

ing you. But now, since there can no longer be any cause for secrecy, I must ask you to speak frankly and without reserve to me. I have not read 'The Banner,' not even the bulletin board, which I purposely avoided seeing, because I wished to hear your own account of it, before I listened to the exaggerated and perverted versions of those who have reason to fear you."

Deeply touched at this friendly generosity, Einar began to speak, but his emotion often came near choking his voice. After all the din and excitement of these last days, with their restlessness, mortification, and keen reproach, it was sweet to escape into the serene sunshine of Van Flint's affectionate, uncritical eyes. He could speak now fearlessly of that past which had cast its oppressive gloom upon his present life, crippling his energies and blighting his fairest hope. And he experienced a sense of deliverance, almost akin to happiness, in being now able to rid himself of a life-long burden.

He spoke without restraint of the circumstances which had led to the fatal deed, dwelling with retrospective tenderness upon his mother's timid indulgence of

her favorite child, but touching only in the lightest possible manner upon his father's imperious dictation regarding his course of study and his future calling. His evident disinclination to shield himself, however, enabled the doctor to draw his inferences regarding things which were treated as casual or passed over in silence. There was something so warm and cheering in the sympathy of this tender-hearted man that Einar could not but wonder that he had so long resisted his desire to confide in him.

An hour after noon the door was unlocked, and as the square was almost deserted, they ventured forth into the open air. Fearing to attract attention, they chose an unfrequented street, and reached home just as Miss Van Flint's dinner-bell was frightening the robins away from the withered morning-glory vines around the front piazza.

Einar's plans for the future were as yet undetermined, but his friend was inclined to think that the most prudent course would be to leave Hardanger, at least temporarily, until the popular excitement consequent upon the election should have abated. In the meanwhile he would consult Norderud, and bring back answer before night.

(To be continued.)

THE COMMERCIAL CRISIS OF 1837.

THE decade from 1830 to 1840 is the most important and interesting in the history of the United States. The political, social and industrial forces which were in action were grand, and their interaction produced such complicated results that it is difficult to obtain a just and comprehensive view of their relations and influences. In the first place, the United States advanced, between the second war with England and 1830, to a position of full and high standing in the family of nations. The security and stability of the government were accepted as established. England and France, on the other hand, just before and after 1830, were involved in social and political troubles of an alarming kind. By contrast, the United States, with a rapidly increasing population, expanding production and trade, a contented people and a surplus revenue, offered great attractions to both laborer and capital. At the same time the pride of the Americans in their country

produced self-reliance, energy and enterprise which laughed at difficulties. New means of transportation by steamboats and canals were opening up the country and offering to the population the advantages of a new and untouched continent. Production therefore offered high returns to both labor and capital.

The advantages of a new country were credited to the political institutions of democracy, and increasing prosperity, due to the fresh resources brought within reach, was held to be proof of the truth of the political dogmas entertained by the workers. A sort of boyish exuberance, compounded of inexperience, ignorance and fearless enterprise, marked politics as well as industry. Jackson's election in 1828 brought to power a party which had been produced by these circumstances.

The English Corn Laws cut off the best market for the best product of the northern half of the Union, but the supremacy of the

southern states as the cotton producers of the world was established. The former fact seemed to be the great justification for protective duties on manufactures, and indeed to make them necessary for the northern states. Such taxes, however, really subtracted from the natural profit of the industries which treated the soil directly. The circumstances were such that this injury fell most upon the South, and the agitation which was produced threatened civil war until it was allayed by the compromise tariff of 1833. That law fixed the rates of import duty until 1842, and put it beyond the power of Congress to deal with them unless by violating the compromise.

The war debt of 1812 became payable in the years after 1824, and was distributed over the years down to 1835. With growth and increasing prosperity, the revenue increased with such rapidity that the debt could be paid almost as fast as it became payable. The chief purposes for which the Bank of the United States had been founded in 1816 were to provide a sound and uniform paper currency, convertible with specie, of uniform value throughout the Union, and to act as fiscal agent for the government, holding the revenue wherever collected, and disbursing the expenditures wherever they were to be made. The interest of the government and the people was the motive, and the bank charter was a contract with the bank to perform the services for specified considerations. One of these considerations was the right of the bank to use the deposits as loanable capital. The government was not bound to keep any balance over expenditure, but the revenue was so large that the bank came to hold annually increasing average deposits, from five to eight or nine millions of public money, which it used for profit. From this vicious arrangement two consequences followed: first, public attention was directed to the deposits, not as existing for the public service but for the profit of the bank; and second, the public considered itself entitled to claim something of the bank besides true business credit in matter of discounts.

