

## HOUSE.....No. 42.

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### Commonwealth of Massachusetts.

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The Committee on Banks and Banking, to whom were referred the petitions of Alfred Richardson, and others, for a Bank in Boston, with a capital of \$500,000; Prentiss Hobbs, and others, for a Bank in Boston, with a capital of \$250,000; Solon Jenkins, and others, for a Bank in South Boston, with a capital of \$150,000; Ebenezer Chadwick, and others, for a Bank in Boston, with a capital of \$500,000; Michael Shephard, and others, for a Bank in Salem, with a capital of \$200,000; Isaac Osgood and others, for a Bank in Andover, North Parish, with a capital of \$100,000; John B. Savoy, and others, for a Bank in Rowley, with a capital of \$100,000; Luke Fiske, and others, for a Bank in Waltham, with a capital of \$100,000; A. G. Welch, and others, for a Bank in Lee, with a capital of \$100,000; H. H. W. Sigourney, and others, for a Bank in Chelsea, with a capital of \$100,000; The Merchants Bank, in Boston, for an increase of capital, \$750,000; The Atlas Bank, in Boston, for an increase of capital, \$250,000; the General Interest

Bank, in Salem, for an increase of capital, \$200,000 ; the Naumkeag Bank in Salem, for an increase of capital, \$200,000 ; the Bristol County Bank in Taunton, for an increase of capital, \$100,000 ; the Lynn Mechanics Bank in Lynn, for an increase of capital, \$50,000 ; the Housatonic Bank, in Stockbridge, for an increase of capital, \$50,000 ; have considered the same, and

## REPORT :

That the Petitioners severally have leave to withdraw their petitions.

In making this Report, the Committee suppose it will be expected that they should assign some of the reasons on which it is founded. They have heard the statements of the petitioners, and have no doubt that, in each case, the stock would readily be taken, if the petitions were granted, by persons of sufficient ability to retain it. In some of the cases, it appeared that the business of the place, where it is proposed that the bank should be situated, or the present capital increased, is sufficient to employ more bank capital than now exists there, or in its neighborhood. The Committee, therefore, rest their report on other ground than the character and ability of the petitioners, or the locations of the proposed banks. If the true policy be to enlarge the bank capital of the State, at the present time, and the Legislature so decide, the Committee do not perceive any strong grounds of discrimination among the petitioners—one or two cases excepted. But they are satisfied that such is not the true policy, and they trust their opinion will be confirmed by the Legislature. The only legitimate object of

banks is to afford facilities for the transaction of business, by loans, and by furnishing a circulating medium, convertible, at any moment, into that which it represents. In theory, it is considered necessary that the basis of this circulation should be the precious metals.

The capital of the existing banks in this Commonwealth, exclusive of the Branch of the Bank of the United States, is \$30,409,450, and their circulation is \$7,650,146, while the specie in their vaults is \$1,160,-296 09.

It appears to the Committee that the amount of capital, if properly managed, must be sufficient to furnish all the facilities needed for the transaction of business. Possibly the community would be better served, had it been somewhat differently distributed; but, that, in amount, it is sufficient, hardly admits of doubt. Compare it with that of New York. In that State with a population of two millions, the bank capital is \$31,431,-460, while in our state, with a population of six hundred thousand, it is little more than one million less. The city of New York, with a population of 240,000, has in bank capital, \$18,861,200. While Boston, with a population of 70,000, has \$19,150,000. It is said, indeed, that more banks will soon be necessary in New York, but their Bank Commissioners say that "prudence would seem to inculcate a cautious procedure, at present, in the multiplication of new banks." If that be the case there, where they have specie in the proportion of nearly five to one, compared with this State, it is surely true here. The example of other states, however, cannot be decisive of the interest or policy of this, unless it commend itself to the good sense and sound judgment of the people. But it must be, that an amount of capital

sufficient, or nearly so, for a population as active and busy as our own, and three times as numerous, would be sufficient and more than sufficient for us. If there be as much bank capital, already employed, as the business of the community requires, which was admitted by most of the petitioners to be the case, the creation of new banks, or the enlargement of the capitals of those now existing, can be justified, only on the ground that the Legislature ought thus to create facilities for capitalists, and Insurance Companies, to invest their funds and collect their interest. Stockholders ought to have a fair compensation for the use of their money, as well as security for the principal, and, without both, inducements to invest money in banks would be withdrawn. But the public good, the general interest of the State, ought, principally, to be regarded, in considering the propriety of creating more bank capital. And, it may well be doubted, whether it be for the public good to furnish such inducements to money lenders, to invest their monies in banks, as will destroy the competition between them and banks, and compel those to go to the bank for loans, at bank interest, who would otherwise borrow directly from the capitalist.

