution are in a prosperous train. His money thus deposited or invested, is a fund, upon which himself and others can borrow to a much larger amount. It is a well established fact, that Banks in good credit can circulate a far greater sum than the actual quantum of their capital in Gold & Silver. The extent of the possible excess seems indeterminate; though it has been conjecturally stated at the proportions of two and three to one. This faculty is produced in various ways. First. A great proportion of the notes, which are issued and pass current as Cash, are indefinitely suspended in circulation, from the confidence which each holder has, that he can at any moment turn them into gold and silver. Secondly, Every loan, which a Bank makes is, in its first shape, a credit given to the borrower on its books, the amount of which it stands ready to pay, either in its own notes, or in gold or silver, at his option. But, in a great number of cases, no actual payment is made in either. The Borrower frequently, by a check or order, transfers his credit to some other person, to whom he has a payment to make; who, in his turn, is as often content with a similar credit, because he is satisfied, that he can, whenever he pleases, either convert it into cash, or pass it to some other hand, as an equivalent for it. And in this manner the credit keeps circulating, performing in every stage the office of money, till it is extinguished by a discount with some person, who has a payment to make to the Bank, to an equal or greater amount. Thus large sums are lent and paid, frequently through a variety of hands, without the intervention of a single piece of coin. Thirdly, There is always a large quantity of gold and silver in the repositories of the Bank, besides its own Stock, which is placed there, with a view partly to its safe keeping and partly to the accommodation of an institution, which is itself a source of general accommodation. These deposits are of immense consequence in the operations of a Bank. Though liable to be redrawn at any moment, experience proves, that the money so much oftener changes proprietors than place, and that what is drawn out is generally so speedily replaced, as to authorise the counting upon the sums deposited, as an *effective fund*; which, concurring with the Stock of the Bank, enables it to extend its loans, and to answer all the demands for coin, whether in consequence of those loans, or arising from the occasional return of its notes.

These different circumstances explain the manner, in which the ability of a bank to circulate a greater sum, than its actual capital in coin, is acquired. This however must be gradual; and must be preceded by a firm establishment of confidence; a confidence which may be bestowed on the most rational grounds; since the excess in question will always be bottomed on good security of one kind or another. This, every

well conducted Bank carefully requires, before it will consent to advance either its money or its credit; and where there is an auxiliary capital (as will be the case in the plan hereafter submitted) which, together with the capital in coin, define the boundary, that shall not be exceeded by the engagements of the Bank, the security may, consistently with all the maxims of a reasonable circumspection be regarded as complete.

The same circumstances illustrate the truth of the position, that it is one of the properties of Banks to increase the active capital of a country. This, in other words is the sum of them. The money of one individual, while he is waiting for an opportunity to employ it, by being either deposited in the Bank for safe keeping, or invested in its Stock, is in a condition to administer to the wants of others, without being put out of his own reach, when occasion presents. This yields an extra profit, arising from what is paid for the use of his money by others, when he could not himself make use of it; and keeps the money itself in a state of incessant activity. In the almost infinite vicissitudes and competitions of mercantile enterprise, there never can be danger of an intermission of demand, or that the money will remain for a moment idle in the vaults of the Bank. This additional employment given to money, and the faculty of a bank to lend and circulate a greater sum than the amount of its stock in coin are to all the purposes of trade and industry an absolute increase of capital. Purchases and undertakings, in general, can be carried on by any given sum of bank paper or credit, as effectually as by an equal sum of gold and silver. And thus by contributing to enlarge the mass of industrious and commercial enterprise, banks become nurseries of national wealth: a consequence, as satisfactorily verified by experience, as it is clearly deducible in theory.

Secondly. Greater facility to the Government in obtaining pecuniary aids, especially in sudden emergencies. This is another and an undisputed advantage of public banks: one, which as already remarked, has been realised in signal instances, among ourselves. The reason is obvious: The capitals of a great number of individuals are, by this operation, collected to a point, and placed under one direction. The mass, formed by this union, is in a certain sense magnified by the credit attached to it: And while this mass is always ready, and can at once be put in motion, in aid of the Government, the interest of the bank to afford that aid, independent of regard to the public safety and welfare, is a sure pledge for its disposition to go as far in its compliances, as can in prudence be desired. There is in the nature of things, as will be more particularly noticed in another place, an intimate connection of interest between the government and the Bank of a Nation.

Thirdly. The facilitating of the payment of taxes. This advantage is produced in two ways. Those who are in a situation to have access to the Bank can have the assistance of loans to answer with punctuality the public calls upon them. This accommodation has been sensibly felt in the payment of the duties heretofore laid, by those who reside where establishments of this nature exist. This however, though an extensive, is not an universal benefit. The other way, in which the effect here contemplated is produced, and in which the benefit is general, is the encreasing of the quantity of circulating medium and the quickening of circulation. The manner in which the first happens has already been traced. The last may require some illustration. When payments are to be made between different places, having an intercourse of business with each other, if there happen to be no private bills, at market, and there are no Bank notes, which have a currency in both, the consequence is, that coin must be remitted. This is attended with trouble, delay, expence and risk. If on the contrary, there are bank notes current in both places, the transmission of these by the post, or any other speedy, or convenient conveyance answers the purpose; and these again, in the alternations of demand, are frequently returned, very soon after, to the place from whence they were first sent: Whence the transportation and retransportation of the metals are obviated; and a more convenient and more expeditious medium of payment is substituted. Nor is this all. The metals, instead of being suspended from their usual functions, during this process of vibration from place to place, continue in activity, and administer still to the ordinary circulation; which of course is prevented from suffering either diminution or stagnation. These circumstances are additional causes of what, in a practical sense, or to the purposes of business, may be called greater plenty of money. And it is evident, that whatever enhances the quantity of circulating money adds to the ease, with which every industrious member of the community may acquire that portion of it, of which he stands in need; and enables him the better to pay his taxes, as well as to supply his other wants. Even where the circulation of the bank paper is not general, it must still have the same effect, though in a less degree. For whatever furnishes additional supplies to the channels of circulation, in one quarter, naturally contributes to keep the streams fuller

elsewhere. This last view of the subject serves both to illustrate the position, that Banks tend to facilitate the payment of taxes; and to exemplify their utility to business of every kind, in which money is an agent.

It would be to intrude too much on the patience of the house, to prolong the details of the advantages of Banks; especially as all those, which might still be particularized¹⁵⁶ are readily to be inferred as consequences from those, which have been enumerated. Their disadvantages, real or supposed, are now to be reviewed. The most serious of the charges which have been brought against them are—

That they serve to increase usury:

That they tend to prevent other kinds of lending:

That they furnish temptations to overtrading:

That they afford aid to ignorant adventurers who disturb the natural and beneficial course of trade:

That they give to bankrupt and fraudulent traders a fictitious credit, which enables them to maintain false appearances and to extend their impositions: And lastly

That they have a tendency to banish gold and silver from the country.

There is great reason to believe, that on a close and candid survey, it will be discovered, that these charges are either destitute of foundation; or that, as far as the evils, they suggest, have been found to exist, they have proceeded from other, or partial, or temporary causes, are not inherent in the nature and permanent tendency of such institutions; or are more than counterbalanced by opposite advantages. This survey shall be had, in the order in which the charges have been stated.

The first of them is, that Banks serve to increase usury.

It is a truth, which ought not to be denied, that the method of conducting business, which is essential to bank operations, has among us, in particular instances, given occasion to usurious transactions. The punctuality, in payments, which they necessarily exact has sometimes obliged those, who have adventured beyond both their capital and their *credit* to procure money, at any price, and consequently to resort to usurers for aid.