Jackson opened the war on the bank publicly in his first message. Sharp correspondence had been going on already between the Secretary of the Treasury and the bank, which had reached such a point that the Secretary had referred to the removal of the deposits as a power in his hands to coerce the bank. Generally speaking, the state of the bank and the state of the currency were

satisfactory in 1830; but the bank had begun in 1827 to issue branch drafts, which stimulated credit and soon produced mischief. Of the war on the bank, it is not necessary to speak in detail. The charter of the bank was to expire, by limitation, in 1836. In December, 1831, Clay was nominated for President by the National Republicans, and he and his friends determined to bring on the question of the re-charter of the bank as a campaign question. The re-charter was passed by Congress and vetoed by the President in 1832. The issue in the campaign was thus made up between the personal popularity of Jackson and the bank. The former won an overwhelming victory, which Jackson construed to mean that the people had weighed the question of re-chartering the bank, and had decided against it.

In September, 1833, he removed the deposits from the national bank on his own responsibility, and placed them in selected state banks which would agree to keep one-third of their note circulation in coin, redeem all notes on demand, and issue no notes under five dollars. This was to be an experiment. In the meantime, the administration was eagerly pressing on the extinction of the public debt. The consequences were such as to prove that, however popular such a policy may be, it may easily be carried too far. The public deposits were loaned by the bank to merchants, then recalled and paid to the public creditors, and then re-invested by them, so that the money market was subjected to continual and sudden shocks. The withdrawal and transfer of the deposits was another and more violent operation of the same kind, so that there was a crisis and panic in the spring of 1834. The eight or nine millions of public deposits were a continual source of mischief to the money market. By the contraction of the Bank of the United States to pay the deposits, and the contraction of the state banks to put themselves within the rule for receiving the same, the currency, in the summer of 1834, was perhaps better than ever before. The coinage act of June, 1834, turned the standard over from silver to gold.

The deposit banks were urged to discount freely, so as to satisfy the public with the change. Banks were organized in great numbers all over the country to take the place of the great bank, and to get a share in the profits of handling the public money. January 1, 1835, the debt was all paid, and the government had no further use for its surplus revenues. There was but one correct

and straightforward course to pursue in such a case, and that was to lower taxes, so as not to collect any surplus; but this the Compromise Act forbade. The surplus revenue was the greatest annoyance to the protectionists, who wanted to keep duties high for "incidental protection," and they proposed scheme after scheme for distributing the lands, or the proceeds of the lands, or, finally, the surplus revenue itself, so as to cut down the revenues without reducing the import duties.

With the increase of banks and bank issues, speculation began. It became marked in the spring of 1835, and went on increasing for two years. The Erie Canal had opened up all the lands bordering on the great lakes, and they were being rapidly settled. They accordingly rose in value with great rapidity. The states of Alabama, Mississippi, and Louisiana were found to be the best cotton lands in the world, and they were receiving a great immigration from the older slave states. Cotton was rising in price, for the new machinery and new means of transportation in England, together with the extension of joint-stock banks there, had given a great stimulus to the cotton manufacture, and there was an increasing demand for the raw material. It followed that the cities in which the exchange and banking of all this industry were carried on also enjoyed great prosperity. Railroads were just being introduced. Ships were needed to transport the products. Thus, from natural causes, the period was one of immense industrial development. The great need for carrying it on was capital, and the political incidents which brought about or encouraged the bank expansion may be regarded as accidental. The combination of the two in fact, however, produced a wild speculation. The banks furnished credit, not capital; and, being restrained by usury laws from exerting, through the rate of discount, the proper check upon an inflated or speculative market, they embarked with the business community on a course where all landmarks were soon lost.

No sooner, however, was this condition of the commercial and banking community well established than a new shock was given by another political interference. The administration had now advanced to the point of desiring to establish a specie currency for the country. The object was laudable and the means taken were proper, but, following as they did in the train of the events already mentioned, they produced new confusion. In 1836, various