Some may be of opinion that banking will regulate itself; that while capitalists find investments in banks profitable, new charters will be required and ought to be granted; and that, so soon as they cease to be profitable, the charters will be surrendered. It is true that capital seeks profitable investment, but the Committee think it is not true that the Legislature ought to provide the channels for that investment, and leave them to be filled, or not, as interest may lead, without regard to consequences; especially, as it is the holders of small

sums, those least able to bear it, who suffer most, when changes occur in the value of the circulating medium.

Our present system professes trust on a specie basis; but the circulation is \$7,650,146, and the specie is \$1,160,296 09; the banks owe \$23,000,000, payable on demand, and have about \$6,000,000 of available funds. No dangers are apprehended, because all has gone smoothly thus far. The system of exchanges is such that the bills of one bank are made to pay the bills of another, and the little specie there is, lies idle. Yet, occasions may occur, when the banks, as at present managed, could not possibly meet their debts due on demand; such as sudden war, or a large demand for specie for export, or a panic arising from the failure of one or two banks; all, events which have happened, and may happen again.

The inducements which banks now have to over-trade are thought to be such as ought not to be increased, but rather, as far as possible, diminished. When bank capital is abundant, and the banks are required to pay, to the Government, a tax upon it, they are tempted to urge upon the business men facilities for extending his business, upon credit, beyond what he can sustain when a pressure comes in the money market. Every one, at all acquainted with the course of trade, knows that great fluctuations are experienced every few years. While money is plenty and dull, interest falls, and the banks, instead of being solicited for money, themselves solicit for notes; business is extended, till over-production and over-importation bring depression and stagnation. Then, those, who have deposits, withdraw them; those to whom they are indebted present their demands for payment, their bills are returned upon them, and the banks,

instead of being able to assist those, whom they induced to extend their business, are hardly able to pay their own debts.

In reference to the propriety of enlarging the bank capital the condition of the country deserves consideration. Circumstances have directed the public attention to the subject of Banking throughout the United States. It is manifest that the expiration of the Charter of the Bank of the United States, will affect the system; that the course of business will, to some extent, be changed; war, too, is something more than a possibility; and, while these certainties, and uncertainties, hang over the future, it appears to be wise not to risk the increase of danger.

The present banks are yet to live near seventeen years. It is the well known policy of some to destroy them, and, with that view, they would have other banks chartered. The system is defective; but the remark in the Governor's Address that "it is obviously wiser to amend than to destroy it," seems to the committee to be one of practical good sense. To do this, it is desirable that no new obstacles be created. No more banking capital should be authorized, until some effort is made to regulate, in the wisest manner, that which now exists.

The Committee have already remarked that the theory of banking requires the system to be based on specie and that ours professedly is so. It is manifest, however, to any one, who reflects on the subject, that, practically, it is not based upon specie, but upon property generally, or rather upon credit which supposes property; and that the debts of the banks are not paid in specie, but by a system of exchanges. This system enables the banks to make larger loans, and, thus, more easily meet the tax to the Government, and pay a reasonable dividend to

the Stockholders. It acts wholly upon the interest of the parties establishing it, and may be destroyed at any time, when the interest or caprice of one of them shall dictate. Should it be done, great confusion and distress would be produced, which can be avoided only by its continuance, or by cautious and gradual change. Could the system be brought back to a specie basis, by giving up a part, or the whole, of the tax, the Committee think it would be wise to do it. Whether it can, future legislatures must decide. The obvious method of doing it, at least in part, would be to withdraw from circulation all bills under five dollars, that their places may be supplied by specie; to compel the banks to keep in their vaults an amount of specie equal to one fourth or one fifth of their circulation, and to prohibit their borrowing money, on interest, under any circumstances. The last may be done, at any time, and probably cannot be done too soon. The suppression of small bills, in the opinion of the Committee, could not legally be effected without the consent of the banks, but, as a preliminary step they may be required to shew, by their returns, what proportion of their circulation is in bills of that description. The present is a favorable time for doing something in this matter. There was never so much specie in the country; other States are acting on the same subject, and, it is believed, a disposition exists in the people to cooperate with the Legislature in any prudent measures.

The Committee have thus imperfectly, and as briefly as they could, indicated some of the reasons why, in their opinion, it is inexpedient, at present, to enlarge the Bank capital, and the petitioners should have leave to withdraw their petitions.

By order of the Committee.

A. D. FOSTER.