But experience and practice gradually bring a cure to this evil. A general habit of punctuality among traders is the natural consequence of the necessity of observing it with the Bank; a circumstance which itself more than compensates for any occasional ill, which may have sprung from that necessity, in the particular, under consideration. As far therefore as Traders depend on each other for pecuniary supplies, they can calculate their expectations with greater certainty; and are in proportionably less danger of disappointments, which might compel them to have recourse to so pernicious an expedient, as that of borrowing at usury; the mischiefs of which, after a few examples, naturally inspire great care, in all but men of desperate circumstances, to avoid the possibility of being subjected to them. One, and not the least of the evils incident to the use of that expedient, if the fact be known or even strongly suspected, is loss of credit with the bank itself.

The Directors of a bank too, though in order to extend its business and its popularity, in the infancy of an institution, they may be tempted to go further in accommodations, than the strict rules of prudence will warrant, grow more circumspect of course, as its affairs become better established, and as the evils of too great facility are experimentally demonstrated. They become more attentive to the situation and conduct of those, with whom they deal; they observe more narrowly their operations and pursuits; they economise the credit, they give to those of suspicious solidity; they refuse it to those whose career is more manifestly hazardous. In a word, in the course of practice, from the very nature of things, the *interest* will make it the *policy* of a Bank, to succour the wary and industrious; to discredit the rash and unthrifty; to discountenance both usurious lenders and usurious borrowers.

There is a leading view, in which the tendency of banks will be seen to be, to abridge rather than to promote usury. This relates to their property of increasing the quantity and quickening the circulation of money. If it be evident, that usury will prevail or diminish, according to the proportion which the demand for borrowing bears to the quantity of money at market to be lent; whatever has the property just mentioned, whether it be in the shape of paper or of coin, by contributing to render the supply more equal to the demand, must tend to counteract the progress of usury.

But bank-lending, it is pretended, is an impediment to other kinds of lending; which, by confining the resource of borrowing to a particular class, leaves the rest of the community more destitute, and therefore more exposed to the extortions of usurers. As the profits of bank stock exceed the legal rate of interest, the possessors of money, it is argued, prefer investing it in that article to lending it at this rate; to which there are the additional motives of a more prompt command of the capital, and of more frequent and exact returns, without trouble or perplexity in the collection. This constitutes the second charge, which has been enumerated.

The fact on which this charge rests is not to be admitted without several qualifications; particularly in reference to the state of things in this country. First. The great bulk of the Stock of a bank will consist of the funds of men in trade, among ourselves, and monied foreigners; the former of whom could not spare their capitals out of their reach, to be invested in loans, for long periods, on mortgages, or personal security; and the latter of whom would not be willing to be subjected to the casualties, delays and embarrassments of such a disposition of their money in a distant country. Secondly. There will always be a considerable proportion of those, who are properly the money lenders of a Country, who from that spirit of caution, which usually characterises this description of men will incline rather to vest their funds in mortgages on real estate, than in the Stock of a Bank, which they are apt to consider as a more precarious security.

These considerations serve in a material degree to narrow the foundation of the objection, as to the point of fact. But there is a more satisfactory answer to it. The effect supposed, as far as it has existence, is temporary. The reverse of it takes place, in the general and permanent operation of the thing.

The capital of every public bank will of course be restricted within a certain defined limit. It is the province of legislative prudence so to adjust this limit, that while it will not be too contracted for the demand, which the course of business may create, and for the security, which the public ought to have for the solidity of the paper, which may be issued by the bank, it will still be within the compass of the pecuniary resources of the community; so that there may be an easy practicability of completing the subscriptions to it. When this is once done, the supposed effect of necessity ceases. There is then no longer room for the investment of any additional capital. Stock may indeed change hands by one person selling and another buying; but the money, which the buyer takes out of the common mass to purchase the stock, the seller receives, and restores to it. Hence the future surplusses, which may accumulate, must take their natural course, and lending at interest must go on, as if there were no such institution.

It must indeed flow in a more copious stream. The Bank furnishes an extraordinary supply for borrowers, within its immediate sphere. A larger supply consequently remains for borrowers elsewhere. In proportion, as the circulation of the Bank is extended, there is an augmentation of the aggregate mass of money, for answering the aggregate mass of demand. Hence a greater facility in obtaining it for every purpose.

It ought not to escape without a remark, that as far as the citizens of other countries become adventurers in the Bank, there is a positive increase of the gold and silver of the Country. It is true, that from this a half yearly rent is drawn back, accruing from the dividends upon the Stock. But as this rent arises from the employment of the capital, by our own citizens, it is probable, that it is more than replaced by the profits of that employment. It is also likely, that a part of it is, in the course of trade, converted into the products of our Country: And it may even prove an incentive, in some cases, to emigration to a country, in which the character of citizen is as easy to be acquired, as it is estimable and important. This view of the subject furnishes an answer to an objection, which has been deduced from the circumstance here taken notice of, namely the income resulting to foreigners from the part of the Stock, owned by them, which has been

represented as tending to drain the country of its specie. In this objection, the original investment of the capital, and the constant use of it afterwards seem both to have been overlooked.

That Banks furnish temptations to overtrading is the third of the enumerated objections. This must mean, that by affording additional aids to mercantile enterprise, they induce the merchant sometimes to adventure beyond the prudent or salutary point. But the very statement of the thing shews, that the subject of the charge is an occasional ill, incident to a general good. Credit of every kind (as a species of which only can bank lending have the effect supposed) must be in different degrees, chargeable with the same inconvenience. It is even applicable to gold and silver, when they abound in circulation. But would it be wise on this account to decry the precious metals, to root out credit; or to proscribe the means of that enterprise, which is the main spring of trade and a principal source of national wealth, because it now and then runs into excesses, of which overtrading is one?

If the abuses of a beneficial thing are to determine its condemnation, there is scarcely a source of public prosperity, which will not speedily be closed. In every case, the evil is to be compared with the good; and in the present case such a comparison will issue in this, that the new and increased energies derived to commercial enterprise, from the aid of banks, are a source of general profit and advantage; which greatly outweigh the partial ills of the overtrading of a few individuals, at particular times, or of numbers in particular conjunctures.

The fourth and fifth charges may be considered together. These relate to the aid, which is sometimes afforded by banks to unskilful adventurers and fraudulent traders. These charges also have some degree of foundation; though far less than has been pretended, and they add to the instances of partial ills, connected with more extensive and overbalancing benefits.

The practice of giving fictitious credit to improper persons is one of those evils, which experience guided by interest speedily corrects. The bank itself is in so much jeopardy of being a sufferer by it, that it has the strongest of all inducements to be on its guard. It may not only be injured immediately by the delinquencies of the persons, to whom such credit is given; but eventually, by the incapacities of others, whom their impositions, or failures may have ruined.

Nor is there much danger of a bank's being betrayed into this error, from want of information. The Directors, themselves, being, for the most part, selected from the class of Traders are to be expected to possess individually an accurate knowledge of the characters and situations of those, who come within that description. And they have, in addition to this, the course of dealing of the persons themselves with the bank to assist their judgment, which is in most cases a good index of the state, in which those persons are. The artifices and shifts, which those in desperate or declining circumstances are obliged to employ, to keep up the countenance, which the rules of the Bank require, and the train of their connections, are so many prognostics, not difficult to be interpreted, of the fate which awaits them. Hence it not unfrequently happens, that Banks are the first to discover the unsoundness of such characters, and, by withholding credit, to announce to the public, that they are not intitled to it.

If banks, in spite of every precaution, are sometimes betrayed into giving a false credit to the persons described; they more frequently enable honest and industrious men, of small or perhaps of no capital to undertake and prosecute business, with advantage to themselves and to the community; and assist merchants of both capital and credit, who meet with fortuitous and unforeseen shocks, which might without such helps prove fatal to them and to others; to make head against their misfortunes, and finally to retrieve their affairs: Circumstances, which form no inconsiderable encomium on the utility of Banks.