acts were passed to bring about a specie currency, and in July of that year the Secretary of the Treasury ordered the receivers of public money to take only gold and silver for lands. The circumstances warranted this order. The sales of lands had risen from two or three to twenty-four million dollars in a year, and the amount was paid in the notes of "banks"* which deserved no credit. If the nation was not to be swindled out of the lands, the measure was necessary. It then became necessary for the purchasers of land to carry specie to the West, and vast amounts of it accumulated in the offices of the receivers or were transferred, at great trouble and expense, to deposit banks. The specie was obtained from the eastern banks, and, inasmuch as the whole existing system had pushed them to the utmost limit of expansion, those demands for specie were embarrassing. Two points here deserve notice. It is strange to notice what a superstition about "specie" had taken possession of the public mind. It was regarded as a good thing to have, but too good to use. A specie dollar was regarded as an excuse for its owner to print and circulate from three to twenty paper ones, but it was not regarded as having any other use. The withdrawal of the specie basis from an inflated paper was, no doubt, a serious blow to the whole fabric, but if the paper had not been redundant, the transfer of specie to the West would only have forced an importation of so much more. This superstition about specie also prevented any demand upon the banks for specie for any purpose. Such a demand was regarded as a kind of social or business crime. Hence the "convertibility" of the notes was a polite fiction. The second point worth noticing is that the bank advocates continually talked about "the credit system" when they meant the system of issuing credit bank-notes, and they grew eloquent about the advantages of credit, as if those advantages could only be won by using worthless bank-notes, and not by lending gold or silver or capital in any form.

We are not yet, however, at the end of the political acts which threw the money

* Some counterfeiters were arrested at New York in a garret where they had \$20,000 in notes of the "Ottawa Bank," and \$800 in specie. They were very indignant,—said they were a "bank," and were printing their notes at New York for economy. They came so nearly within the definition of a "bank" current at this time that they escaped on this plea.

market into convulsions. The opposition succeeded, in the summer of the Presidential election year, 1836, in passing an act to deposit with the states, the surplus over a balance of five millions in the Treasury, January 1, 1837. The amount was thirty-seven millions. This sum was scattered in eighty-nine deposit banks, all over the country. Its distribution was, therefore, controlled by local pressure and political favoritism, not by the needs of the government (for it did not need the money at all) or by the demand and supply of capital. The banks had regarded it as a permanent deposit, and had loaned it in aid of the various public and private enterprises which were being pushed on every hand at such a rate that labor was said to be drawn away from agriculture, and the country was importing bread-stuffs. It was now to be withdrawn and transferred once more, and this time it was said that, if these "deposits" were such an advantage, the states ought to have it, and they could be called on to give back the money as well as the banks, whenever it might be needed. The deposit with the states took place in 1837, in three installments, January, April and July, amounting to twenty-eight millions. The fourth installment was never paid. The money was all squandered, or worse.

The charter of the Bank of the United States was to expire on the third of March, 1836. One year before that time the directors ordered the "exchange committee" to loan the capital, so fast as it should be released, on stocks, so as to prepare for winding up. From this resolution dates the subsequent history of the bank, for the exchange committee consisted of the president and two directors selected by him, to whose hands the whole business of the bank was hereby intrusted. The branches were sold and the capital gradually released throughout 1835, but, in February, 1836, an act was suddenly passed by the Pennsylvania legislature to charter the United States Bank of Pennsylvania, continuing the old bank. The act was said to have been obtained by bribery, but investigation failed to prove it. The most open bribery was on the face of it, for it provided for several pet local schemes of public improvement, for a bonus and loans to the state by the bank, and for abolishing taxes,—provisions which secured the necessary support to carry it.

During the year 1836 the money market was very stringent. The enterprises, specu-

lations and internal improvements demanded continual new supplies of capital. The amount of securities exported grew greater and greater, and kept the foreign exchanges depressed. American importing houses contracted larger and longer debts to foreign merchants. The money-market in England became very stringent likewise, and these long credits became harder and harder to carry. Three English houses, Willson, Wildes, and Wiggins, had become especially engaged in these American credits which they found it necessary to curtail. The winter was one of continual stringency, aggravated by popular discontent, riots and trades union disturbances, arising from high prices and high rents. The failures commenced on the fourth of March, 1837,—the day that Van Buren was inaugurated,—in Mississippi and Louisiana. Hermann, Briggs & Co., of New Orleans, failed with liabilities said to be from four to eight millions. As soon as this was known in New York, their correspondents, J. L. & S. Joseph & Co., failed. The first break in the expanded fabric of credit therefore came in connection with cotton. The price had advanced so much during the last three or four years as to draw many thousands of persons into cotton production who had no capital, but the profits were so great that a good crop or two would pay for all the capital. The planters of Mississippi especially had accordingly organized themselves into banking corporations and issued notes as the easiest way to borrow the capital they wanted. From 1830 to 1839 the banking capital of Mississippi increased from three to seventy-five millions, which of course represented one credit built upon another, or renewed and extended debt, as the old planters bought more slaves and took up more land instead of paying for the old, or as new settlers came in. Mississippi was therefore indebted to the North-east for the redemption of this immense bank debt, or for the capital bought with it. The high rates for money in England and this country at last checked the rise in cotton in 1836. Bad harvests and high prices for food fell in with a glut of manufactured cotton, and when cotton began to fall ruin was certain. As soon as the revulsion came it ran through the whole speculative system. The new suburbs which had been laid out in every city and village never came to anything. Western lands lost all speculative value, and railroad and canal stock fell with rapidity.