But the last and heaviest charge is still to be examined. This is, that Banks tend to banish the gold and silver of the Country.

The force of this objection rests upon their being an engine of paper credit, which by furnishing a substitute for the metals, is supposed to promote their exportation. It is an objection, which if it has any foundation, lies not against Banks, peculiarly, but against every species of paper credit.

The most common answer given to it is, that the thing supposed is of little, or no consequence; that it is immaterial what serves the purpose of money, whether paper or gold and silver; that the effect of both upon industry is the same; and that the intrinsic wealth of a nation is to be measured, not by the abundance of the precious metals, contained in it, but by the quantity of the productions of its labor and industry.

This answer is not destitute of solidity, though not intirely satisfactory. It is certain, that the vivification of industry, by a full circulation, with the aid of a proper and well regulated paper credit, may more than compensate for the loss of a part of the gold and silver of a Nation; if the consequence of avoiding that loss should be a scanty or defective circulation.

But the positive and permanent increase or decrease of the precious metals, in a Country, can hardly ever be a matter of indifference. As the commodity taken in lieu of every other, it is a species of the most effective wealth; and as the money of the world, it is of great concern to the state, that it possess a sufficiency of it to face any demands, which the protection of its external interests may create.

The objection seems to admit of another and a more conclusive answer, which controverts the fact itself. A nation, that has no mines of its own, must derive the precious metals from others; generally speaking, in exchange for the products of its labor and industry. The quantity, it will possess, will therefore, in the ordinary course of things, be regulated by the favourable, or unfavourable balance of its trade; that is, by the proportion between its abilities to supply foreigners, and its wants of them; between the amount of its exportations and that of its importations. Hence the state of its agriculture and manufactures, the quantity and *quality* of its labor and industry must, in the main, influence and determine the increase or decrease of its gold and silver.

If this be true, the inference seems to be, that well constituted Banks favour the increase of the precious metals. It has been shewn, that they augment in different ways, the active capital of the country. This, it is, which generates employment; which animates and expands labor and industry. Every addition, which is made to it, by contributing to put in motion a greater quantity of both, tends to create a greater quantity of the products of both: And, by furnishing more materials for exportation, conduces to a favourable balance of trade and consequently to the introduction and increase of gold and silver.

This conclusion appears to be drawn from solid premises. There are however objections to be made to it.

It may be said, that as Bank paper affords a substitute for specie, it serves to counteract that rigorous necessity for the metals, as a medium of circulation, which in the case of a wrong balance, might restrain in some degree their exportation; and it may be added, that from the same cause, in the same case, it would retard those oeconomical and parsimonious reforms, in the manner of living, which the scarcity of money is calculated to produce, and which might be necessary to rectify such wrong balance.

There is perhaps some truth in both these observations; but they appear to be of a nature rather to form exceptions to the generality of the conclusion, than to overthrow it. The state of things, in which the *absolute exigencies* of circulation can be supposed to resist with any effect the urgent demands for specie, which a wrong balance of trade may occasion, presents an *extreme case*. And a situation in which a too expensive manner of living of a community, compared with its means, can stand in need of a corrective, from distress or necessity, is one, which perhaps rarely results, but from extraordinary and adventitious causes: such for example, as a national revolution, which unsettles all the established habits of a people, and inflames the appetite for extravagance, by the illusions of an ideal wealth, engendered by the continual multiplication of a depreciating currency or some similar cause. There is good reason to believe, that where the laws are wise and well executed, and the inviolability of property and contracts maintained, the oeconomy of a people will, in the general course of things, correspond with its means.

The support of industry is probably in every case, of more consequence towards correcting a wrong balance of trade, than any practicable retrenchments, in the expences of families, or individuals: And the stagnation of it would be likely to have more effect, in prolonging, than any such savings in shortening its

continuance. That stagnation is a natural consequence of an inadequate medium, which, without the aid of Bank circulation, would in the cases supposed, be severely felt.

It also deserves notice, that as the circulation is always in a compound ratio to the fund, upon which it depends, and to the demand for it, and as that fund is itself affected by the exportation of the metals, there is no danger of its being overstocked, as in the case of paper issued at the pleasure of the Government; or of its preventing the consequences of any unfavourable balance from being sufficiently felt, to produce the reforms alluded to, as far as circumstances may require and admit.

Nothing can be more fallible, than the comparisons, which have been made between different countries, to illustrate the truth of the position under consideration. The comparative quantity of gold and silver, in different countries, depends upon an infinite variety of facts and combinations, all of which ought to be known, in order to judge, whether the existence or non existence of paper currencies has any share in the relative proportions they contain. The *mass* and *value* of the productions of the labor and industry of each, compared with its wants; the nature of its establishments abroad; the kind of wars in which it is usually engaged; the relations it bears to the countries, which are the original possessors of those metals; the privileges it enjoys in their trade; these and a number of other circumstances are all to be taken into the account, and render the investigation too complex to justify any reliance on the vague and general surmises, which have been hitherto hazarded on the point.

In the foregoing discussion, the objection has been considered as applying to the permanent expulsion and diminution of the metals. Their temporary exportation, for particular purposes, has not been contemplated. This, it must be confessed is facilitated by Banks, from the faculty they possess of supplying their place. But their utility is in nothing more conspicuous, than in these very cases. They enable the Government to pay its foreign debts, and to answer any exigencies, which the external concerns of the community may have produced. They enable the Merchant to support his credit, (on which the prosperity of trade depends) when special circumstances prevent remittances in other modes. They enable him also to prosecute enterprises, which ultimately tend to an augmentation of the species of wealth in question. It is evident, that gold and silver may often be employed in procuring commodities abroad; which, in a circuitous commerce, replace the original fund, with considerable addition. But it is not to be inferred from this facility given to temporary exportation, that Banks, which are so friendly to trade and industry, are in their general tendency, inimical to the increase of the precious metals.

These several views of the subject appear sufficient to impress a full conviction, of the utility of Banks, and to demonstrate that they are of great importance, not only in relation to the administration of the finances, but in the general system of the political œconomy.

The judgment of many concerning them has no doubt been perplexed, by the misinterpretation of appearances, which were to be ascribed to other causes. The general devastation of personal property, occasioned by the late war, naturally produced, on the one hand, a great demand for money, and on the other a great deficiency of it to answer the demand. Some injudicious laws, which grew out of the public distresses, by impairing confidence and causing a part of the inadequate sum in the country to be locked up, aggravated the evil: The dissipated habits, contracted by many individuals, during the war, which after the peace plunged them into expences beyond their incomes: The number of adventurers without capital and in many instances, without information, who at that epoch rushed into trade, and were obliged to make any sacrifices to support a transient credit; the employment of considerable sums in speculations upon the public debt, which from its unsettled state was incapable of becoming itself a substitute: All these circumstances concurring necessarily led to usurious borrowing, produced most of the inconveniencies, and were the true causes of most of the appearances; which, where the Banks were established, have been by some erroneously placed to their account: a mistake, which they might easily have avoided, by turning their eyes towards places, where there were none, and where, nevertheless, the same evils would have been perceived to exist, even in a greater degree, than where those institutions had obtained.

These evils have either ceased, or been greatly mitigated. Their more complete extinction may be looked for, from that additional security to property, which the constitution of the United States happily gives (a

circumstance of prodigious moment in the scale both of public and private prosperity) from the attraction of foreign capital, under the auspices of that security, to be employed upon objects & in enterprises, for which the state of this country opens a wide and inviting field, from the consistency and stability, which the public debt is fast acquiring, as well in the public opinion, at home and abroad, as in fact; from the augmentation of capital, which that circumstance and the quarter yearly payment of interest will afford; and from the more copious circulation, which will be likely to be created by a well constituted National Bank.