The first resort for help was to Mr. Biddle.

The calamity most apprehended was a shipment of specie, and the effort was to gain an extension of credit or the substitution of a better for a less-known credit. The Bank of the United States had high credit in Europe, and indeed all over the world. Ultimately payment must be made by crops yet to be produced or forwarded. Biddle entered into an agreement with the New York banks which seems to have been only partially carried out, but he sold post-notes payable one year from date at Barings' in London. He received 112½ for these, specie being at 107. The bonds were discounted in England at five per cent. United States Bank stock was at 120.

The situation in England was so serious that all seemed to depend on remittances from the United States. The Bank of England extended aid to the "three W's" to the extent of five hundred thousand pounds, on a guarantee made up in the city, and opened a credit of two million pounds for the United States Bank, if one-half the amount should be shipped in specie. To this condition the United States Bank would not agree. The proposition attributed to the Bank of the United States a strength which it did not possess. The management of the Bank of England in this and the two following years was bad, and did much to enhance the mischief in both countries. France participated in the distress, although there had been no speculation there.

A delegation of New York merchants was sent to Washington, May 3, to ask the President to recall the specie circular, to defer the collection of duty bonds, and to call an extra session of Congress. In their address to him they said of the situation: In six months, at New York, real estate had shrunk forty millions; in two months two hundred and fifty firms had failed, and stocks had shrunk twenty millions; merchandise had fallen thirty per cent., and within a few weeks twenty thousand persons had been thrown out of employment.

Early in May three banks in Buffalo failed. May 8, the Dry Dock Bank (N.Y.) failed. On the 10th all the New York City banks suspended. The militia were under arms, and there were fears of a riot. On the 11th the Philadelphia banks suspended because the New York banks had, and because, although they had plenty of specie for themselves, they had not enough for the whole "Atlantic seaboard." They said, however, that they were debtors, on bal-

ance, to New York. As the news spread through the country, the banks, with few exceptions, suspended. It was one of the notions born of the bank war that the United States Bank was guilty of oppression when it called on state banks for their balances, and the state banks had practiced "leniency" toward each other. Bank statements of the period show enormous sums as due to and from other banks. This was what carried them all down together, for one could not stand alone unless its debits and credits were with the same banks.

During the summer the governors of several states called extra sessions of the legislatures. The President had refused to recall the specie circular, or to call an extra session of Congress; but the embarrassments of the Treasury forced him to do the latter. The collection of duty bonds was deferred, and the revenue thereby cut off. The public money was in the suspended banks, and the Treasury, nominally possessed of forty millions, at the very time when part of this sum was being paid to the states, had to drag along from day to day by the use of drafts on its collectors for the small sums received, or by chance left over in their hands, since the suspension. As notes under five dollars had been forbidden by nearly all the states, and as specie was at ten per cent. premium, all small change disappeared, and the towns were flooded with notes and tickets for small sums issued by municipalities, corporations and individuals.

The most interesting fact connected with this commercial crisis is that New York and Philadelphia took opposite policies in regard to it, and offered, in their different experience, an experimental test of those policies. The New York legislature passed an act allowing suspension for one year. The New York policy then was to contract liabilities and prepare for resumption at the date fixed. The Philadelphia policy, in which Mr. Biddle was the leader, was to wait for things to get better without active exertions. In his letter to Adams of May 13, Biddle said that his bank could have gone on without trouble, but that consideration for the rest forced him to go with them. What especially moved him was that, if the Pennsylvania banks had not suspended, Pennsylvanians would have had to do business with a better currency than the New Yorkers, which would have been unfair. Mr. Biddle knew perfectly well that the exchanges would arrange all that. He was an adept at writing plausible letters. The truth—which was

not known until four years later—was, that the capital of the bank had never been withdrawn from the stock loans; that the chief officers of the bank were plundering it; and that suspension was not more welcome to any institution in the country than to the great bank. The jealousy between New York and Philadelphia was very great at this time. Mr. Biddle's personal vanity seems to have been greatly flattered when he was called on by the New Yorkers to help them, in March. He was still the leading financier of the country. The business men could not spare him, if the government had thrown him off. There seems, also, to be some evidence that he hoped a great and universal revulsion would force the general government to re-charter his bank. The success of his post-notes in England and France was another source of gratified vanity to him. In his theory of banking he was one of those who believe that the redemption of the bank-note is effected by the merchandise. Hence banking was, for him, an art by which the banker regulated commerce through expansions and contractions of the circulation, according to the circumstances which he might observe in the market.

The first effect of the opposite courses taken by New York and Philadelphia was very favorable to his views. The Southern trade was transferred from New York to Philadelphia. Southern notes were at a discount of twenty or twenty-five per cent. Receiving these notes from the merchants, the bank employed them through Bevan & Humphreys in buying cotton. This operation began in July, and was intended to move the cotton to Europe in order to meet the post-notes of the bank when they should become due. The firm of Biddle & Humphreys was also formed and established at Liverpool, as the agent of this operation. In the extension of the transaction, cotton was bought and paid for by drafts on Bevan & Humphreys of Philadelphia, which drafts were discounted by the bank. Biddle & Humphreys, having sold the cotton, remitted the proceeds to Mr. Jaudon, former cashier of the bank, sent to England as its agent in July. To all this it must be added that the bank assumed the function of securing a good or fair price for cotton, for its producers. Jaudon's instructions were to protect the interests of the bank, "and of the country at large." If the bank had simply been a strong, sound bank, intent on earning profits, it would have sent two or

three millions to Europe, selling exchange at 112, and would not have suspended. The rest of the story would then have been very different for all concerned. The arrival of a ship in England with \$100,000 specie in June sufficed to sustain American credit, and to revive American securities. When the credit of a debtor is tainted, nothing restores it like payment.

The extra session of Congress met September 4. The fourth installment of the State Deposit Fund was postponed until January 1, 1839, but it was locked up in the suspended banks, and, as the former installments had been drawn from the better banks, the balance due was all in the worst banks of the country—those of the southwestern states. As they had loaned it to their customers, it was, in fact, amongst the people of those states. A law was passed to institute suit against these banks unless they paid on demand, or gave bonds to do so in three installments before July 1, 1839. There were only six deposit banks then paying specie; one was new, four had not suspended, and one had resumed. Power to call on the states for the funds "deposited" with them was taken from the Secretary of the Treasury and held by Congress. Interest-bearing treasury notes were provided for one year to meet expenses, and an extension of nine months was given on duty bonds. At this session the sub-treasury system was brought forward as an administration measure. It split the party. The "Bank Democrats" (state bank interest which joined the Jackson party in 1832, to break down the United States Bank) went into opposition. The advocates of the "credit system" said the sub-treasury scheme, by giving the government control of the specie in the country, would give it control of all credit. Meanwhile, Benton said that the eighty millions specie in the country was its bulwark against adversity, and the Locofocos said any one who exported specie was a British hireling; so that there was a fine confusion of financial notions.

In the fall, the English money market became much easier, and the same tendency appeared here. Specie at New York was at about seven per cent. premium, but steadily declining. Prices of breadstuffs remained very high (flour \$9.00—\$9.50 at New York), and the stagnation of industry was complete. Migration to the West was large.

On the 18th of August, the New York banks called a convention of banks to deliberate on resumption. The Philadelphia

banks frustrated the proposition by refusing. A convention met in October, but adjourned without action until April. On the 7th of April, the New York banks had assets two and one-half times their liabilities, excluding real estate, and were creditors of the Philadelphia banks for \$1,200,000. They had reduced their liabilities from \$25,400,000 on January 1, 1837, to \$12,900,000 on January 1, 1838, and the foreign exchanges were favorable.

The bank convention met April 11, 1838, and voted by states to resume January 1, 1839, without precluding an earlier day. New York and Mississippi alone voted nay, the former, because the date was too remote; the latter, because it was too early. New England joined Philadelphia and Baltimore for the later day. Mr. Biddle published another letter in which he blamed the rigor of the contraction at New York. He wanted to remain "prepared to resume but not resuming," and looked to Congress to do the work. The exchange between New York and Philadelphia was then $4\frac{1}{2}$ per cent. against the latter. The south-western exchanges were growing worse. May 1, the Philadelphia banks resolved to pay specie for demands of one dollar and under. The Bank of England engaged to send £1,000,000 in specie to support resumption, and did send £100,000, but then receded from the undertaking. Her stock of specie was now very large and increasing. The New York banks resumed during the first week in May, the Boston and New England banks generally at the same time. Specie was coming into New York. May 31, Congress repealed the specie circular, whereupon Mr. Biddle published another letter saying that, since Congress had acted, he saw his way to resumption and would "co-operate." The bank had, at this time, over thirteen millions loaned on "bills receivable," that is, on securities put in the teller's drawer as cash to replace cash taken out.