The establishment of Banks in this country seems to be recommended by reasons of a peculiar nature. Previously to the revolution circulation was in a great measure carried on by paper emitted by the several local governments. In Pennsylvania alone the quantity of it was near a million and a half of dollars. This auxiliary may be said to be now at an end. And it is generally supposed, that there has been for some time past, a deficiency of circulating medium. How far that deficiency is to be considered as real or imaginary is not susceptible of demonstration, but there are circumstances and appearances, which, in relation to the country at large, countenance the supposition of its reality.

The circumstances are, besides the fact just mentioned respecting paper emissions the vast tracts of waste land, and the little advanced state of manufactures. The progressive settlement of the former, while it promises ample retribution, in the generation of future resources, diminishes or obstructs, in the mean time, the *active* wealth of the country. It not only draws off a part of the circulating money, and places it in a more passive state, but it diverts into its own channels a portion of that species of labor and industry, which would otherwise be employed, in furnishing materials for foreign trade, and which by contributing to a favourable balance, would assist the introduction of specie. In the early periods of new settlements, the settlers not only furnish no surplus for exportation, but they consume a part of that which is produced by the labour of others. The same thing is a cause, that manufactures do not advance or advance slowly. And notwithstanding some hypotheses to the contrary, there are many things to induce a suspicion, that the precious metals will not abound, in any country, which has not mines or variety of manufactures. They have been sometimes acquired by the sword, but the modern system of war has expelled this resource, and it is one upon which it is to be hoped the United States will never be inclined to rely.

The appearances, alluded to, are, greater prevalency of direct barter, in the more interior districts of the country, which however has been for some time past gradually lessening; and greater difficulty, generally, in the advantageous alienation of improved real estate; which, also, has, of late, diminished, but is still seriously felt in different parts of the Union. The difficulty of getting money, which has been a general complaint, is not added to the number; because it is the complaint of all times, and one, in which imagination must ever have too great scope, to permit an appeal to it.

If the supposition of such a deficiency be in any degree founded, and some aid to circulation be desirable, it remains to inquire what ought to be the nature of that aid.

The emitting of paper money by the authority of Government is wisely prohibited to the individual States, by the National Constitution. And the spirit of that prohibition ought not to be disregarded, by the Government of the United States. Though paper emissions, under a general authority, might have some advantages, not applicable, and be free from some disadvantages, which are applicable, to the like emissions by the States separately; yet they are of a nature so liable to abuse, and it may even be affirmed so certain of being abused, that the wisdom of the Government will be shewn in never trusting itself with the use of so seducing and dangerous an expedient. In times of tranquillity, it might have no ill consequence, it might even perhaps be managed in a way to be productive of good; but in great and trying emergencies, there is almost a moral certainty of its becoming mischievous. The stamping of paper is an operation so much easier than the laying of taxes, that a government, in the practice of paper emissions, would rarely fail in any such emergency to indulge itself too far, in the employment of that resource, to avoid as much as possible one less auspicious to present popularity. If it should not even be carried so far as to be rendered an absolute bubble, it would at least be likely to be extended to a degree, which would occasion an inflated and artificial state of things incompatible with the regular and prosperous course of the political oconomy.

Among other material differences between a paper currency, issued by the mere authority of Government, and one issued by a Bank, payable in coin, is this—That in the first case, there is no standard to which an appeal can be made, as to the quantity which will only satisfy, or which will surcharge the circulation; in the last, that standard results from the demand. If more should be issued, than is necessary, it will return upon the bank. Its emissions, as elsewhere intimated, must always be in a compound ratio to the fund and to the demand: Whence it is evident, that there is a limitation in the nature of the thing: While the discretion of the government is the only measure of the extent of the emissions, by its own authority.

This consideration further illustrates the danger of emissions of that sort, and the preference, which is due to Bank paper.

The payment of the interest of the public debt, at thirteen different places, is a weighty reason, peculiar to our immediate situation, for desiring a Bank circulation. Without a paper, in general currency, equivalent to gold and silver, a considerable proportion of the specie of the country must always be suspended from circulation and left to accumulate, preparatorily to each day of payment; and as often as one approaches, there must in several cases be an actual transportation of the metals at both expence and risk, from their natural and proper reservoirs to distant places. This necessity will be felt very injuriously to the trade of some of the States; and will embarrass not a little the operations of the Treasury in those States. It will also obstruct those negotiations, between different parts of the Union, by the instrumentality of Treasury bills, which have already afforded valuable accommodations to Trade in general.

Assuming it then as a consequence, from what has been said, that a national bank is a desirable institution; two inquiries emerge. Is there no such institution, already in being, which has a claim to that character, and which supersedes the propriety, or necessity of another? If there be none, what are the principles upon which one ought to be established?

There are at present three banks in the United States. That of North America, established in the city of Philadelphia; that of New York, established in the city of New York; that of Massachusetts, established in the city of Boston. Of these three, the first is the only one, which has at any time had a direct relation to the Government of the United States.

The Bank of North America originated in a resolution of Congress of the 26th of May 1781, founded upon a proposition of the Superintendent of finance, which was afterwards carried into execution, by an ordinance of the 31st of december following, entitled, “An Ordinance to incorporate the Subscribers to the Bank of North America.”¹⁵⁷

The aid afforded to the United States, by this institution, during the remaining period of the war, was of essential consequence, and its conduct towards them since the peace, has not weakened its title to their patronage and favour. So far its pretensions to the character in question are respectable; but there are circumstances, which militate against them; and considerations, which indicate the propriety of an establishment on different principles.

The Directors of this Bank, on behalf of their constituents, have since *accepted* and *acted* under a new charter from the State of Pennsylvania,¹⁵⁸ materially variant from their original one; and which so narrows the foundation of the institution, as to render it an incompetent basis for the extensive purposes of a National Bank.

The limit assigned by the ordinance of Congress to the Stock of the Bank is ten millions of Dollars. The last charter of Pennsylvania confines it to two millions. Questions naturally arise, whether there be not a direct repugnancy between two charters so differently circumstanced; and whether the acceptance of the one is not to be deemed a virtual surrender of the other. But perhaps it is neither adviseable nor necessary to attempt a solution of them.

There is nothing in the Acts of Congress, which imply an exclusive right in the institution, to which they relate, except during the term of the war. There is therefore nothing, if the public good require it, which

prevents the establishment of another. It may however be incidentally remarked, that in the general opinion of the citizens of the United States, the Bank of North America has taken the station of a bank of Pennsylvania only. This is a strong argument for a new institution, or for a renovation of the old, to restore it to the situation in which it originally stood, in the view of the United States.

But though the ordinance of Congress contains no grant of exclusive privileges, there may be room to allege, that the Government of the United States ought not, in point of candour and equity, to establish any rival or interfering institution, in prejudice of the one already established; especially as this has, from services rendered, well founded claims to protection and regard.

The justice of such an observation ought within proper bounds to be admitted. A new establishment of the sort ought not to be made, without cogent and sincere reasons of public good. And in the manner of doing it every facility should be given to a consolidation of the old with the new, upon terms not injurious to the parties concerned. But there is no ground to maintain, that in a case, in which the Government has made no condition restricting its authority, it ought voluntarily to restrict it, through regard to the interests of a particular institution, when those of the state dictate a different course; especially too after such circumstances have intervened, as characterise the actual situation of the Bank of North America.

The inducements, to a new disposition of the thing are now to be considered. The first of them which occurs is, the, at least ambiguous, situation, in which the Bank of North America has placed itself, by the acceptance of its last charter. If this has rendered it the mere Bank of a particular State, liable to dissolution at the expiration of fourteen years, to which term the act of that state has restricted its duration, it would be neither fit nor expedient to accept it, as an equivalent for a Bank of the United States.