After the adjournment of Congress on the ninth of July there was a much better feeling, especially on account of the defeat of the sub-treasury bill, and, on the tenth of July Governor Ritner of Pennsylvania published a proclamation requiring the bank to resume August 13, and to pay and withdraw all notes under five dollars. On the 23d of July, a bank convention met at Philadelphia, composed of delegates from the middle states. It was agreed to resume August 13. The Philadelphia banks were obliged to contract very suddenly and money was very

dear there. As soon as they resumed, there were demands on them from New York, exchange being against them. This caused excitement and indignation. The banks generally declared dividends as soon as they resumed. Elsewhere here and in England, money was easy and the times rapidly improving. There was, however, a feverish and uncertain market for cotton. Biddle & Humphreys were carrying an immense stock, and buyers and sellers differed as to prices.

December 10, 1838, Biddle published another letter to Adams, in which he reviewed his policy of the last two years, and withdrew the bank from all its former public activity. He says: "It abdicates its involuntary power." He defended the cotton speculations, saying that he had saved the great staple of our country from being sacrificed, by introducing a new competitor into the market. Here then was a buyer who had gone into the market on purpose to "bull" some one else's property. His fate could not be very doubtful. At this very time the Liverpool market was very dull, and the spinners were curtailing their demands because the supply was under the control of speculators. It was true, as was asserted, that the crop was short, but the buyers took that for a speculator's story, and, anticipating a break in the corner and a fall in price, they refused to buy. The speculation, no doubt, unduly depressed the price. The south-western agents of the Bank of the United States were offering advances from two to five cents above the market price to secure consignments to Biddle & Humphreys, and Mr. Jaudon was paying ruinous rates for money to carry on his operations, because he had lost instead of winning confidence.

During the winter, most of the southern and western banks resumed, at least nominally, but as spring approached (1839), the southern exchanges again fell and many of the banks suspended again. March 29, Biddle resigned the presidency of the bank, saying that he left it strong and prosperous. The stock fell from 116 to 112, but soon recovered. The money market became stringent again, influenced by fears of the South.

In March, by speculative sales, and by the diminution of stock, and by the real shortness of the crop, cotton was forced up one and a quarter pence at Liverpool, and Biddle & Humphreys sold out their entire stock. The net profit was \$600,000. This was regarded as a great triumph, and as a

complete vindication of Biddle's policy. In July, 1839, the Bank of the United States paid a semi-annual dividend of four per cent.,—its last one.

The success of the cotton speculation led to a plan for renewing it on a grander scale. June 6th, an unsigned circular was published at New York, which proposed a scheme for advancing three-quarters of the value, at fourteen cents, on all cotton consigned to Biddle & Humphreys. They were to "hold on until prices vigorously rally." The agent, Mr. Wilder, declared that this had nothing to do with the United States Bank, so far as he knew. It was, however, a scheme of the bank. The south-western notes were falling lower and lower, and the post-notes issued in the south-west the year before were now falling due, and were not paid. The pressure of this fell on Philadelphia, where money was up to fifteen per cent., and the banks were curtailing. The news from England was also bad. Cotton was down two cents. The specie of the Bank of England was rapidly declining, and money was at five per cent. The arrangements from this side in 1837 had simply consisted in renewals or extensions, and as yet few payments had been made. Stocks, etc., were sent over, but they fell upon a glutted and stringent market, and the prices declined. These securities, therefore, did not furnish means of payment, and specie shipments were found to be necessary. The Bank of the United States had prevented any shipment of specie by offering all the bills demanded at 109½, and Mr. Jaudon had been obliged to adopt the most reckless means to meet these bills. In August he wrote to Biddle & Humphreys to supply him with money at any sacrifice of cotton. "Life or death to the Bank of the United States is the issue." The bank here urged Bevan & Humphreys to direct their agents to meet Jaudon's demands, and the bank assumed the loss. In August the bank sent an agent to New York to draw all the bills he could sell on Hottingeur, at Paris; to draw the proceeds in specie from the New York banks, and to ship it to meet the bills, the object being to force the New York banks to suspend in order that their example might again be quoted. The bank also sold its post-notes at a discount of eighteen per cent. per annum in Boston, New York, Baltimore and smaller places, and gathered up capital to meet the emergency at Philadelphia, caused by the failure of the southern remittances. The money markets in all

these cities were very stringent until October. On the 9th of that month the Bank of the United States failed on drafts from New York, and on the 10th the news was received that the drafts on Hottingeur had been protested. He had given notice that he would not pay unless he was covered, and the drafts arrived before the specie did. Jaudon succeeded in getting Rothschild to take up the bills. The amount was seven million francs.