The restriction of its capital also, which according to the same supposition, cannot be extended beyond two millions of dollars, is a conclusive reason for a different establishment. So small a capital promises neither the requisite aid to government, nor the requisite security to the community. It may answer very well the purposes of local accommodation, but is an inadequate foundation for a circulation coextensive with the United States, embracing the whole of their revenues, and affecting every individual, into whose hands the paper may come.

And inadequate as such a capital would be to the essential ends of a National Bank, it is liable to being rendered still more so, by that principle of the constitution of the Bank of North America, contained equally in its old and in its new charter, which leaves the increase of the *actual* capital at any time (now far short of the allowed extent) to the discretion of the Directors, or Stockholders. It is naturally to be expected, that the allurements of an advanced price of Stock and of large dividends may disincline those, who are interested, to an extension of capital; from which they will be apt to fear a diminution of profits. And from this circumstance, the interest and accommodation of the public (as well individually as collectively) are made more subordinate to the interest, real or imagined, of the Stockholders, than they ought to be. It is true, that unless the latter be consulted, there can be no bank (in the sense at least in which institutions of this kind, worthy of confidence, can be established in this Country) but it does not follow, that this is alone to be consulted, or that it even ought to be paramount. Public utility is more truly the object of public Banks, than private profit. And it is the business of Government, to constitute them on such principles, that while the latter will result, in a sufficient degree, to afford competent motives to engage in them, the former be not made subservient to it. To effect this, a principal object of attention ought to be to give free scope to the creation of an ample capital; and with this view, fixing the bounds, which are deemed safe and convenient, to leave no discretion either to stop short of them or to overpass them. The want of this precaution, in the establishment of the Bank of North America, is a further and an important reason for desiring one differently constituted.

There may be room, at first sight, for a supposition, that as the profits of a Bank will bear a proportion to the extent of its operations, and as, for this reason, the interest of the Stockholders will not be disadvantageously affected, by any necessary augmentations of capital, there is no cause to apprehend, that they will be indisposed to such augmentations. But most men in matters of this nature, prefer the

certainties, they enjoy, to probabilities depending on untried experiments; especially when these promise rather, that they will not be injured, than that they will be benefited.

From the influence of this principle, and a desire of enhancing its profits, the Directors of a Bank will be more apt to overstrain its faculties, in the attempt to face the additional demands, which the course of business may create, than to set on foot new subscriptions, which may hazard a diminution of the profits, and even a temporary reduction of the price of Stock.

Banks are among the best expedients for lowering the rate of interest, in a country; but to have this effect, their capitals must be completely equal to all the demands of business, and such as will tend to remove the idea, that the accommodations they afford, are in any degree favours; an idea very apt to accompany the parsimonious dispensation of contracted funds. In this, as in every other case, the plenty of the commodity ought to beget a moderation of the price.

The want of a principle of rotation, in the constitution of the Bank of North America, is another argument for a variation of the establishment. Scarcely one of the reasons, which militate against this principle in the constitution of a country, is applicable to that of a Bank; while there are strong reasons in favour of it, in relation to the one, which do not apply to the other. The knowledge, to be derived from experience, is the only circumstance common to both, which pleads against rotation in the directing officers of a Bank.

But the objects of the Government of a nation, and those of the government of a bank are so widely different, as greatly to weaken the force of that consideration, in reference to the latter. Almost every important case of legislation requires, towards a right decision, a general and an accurate acquaintance with the affairs of the state; and habits of thinking seldom acquired, but from a familiarity with public concerns. The administration of a bank, on the contrary, is regulated, by a few simple fixed maxims, the application of which is not difficult to any man of judgment, especially if instructed in the principles of trade. It is in general a constant succession of the same details.

But though this be the case, the idea of the advantages of experience is not to be slighted. Room ought to be left for the regular transmission of official information: And for this purpose the head of the direction ought to be excepted from the principle of rotation. With this exception, and with the aid of the information of the subordinate officers, there can be no danger of any ill effects from want of experience, or knowledge; especially as the periodical exclusion ought not to reach the whole of the Directors at one time.

The argument in favour of the principle of rotation is this, that by lessening the danger of combinations among the Directors, to make the institution subservient to party views, or to the accommodation, preferably, of any particular set of men, it will render the public confidence more firm, stable and unqualified.

When it is considered, that the Directors of a Bank are not elected by the great body of the community, in which a diversity of views will naturally prevail, at different conjunctures, but by a small and select class of men, among whom it is far more easy to cultivate a steady adherence to the same persons and objects; and that those Directors have it in their power so immediately to conciliate, by obliging the most influential of this class, it is easy to perceive, that without the principle of rotation, changes in that body can rarely happen, but as a concession which they may themselves think it expedient to make to public opinion.

The continual administration of an institution of this kind, by the same persons, will never fail, with, or without, cause, from their conduct, to excite distrust and discontent. The necessary secrecy of their transactions gives unlimited scope to imagination to infer that something is, or may be wrong. And this *inevitable* mystery is a solid reason, for inserting in the constitution of a Bank the necessity of a change of men. As neither the mass of the parties interested nor the public in general can be permitted to be witnesses of the interior management of the Directors, it is reasonable, that both should have that check upon their conduct, and that security against the prevalency of a partial or pernicious system, which will be produced by the certainty of periodical changes. Such too is the delicacy of the credit of a Bank, that

every thing, which can fortify confidence and repel suspicion, without injuring its operations, ought carefully to be sought after in its formation.

A further consideration in favour of a change, is the improper rule, by which the right of voting for Directors is regulated in the plan, upon which the Bank of North America was originally constituted, namely a vote for each share, and the want of a rule in the last charter; unless the silence of it, on that point, may signify that every Stockholder is to have an equal and a single vote, which would be a rule in a different extreme not less erroneous. It is of importance that a rule should be established, on this head, as it is one of those things, which ought not to be left to discretion; and it is consequently, of equal importance, that the rule should be a proper one.

A vote for each share renders a combination, between a few principal Stockholders, to monopolise the power and benefits of the Bank too easy. An equal vote to each Stockholder, however great or small his interest in the institution, allows not that degree of weight to large stockholders, which it is reasonable they should have, and which perhaps their security and that of the bank require. A prudent mean is to be preferred. A conviction of this has produced a bye-law of the corporation of the bank of North America, which evidently aims at such a mean. But a reflexion arises here, that a like majority with that which enacted this law, may at any moment repeal it.

The last inducement, which shall be mentioned, is the want of precautions to guard against a foreign influence insinuating itself into the Direction of the Bank. It seems scarcely reconcilable with a due caution to permit, that any but citizens should be eligible as Directors of a National Bank, or that non-resident foreigners should be able to influence the appointment of Directors by the votes of their proxies. In the event however of an incorporation of the Bank of North America in the plan, it may be necessary to qualify this principle, so as to leave the right of foreigners, who now hold shares of its stock unimpaired; but without the power of transmitting the privilege in question to foreign aliens.

It is to be considered, that such a Bank is not a mere matter of private property, but a political machine of the greatest importance to the State.

There are other variations from the Constitution of the Bank of North America, not of inconsiderable moment, which appear desirable, but which are not of magnitude enough to claim a preliminary discussion. These will be seen in the plan, which will be submitted in the sequel.

If the objections, which have been stated to the constitution of the Bank of North America, are admitted to be well founded, they will nevertheless not derogate from the merit of the main design, or of the services which that bank has rendered, or of the benefits which it has produced. The creation of such an institution, at the time it took place, was a measure dictated by wisdom. Its utility has been amply evinced by its fruits. American Independence owes much to it. And it [is] very conceivable, that reasons of the moment may have rendered those features in it inexpedient which a revision, with a permanent view, suggests as desirable.

The order of the subject leads next to an inquiry into the principles, upon which a national Bank, ought to be organised.

The situation of the United States naturally inspires a wish, that the form of the institution could admit of a plurality of branches. But various considerations discourage from pursuing this idea. The complexity of such a plan would be apt to inspire doubts, which might deter from adventuring in it. And the practicability of a safe and orderly administration, though not to be abandoned as desperate cannot be made so manifest in perspective, as to promise the removal of those doubts, or to justify the Government in adopting the idea as an original experiment. The most that would seem adviseable, on this point, is to insert a provision, which may lead to it hereafter; if experience shall more clearly demonstrate its utility, and satisfy those, who may have the Direction, that it may be adopted with safety. It is certain, that it would have some advantages both peculiar and important. Besides more general accommodation, it would lessen the danger of a run upon the bank.

The argument, against it, is, that each branch must be under a distinct, though subordinate direction; to which a considerable latitude of discretion must of necessity be entrusted. And as the property of the whole institution would be liable for the engagements of each part, that and its credit would be at stake, upon the prudence of the Directors of every part. The mismanagement of either branch, might hazard serious disorder in the whole.

Another wish, dictated by the particular situation of the country, is, that the Bank could be so constituted as to be made an immediate instrument of loans to the proprietors of land; but this wish also yields to the difficulty of accomplishing it. Land is alone an unfit fund for a bank circulation. If the notes issued upon it were not to be payable in coin, on demand, or at a short date; this would amount to nothing more than a repetition of the paper emissions, which are now exploded by the general voice. If the notes are to be payable in coin, the land must first be converted into it by sale, or mortgage. The difficulty of effecting the latter is the very thing, which begets the desire of finding another resource, and the former would not be practicable on a sudden emergency, but with sacrifices which would make the cure worse than the disease. Neither is the idea of constituting the fund partly of coin and partly of land free from impediments. These two species of property do not for the most part unite in the same hands. Will the monied man consent to enter into a partnership with the landholder by which *the latter* will share in the profits *which will be made by the money of the former*? The money it is evident will be the agent or efficient cause of the profits. The land can only be regarded as an additional security. It is not difficult to foresee, that an union, on such terms, will not readily be formed. If the landholders are to procure the money by sale or mortgage of a part of their lands, this they can as well do, when the Stock consists wholly of money, as if it were to be compounded of money and land.

To procure for the landholders the assistance of loans is the great desideratum. Supposing other difficulties surmounted, and a fund created, composed partly of coin and partly of land, yet the benefit contemplated could only then be obtained, by the banks advancing them its notes for the whole or part of the value of the lands, they had subscribed to the Stock. If this advance was small, the relief aimed at would not be given; if it was large, the quantity of notes issued would be a cause of *distrust*, and, if received at all, they would be likely to return speedily upon the Bank for payment; which, after exhausting its coin, might be under a necessity of turning its lands into money, at any price, that could be obtained for them, to the irreparable prejudice of the proprietors.

Considerations of public advantage suggest a further wish, which is, that the Bank could be established upon principles, that would cause the profits of it to redound to the immediate benefit of the State. This is contemplated by many, who speak of a National Bank, but the idea seems liable to insuperable objections. To attach full confidence to an institution of this nature, it appears to be an essential ingredient in its structure, that it shall be under a *private* not a *public* Direction, under the guidance of *individual interest*, not of *public policy*; which would be supposed to be, and in certain emergencies, under a feeble or too sanguine administration would, really, be, liable to being too much influenced by *public necessity*. The suspicion of this would most probably be a canker, that would continually corrode the vitals of the credit of the Bank, and would be most likely to prove fatal in those situations, in which the public good would require, that they should be most sound and vigorous. It would indeed be little less, than a miracle, should the credit of the Bank be at the disposal of the Government, if in a long series of time, there was not experienced a calamitous abuse of it. It is true, that it would be the real interest of the Government not to abuse it; its genuine policy to husband and cherish it with the most guarded circumspection as an inestimable treasure. But what Government ever uniformly consulted its true interest, in opposition to the temptations of momentary exigencies? What nation was ever blessed with a constant succession of upright and wise Administrators?

The keen, steady, and, as it were, magnetic sense, of their own interest, as proprietors, in the Directors of a Bank, pointing invariably to its true pole, the prosperity of the institution, is the only security, that can always be relied upon, for a careful and prudent administration. It is therefore the only basis on which an enlightened, unqualified and permanent confidence can be expected to be erected and maintained.

The precedents of the Banks established in several cities of Europe, Amsterdam, Hamburgh and others, may seem to militate against this position. Without a precise knowlege of all the peculiarities of their

respective constitutions, it is difficult to pronounce how far this may be the case. That of Amsterdam, however, which we best know, is rather under a municipal than a governmental direction. Particular magistrates of the city, not officers of the republic, have the management of it. It is also a Bank of deposit, not of loan, or circulation; consequently less liable to abuse, as well as less useful. Its general business consists in receiving money for safekeeping; which if not called for within a certain time becomes a part of its Stock and irreclaimable: But a Credit is given for it on the books of the Bank, which being transferable, answers all the purposes of money.

The Directors being Magistrates of the city, and the Stockholders in general, its most influential citizens, it is evident, that the principle of private interest must be prevalent in the management of the Bank. And it is equally evident, that from the nature of its operations, that principle is less essential to it, than to an Institution, constituted with a view to the accommodation of the Public and Individuals by direct loans and a paper circulation.

As far as may concern the aid of the Bank, within the proper limits, a good government has nothing more to wish for, than it will always possess; though the management be in the hands of private individuals. As the institution, if rightly constituted, must depend for its renovation from time to time on the pleasure of the Government, it will not be likely to feel a disposition to render itself, by its conduct, unworthy of public patronage. The Government too in the administration of its finances, has it in its power to reciprocate benefits to the Bank, of not less importance, than those which the bank affords to the Government, and which besides are never unattended with an immediate and adequate compensation. Independent of these more particular considerations, the natural weight and influence of a good Government will always go far towards procuring a compliance with its desires; and as the Directors will usually be composed of some of the most discreet, respectable and well informed citizens, it can hardly ever be difficult to make them sensible of the force of the inducements, which ought to stimulate their exertions.

It will not follow, from what has been said, that the State may not be the holder of a part of the Stock of a Bank, and consequently a sharer in the profits of it. It will only follow, that it ought not to desire any participation in the Direction of it, and therefore ought not to own the whole or a principal part of the Stock; for if the mass of the property should belong to the public, and if the direction of it should be in private hands, this would be to commit the interests of the State to persons, not interested, or not enough interested in their proper management.

There is one thing, however, which the Government owes to itself and to the community; at least to all that part of it, who are not Stockholders; which is to reserve to itself a right of ascertaining, as often as may be necessary, the state of the Bank, excluding however all pretension to controul. This right forms an article in the primitive constitution of the Bank of North America. And its propriety stands upon the clearest reasons. If the paper of a Bank is to be permitted to insinuate itself into all the revenues and receipts of a country; if it is even to be tolerated as the substitute for gold and silver, in all the transactions of business, it becomes in either view a national concern of the first magnitude. As such the ordinary rules of prudence require, that the Government should possess the means of ascertaining, whenever it thinks fit, that so delicate a trust is executed with fidelity and care. A right of this nature is not only desirable, as it respects the Government; but it ought to be equally so to all those, concerned in the institution; as an additional title to public and private confidence; and as a thing which can only be formidable to practices, that imply mismanagement. The presumption must always be, that the characters who would be entrusted with the exercise of this right, on behalf of the Government, will not be deficient in the discretion, which it may require; at least the admitting of this presumption cannot be deemed too great a return of confidence for that very large portion of it, which the Government is required to place in the Bank.