The banks south and west of New York, and some of the Rhode Island banks, now suspended again. Specie at Philadelphia was at 107-107½, United States Bank stock 70. October 15 it was at 80. Gold at New York one-fourth premium. Scarcely any New York City notes were in circulation.

This suspension was the real catastrophe of the speculative period which preceded. A great and general liquidation now began. Perhaps as many as two hundred of these banks never resumed. The stagnation of industry lasted for three or four years. The public improvements, so rashly begun, were suspended or abandoned. The states were struggling with the debts contracted. Some repudiated; some suspended the payment of interest. The New England states and New York escaped all the harsher features of this depression, and emerged from it first. In proportion as we go farther south and west, we find the distress more intense and more prolonged. The recovery was never marked by any distinct point of time, but came gradually and imperceptibly.

The credit of the Bank of the United States bore up wonderfully under the shock of its second suspension. Its friends were ready to attribute its misfortunes to conspiracies, jealousy, or any other cause but its own faults. They did not, indeed, know its internal history. It might have recovered, if it had not been ruined from within. The cotton speculations showed a loss, in the summer of 1840, of \$630,000 for the speculators, after saddling the bank with all possible charges. The legislature of Pennsylvania ordered the banks to resume January 15, 1841. On the first of January, 1841, a statement of the assets of the bank was made, when it appeared that they consisted of a mass of doubtful and worthless securities. The losses to date were over five millions, according to the report of the directors, but over seventeen millions, taking the stocks at their market value. The bank resumed January 15, with the other Philadelphia banks, and the great bank loaned the state

\$400,000, agreeing to loan as much more. In twenty days the Philadelphia banks lost eleven millions in specie, of which six millions were taken from the Bank of the United States. On the 4th of February the bank failed, for the third and last time. Its final failure was said to be due to stock-jobbers. Suits were at once begun in such numbers that all hope of ever resuscitating it had to be abandoned. Its deposits, when it failed, were \$1,100,000, and its notes in circulation, \$2,800,000. Twenty-seven millions out of the thirty-five of its capital were held in Europe. The stock, in March, 1841, was at 17. A committee of the stockholders reported in April, showing the internal history of the bank for five years. This brought out six letters from Mr. Biddle, of explanation, defense, and recrimination, which are chiefly valuable for the further insight they give into the history. As to the winding-up of the bank, it is very difficult to obtain information. Private inquiries lead to the following results: Three trusts were constituted, —one for the city banks, to which the bank owed five or six millions; one for the note-holders and depositors; and one for the other creditors. The city banks, the note-holders, and the depositors, were ultimately paid in full. The other claims were bought up by one or two persons, who took the assets. What they made of them is not matter of history.

The attempt of the Pennsylvania banks to resume in January, 1841, had been the signal for similar attempts in the other states. The banks on the seaboard as far south as South Carolina generally resumed, and in the western and gulf states some took the same step. All were indebted to the Northeast, and were asked to pay as soon as they said they were ready to pay. Like the Philadelphia banks, they succumbed to this demand. The Virginia banks held out until April, when the suspension was once more universal south of New York.

All the states, except New Hampshire, Vermont, Rhode Island, Connecticut, New Jersey, North Carolina and Delaware, had debts amounting in all to nearly two hundred millions. The southern states had generally contracted these debts to found banks. The middle and western states had contracted debts for public works. In the former case the profits of the banks were expected to cover the interest on the debt. In the latter case the works were expected to be remunerative in a short time, and the interest was provided for in the meantime by bank dividends

(on stocks owned by the state, which only constituted another debt), by taxes on banks and by royalties. Both schemes were plausible, and might have been successful if managed with good judgment and moderation. Under the actual circumstances they were subject to political control, the methods of which were reckless and ignorant. The consequence was that when credit collapsed and the English market no longer absorbed the state stocks with avidity, the states found themselves heavily indebted, bound to pay large interest charges, and without the anticipated revenue. The state banks of the South had loaned their borrowed capital to legislators and politicians and had no assets but "suspended debt." The improvement states had become heavily indebted to their own banks, and depended on bank dividends to pay interest. The state banks all held state stocks as assets, and when these declined in value the banks became insolvent. Thus the banking system was interlocked with the state finances and with the mania for improvements unwisely planned and attempted without reference to the capital at command. The aversion to taxation was very strong, and as taxation was delayed, one state after another defaulted on its interest. The delinquent states were Pennsylvania (which laid taxes in 1840, but inadequate to meet the deficiency), Michigan (of which the Bank of the United States held two millions in bonds not paid for when it failed), Mississippi (of which the same bank held five millions in bonds, the obligation of which was disputed and never met), Indiana (whose debt was one-fifth of the total valuation), Illinois, Louisiana, Maryland and Arkansas, and Florida territory: total amount, one hundred and eleven millions. In five years the Bank of the United States gave to Pennsylvania three millions, subscribed nearly half a million to public improvements by corporations, and loaned the state eight and a half millions. In 1857 and 1858 Pennsylvania sold out her works, which had cost thirty-five millions, for eleven millions. The bonds deposited in New York to secure circulation had a par value of \$4,600,000, but were worth only \$1,600,000 on the 1st January, 1843. As early as March, 1841, this decline caused a panic in "Safety Fund" and "Free Bank" notes at New York.