Abandoning, therefore, ideas, which however agreeable or desirable, are neither practicable nor safe, the following plan for the constitution of a National Bank is respectfully submitted to the consideration of the House.

I. The capital Stock of the Bank shall not exceed ten Millions of Dollars, divided into Twenty five thousand shares, each share being four hundred Dollars; to raise which sum, subscriptions shall be opened on the first monday of april next, and shall continue open, until the whole shall be subscribed. Bodies politic as well as individuals may subscribe.

II. The amount of each share shall be payable, one fourth in gold and silver coin, and three fourths in that part of the public debt, which according to the loan proposed by the Act making provision for the debt of the United States,¹⁵⁹ shall bear an accruing interest at the time of payment of six per centum per annum.

III. The respective sums subscribed shall be payable in four equal parts, as well specie as debt, in succession, and at the distance of six calendar months from each other; the first payment to be made at the time of subscription. If there shall be a failure in any subsequent payment, the party failing shall lose the benefit of any dividend which may have accrued, prior to the time for making such payment, and during the delay of the same.

IV. The Subscribers to the Bank and their successors shall be incorporated, and shall so continue until the final redemption of that part of its stock, which shall consist of the public debt.

V. The capacity of the corporation to hold real and personal estate shall be limited to fifteen millions of Dollars, including the amount of its capital, or original stock. The lands and tenements, which it shall be permitted to hold, shall be only such as shall be requisite for the immediate accommodation of the institution; and such as shall have been bona fide mortgaged to it by way of security, or conveyed to it in satisfaction of debts previously contracted, in the usual course of its dealings, or purchased at sales upon judgments which shall have been obtained for such debts.

VI. The totality of the debts of the company, whether by bond, bill, note, or other contract, (credits for deposits excepted) shall never exceed the amount of its capital stock. In case of excess, the Directors, under whose administration it shall happen, shall be liable for it in their private or separate capacities. Those who may have dissented may excuse themselves from this responsibility by immediately giving notice of the fact and their dissent to the President of the United States, and to the Stockholders, at a general meeting to be called by the President of the Bank at their request.

VII. The Company may sell or demise its lands and tenements, or may sell the whole, or any part of the public Debt, whereof its Stock shall consist; but shall *trade* in nothing, except bills of exchange, gold and silver bullion, or in the sale of goods pledged for money lent: nor shall take more than at the rate of six per centum, per annum, upon its loans or discounts.

VIII. No loan shall be made by the bank, for the use or on account of the Government of the United States, or of either of them to an amount exceeding fifty thousand Dollars, or of any foreign prince or State; unless previously authorised by a law of the United States.

IX. The Stock of the Bank shall be transferable according to such rules as shall be instituted by the Company in that behalf.

X. The affairs of the Bank shall be under the management of Twenty five Directors, one of whom shall be the President. And there shall be on the first monday of January, in each year, a choice of Directors, by plurality of suffrages of the Stockholders, to serve for a year. The Directors at their first meeting, after each election, shall choose one of their number as President.

XI. The number of votes, to which each Stockholder shall be entitled, shall be according to the number of shares he shall hold in the proportions following, that is to say, for one share and not more than two shares one vote; for every two shares, above two and not exceeding ten, one vote; for every four shares above ten and not exceeding thirty, one vote; for every six shares above thirty and not exceeding sixty, one vote; for every eight shares above sixty and not exceeding one hundred, one vote; and for every ten shares above one hundred, one vote; but no person, copartnership, or body politic, shall be entitled to a greater

number than thirty votes. And after the first election, no share or shares shall confer a right of suffrage, which shall not have been holden three calendar months previous to the day of election. Stockholders actually resident within the United States and none other may vote in elections by proxy.

XII. Not more than three fourths of the Directors in office, exclusive of the President, shall be eligible for the next succeeding year. But the Director who shall be President at the time of an election may always be reelected.

XIII. None but a Stockholder being a citizen of the United States, shall be eligible as a Director.

XIV. Any number of Stockholders not less than sixty, who together shall be proprietors of two hundred shares, or upwards, shall have power at any time to call a general meeting of the Stockholders, for purposes relative to the Institution; giving at least six weeks notice in two public gazettes of the place where the Bank is kept, and specifying in such notice the object of the meeting.

XV. In case of the death, resignation, absence from the United States, or removal of a Director by the Stockholders, his place may be filled by a new choice for the remainder of the year.

XVI. No Director shall be entitled to any emolument, unless the same shall have been allowed by the Stockholders at a General meeting. The Stockholders shall make such compensation to the President, for his extraordinary attendance at the Bank, as shall appear to them reasonable.

XVII. Not less than seven Directors shall constitute a Board for the transaction of business.

XVIII. Every Cashier, or Treasurer, before he enters on the duties of his office shall be required to give bond, with two or more sureties, to the satisfaction of the Directors, in a sum not less than twenty thousand Dollars, with condition for his good behaviour.

XIX. Half yearly dividends shall be made of so much of the profits of the Bank as shall appear to the Directors advisable: And once in every three years the Directors shall lay before the Stockholders, at a General Meeting, for their information, an exact and particular statement of the debts, which shall have remained unpaid, after the expiration of the original credit, for a period of treble the term of that credit; and of the surplus of profit, if any, after deducting losses and dividends.

XX. The bills and notes of the Bank originally made payable, or which shall have become payable on demand, in gold and silver coin, shall be receivable in all payments to the United States.

XXI. The Officer at the head of the Treasury Department of the United States, shall be furnished from time to time, as often as he may require, not exceeding once a week, with statements of the amount of the capital Stock of the Bank and of the debts due to the same; of the monies deposited therein; of the notes in circulation, and of the Cash in hand; and shall have a right to inspect such general account in the books of the bank as shall relate to the said statements; provided, that this shall not be construed to imply a right of inspecting this account of any private individual or individuals with the Bank.

XXII. No similar institution shall be established by any future act of the United States, during the continuance of the one hereby proposed to be established.

XXIII. It shall be lawful for the Directors of the Bank to establish offices, wheresoever they shall think fit, within the United States, for the purposes of discount and deposit only, and upon the same terms, and in the same manner, as shall be practiced at the Bank; and to commit the management of the said offices, and the making of the said discounts, either to Agents specially appointed by them, or to such persons as may be chosen by the Stockholders residing at the place where any such office shall be, under such agreements and subject to such regulations as they shall deem proper; not being contrary to law or to the Constitution of the Bank.

XXIV. And lastly. The President of the United States shall be authorised to cause a subscription to be made to the Stock of the said Company, on behalf of the United States, to an amount not exceeding two Millions of Dollars, to be paid out of the monies which shall be borrowed by virtue of either of the Acts, the one entitled “an Act making provision for the debt of the United States,” 160 and the other entitled “An Act making provision for the reduction of the Public Debt”; 161 borrowing of the bank an equal sum, to be applied to the purposes for which the said monies shall have been procured, reimbursable in ten years by equal annual instalments; or at any time sooner, or in any greater proportions, that the Government may think fit.

The reasons for the several provisions contained in the foregoing plan, have been so far anticipated, and will, for the most part, be so readily suggested, by the nature of those provisions, that any comments, which need further be made, will be both few and concise.

The combination of a portion of the public Debt in the formation of the Capital, is the principal thing, of which an explanation is requisite. The chief object of this is, to enable the creation of a capital sufficiently large to be the basis of an extensive circulation, and an adequate security for it. As has been elsewhere remarked, the original plan of the Bank of North America contemplated a capital of ten millions of Dollars, which is certainly not too broad a foundation for the extensive operations, to which a National Bank is destined. But to collect such a sum in this country, in gold and silver, into one depository, may, without hesitation, be pronounced impracticable. Hence the necessity of an auxiliary which the public debt at once presents.