Pennsylvania now entered on another experiment, which threatened to ruin her remaining banks, as the reckless demands

on the Bank of the United States had helped to ruin that institution. May 3, 1841, the legislature passed, over a veto, a "Relief Act." The object was to secure a loan of three millions from the banks. The act allowed them to issue that amount in small notes, which they were to subscribe to a five-per-cent. loan. They were to redeem the notes in five-per-cent. stock on demand, in amounts over \$100. The stocks were then at 80, and specie at seven per cent. premium.

The summer of 1841 was marked by intense distress in Pennsylvania. A table of the best investment stocks of Philadelphia shows a shrinkage, between August, 1838, and August, 1841, from sixty millions to three and one-half millions. The wages class was exposed to the bitterest poverty and distress. The Pennsylvanians attributed the trouble to the want of a protective tariff. For a time, in the autumn, the relief notes seemed to act beneficially. The banks took them, and they circulated at par, with the rest of the state currency. In January, 1842, the Girard Bank failed, and about the same time the Pennsylvania, and three others less important; and by March a crisis was reached worse than anything which had preceded. A bill was suddenly passed by the legislature, commanding immediate resumption. An amendment was proposed,—that the banks should no longer be bound to receive the relief notes, although the state should do so. The amendment was afterward withdrawn; but the relief notes were ruined. They fell, some to 75 and some to 50, in state currency, and then became merchandise, after six months and three days of use. Capital was now not to be had at four per cent. per month; but this bankruptcy had cleared the situation. The eleven banks which had not failed agreed to resume on the 18th of March. The exchanges with New York turned in favor of Philadelphia. The years 1842 and 1843 were years of great depression. The banks throughout the West and South were liquidating, after which they either perished or resumed. From 1843 a new, sound, and healthy development of industry and credit began. The recovery, however, was very slow, and banks sprang up again sooner and faster than anywhere else.

The total amount of relief notes issued in Pennsylvania was \$2,100,000. In January, 1843, the amount outstanding was: of depreciated, \$639,834; of specie value (issued by banks which had resumed),

\$240,801. "Bicknell's Reporter" said: "If any one can devise an immediate plan whereby the people can get rid of about \$700,000 of paper trash, he will be entitled to the name of a public benefactor." In February, 1843, the legislature ordered the treasurer to cancel \$100,000 relief notes at once, and \$100,000 monthly until all were destroyed, but, in June, 1843, there were still \$684,521 out.

The reader can, no doubt, make his own reflections on this story, but the following points are especially worth attention:

1. The influence of politics on currency, and of currency on politics, was exceedingly mischievous to both.

2. While credit adds greatly to the efficiency of capital it does not increase it, or supply the place of it. Abuses of credit were the real underlying cause of all this misery, where the natural circumstances were such as to produce prosperity beyond the experience of men.

3. When the error had been committed the consequences could not be avoided. The only question was: How to make them as small as possible, and to be done with them as quickly as possible, in order to begin again. The New York policy of sharp and relentless contraction was bitter while it lasted. It, however, reduced the total losses to be borne to a minimum, abbreviated as much as possible the period of distress, and gave New York three or four years the start of the suspending states, on the course of recovery.

4. The losses during this period were estimated at \$847,000,000. This estimate is as good as any, but no such estimates have much value. The real question is: How much richer would the people of the United States have been in 1845 than they were, if they had gone forward steadily and surely from 1830, with a sober industry, a sound currency, and a normal development of credit? There is also another question for those who believed that the "credit system" helped poor men to get rich: How much richer would the "poor men" of 1830 have been in 1845 than they were, if they had never used credit at all, but had kept to the slow accumulation of capital? As it was, nearly all the poor men of 1830 were bankrupts in 1845.

5. A resumption of specie payments while the currency is redundant is an impossibility, unless resumption means that means of redeeming the excess are on hand, and will be freely used for that purpose.