This part of the fund will be always ready to come in aid of the specie. It will more and more command a ready sale; and can therefore expeditiously be turned into coin if an exigency of the Bank should at any time require it. This quality of prompt convertibility into coin, renders it an equivalent for that necessary agent of Bank circulation; and distinguishes it from a fund in land of which the sale would generally be far less compendious and at great disadvantage. The quarter yearly receipts of interest will also be an actual addition to the specie fund during the intervals between them and the half yearly dividends of profits. The objection to combining land with specie, resulting from their not being generally in possession of the same persons, does not apply to the debt, which will always be found in considerable quantity among the monied and trading people.

The debt composing part of the capital, besides its collateral effect in enabling the Bank to extend its operations, and consequently to enlarge its profits, will produce a direct annual revenue of six per centum from the Government, which will enter into the half yearly dividends received by the Stockholders.

When the present price of the public debt is considered, and the effect which its conversion into Bank Stock, incorporated with a specie fund, would in all probability have to accelerate its rise to the proper point, it will easily be discovered, that the operation presents in its outset a very considerable advantage to those who may become subscribers; and from the influence, which that rise would have on the general mass of the Debt, a proportional benefit to all the public creditors, and, in a sense, which has been more than once adverted to, to the community at large.

There is an important fact, which exemplifies the fitness of the public Debt, for a bank fund, and which may serve to remove doubts in some minds on this point. It is this, that the Bank of England in its first erection rested wholly on that foundation. The subscribers to a Loan to Government of one million two hundred thousand pounds sterling were incorporated as a Bank; of which the Debt created by the Loan, and the interest upon it, were the sole fund. The subsequent augmentations of its capital, which now amounts to between eleven and twelve millions of pounds sterling, have been of the same nature.

The confining of the right of the Bank to contract debts to the amount of its capital is an important precaution, which is not to be found in the constitution of the Bank of North America, and which, while the fund consists wholly of coin, would be a restriction attended with inconveniencies, but would be free from any if the composition of it should be such as is now proposed. The restriction exists in the establishment of the Bank of England, and as a source of security is worthy of imitation. The consequence of exceeding the limit there is, that each Stockholder is liable to the excess, in proportion to his interest in

the Bank. When it is considered, that the Directors owe their appointments to the choice of the Stockholders, a responsibility of this kind, on the part of the latter, does not appear unreasonable. But, on the other hand, it may be deemed a hardship upon those, who may have dissented from the choice. And there are many among us, whom it might perhaps discourage from becoming concerned in the institution. These reasons have induced the placing of the responsibility upon the Directors, by whom the limit prescribed should be transgressed.

The interdiction of loans on account of the United States, or of any particular State, beyond the moderate sum specified, or of any foreign power, will serve as a barrier to executive incroachments; and to combinations inauspicious to the safety or contrary to the policy of the Union.

The limitation of the rate of interest is dictated by the consideration, that different rates prevail in different parts of the Union; and as the operations of the Bank may extend through the whole, some rule seems to be necessary. There is room for a question, whether the limitation ought not rather to be to five than to six per cent, as proposed. It may with safety be taken for granted, that the former rate would yield an ample dividend; perhaps as much as the latter, by the extension which it would give to business. The natural effect of low interest is to increase trade and industry; because undertakings of every kind can be prosecuted with greater advantage. This is a truth generally admitted; but it is requisite to have analysed the subject, in all its relations, to be able to form a just conception of the extent of that effect. Such an analysis cannot but satisfy an intelligent mind, that the difference of one per cent, in the rate at which money may be had, is often capable of making an essential change for the better in the situation of any country or place.

Every thing, therefore, which tends to lower the rate of interest is peculiarly worthy of the cares of Legislators. And though laws which violently sink the legal rate of interest greatly below the market level are not to be commended, because they are not calculated to answer their aim, yet whatever has a tendency to effect a reduction, without violence to the natural course of things, ought to be attended to and pursued. Banks are among the means most proper to accomplish this end; and the moderation of the rate at which their discounts are made, is a material ingredient towards it; with which their own interest, viewed on an enlarged and permanent scale, does not appear to clash.

But as the most obvious ideas are apt to have greater force, than those which depend on complex and remote combinations, there would be danger, that the persons whose funds must constitute the Stock of the Bank would be diffident of the sufficiency of the profits to be expected, if the rate of loans and discounts were to be placed below the point to which they have been accustomed; and might on this account be indisposed to embarking in the plan. There is, it is true, one reflection, which in regard to men actively engaged in trade ought to be a security against this danger; it is this, that the accommodations which they might derive in the way of their business, at a low rate, would more than indemnify them for any difference in the dividend, supposing even that some diminution of it were to be the consequence. But upon the whole, the hazard of contrary reasoning among the mass of monied men is a powerful argument against the experiment. The institutions of the kind already existing add to the difficulty of making it. Maturer reflection and a large capital may of themselves lead to the desired end.

The last thing, which will require any explanatory remark, is the authority proposed to be given to the President to subscribe to the amount of two millions of Dollars on account of the public. The main design of this is to enlarge the specie fund of the Bank, and to enable it to give a more early extension to its operations. Though it is proposed to borrow with one hand what is lent with the other, yet the disbursement of what is borrowed will be progressive, and Bank notes may be thrown into circulation, instead of the gold and silver. Besides, there is to be an annual reimbursement of a part of the sum borrowed, which will finally operate as an actual investment of so much specie. In addition to the inducements to this measure, which results from the general interest of the Government, to enlarge the sphere of the utility of the Bank, there is this more particular consideration, to wit, that as far as the dividend on the Stock shall exceed the interest paid on the loan, there is a positive profit.

The Secretary begs leave to conclude, with this general observation, that if the Bank of North America shall come forward with any propositions, which have for object the ingrafting upon that institution the

characteristics, which shall appear to the Legislature necessary to the due extent and safety of a National Bank, there are, in his judgment, weighty inducements to giving every reasonable facility to the measure. Not only the pretensions of that institution, from its original relation to the Government of the United States, and from the services it has rendered, are such as to claim a disposition favourable to it, if those who are interested in it are willing on their part to place it on a footing satisfactory to the Government, and equal to the purposes of a Bank of the United States; but its cooperation would materially accelerate the accomplishment of the great object, and the collision, which might otherwise arise, might, in a variety of ways, prove equally disagreeable and injurious. The incorporation or union here contemplated, may be effected in different modes, under the auspices of an Act of the United States, if it shall be desired by the Bank of North America, upon terms, which shall appear expedient to the Government.

All which is humbly submitted

Alexander
Secy of the Treasury

Hamilton,

[152](#). DS, RG 233, Original Reports of the Secretary of the Treasury, 1790–1791, National Archives.

[153](#). *Journal of the House*, I, 336.

[154](#). The House

“*Ordered*, That the Secretary of the Treasury be directed to prepare and report to this House, on the second Monday of December next, such further provision as may, in his opinion, be necessary for establishing the public credit.” (*Journal of the House*, I, 295.)

[155](#). “First Report on the Further Provision Necessary for Establishing Public Credit,” December 13, 1790.

[156](#). In MS, “particularified.”

[157](#). *JCC*, XX, 545–46; *JCC*, XXI, 1187–90.

[158](#). The new charter was passed on March 17, 1787 (*Laws of Pennsylvania*, 249–53).

[159](#). [1 Stat.](#)138–44 (August 4, 1790).

[160](#). [1 Stat.](#)138–44 (August 4, 1790).

[161](#). [1 Stat.](#)186–87 (August 12, 1790).

More between these correspondents

[From Hamilton to Speaker of the House of Representatives \[25 September 1789\]](#)

[From Hamilton to Speaker of the House of Representatives \[26 December 1791\]](#)

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