

# MARYLAND GAZETTE.

THURSDAY, APRIL 25, 1805.

## Maryland Gazette.

ANNAPOLIS, THURSDAY, April 25, 1805.

### OBSERVATIONS

On the act, entitled, An act to establish a bank, and incorporate a company, under the name of THE FARMERS BANK OF MARYLAND, and for other purposes.

(Concluded from our last.)

IN support of the objection to the solidity of banks issuing on landed security, the example of the Bank of Aire has been cited. That bank has been called a Land Bank, and to that principle of its establishment its failure has been attributed; the history of the institution will not only prove this assertion to be void of all foundation, but will furnish the strongest evidence in favour of the principles here contended for.—It is succinctly this—The two old banks of Edinburgh, which ever were, and still are, chiefly supported by operations on landed security, had given a great spur to industry and enterprise in Scotland, and with the industrious and well judging had brought into action many rash speculators, whose operations far exceeded their funds and the real circumstances of the country; their vast and expensive projects, extending to remote objects, were the cause of turning the balance of trade against Scotland; the

tailed their discounts, but in doing this they called against them the whole host of speculators, who, instead of repaying, wanted to borrow more, and they had address enough to carry the public opinion against this prudent conduct of the old banks. It was on the chimerical basis of supporting the wild schemes of these projectors, that the bank of Aire was formed at an unfavourable crisis; with an avowed intention of giving the most liberal and extensive accommodations; it fell, of course, into the hands of these adventurers, who conducted it as they had managed their private speculations, and the institution soon blew up. Some patriotic noblemen and gentlemen of great landed property, who had inconsiderately become stockholders to small amounts, with the most laudable intentions, were much injured, as they were not protected by an act of the legislature, similar to the seventh clause of the law for incorporating the Farmers Bank, limiting the loss of the stockholders to the amount of their stock. To this extent only was the bank of Aire a land bank, some of the stockholders were landholders, but they did not issue their notes on landed security; their notes however were ultimately paid, and paid too from land, because the landed gentlemen were compelled to pay for themselves and the wild projectors with whom they unfortunately associated.—For the substance of the foregoing recital, see Smith's Wealth of Nations, vol. I. p. 390 to 394, and Sir James Stewart, still more at large on the subject.

In the mean-time the old banks of Edinburgh saw the explosion without any injury to themselves, and very soon repaired the mischief done to the community by this wild scheme.—To illustrate the advantages which they and similar institutions have wrought in favour of England and Scotland, the following passages are cited from Sir Adam Smith and Montefiore. Smith's Wealth of Nations, vol. I, page 369 to 370. "The commerce of Scotland, which at present is not very great, was still more considerable when the two first banking companies were established, and those companies would have had but very little trade, had they confined their business to discounting bills of exchange; they invented, therefore, another method of issuing their promissory notes, by granting what they called Cash Accounts; that is, by giving credit to the extent of a certain sum, (two or three thousand pounds for example,) to any individual who could procure two persons of undoubted credit, and good landed estate, to become security for him, that whatever money should be advanced to him, within the sum for which the credit had been given, should be repaid on demand, together with legal interest; credits of this kind are, I believe, commonly granted by banks and bankers in all the different parts of the world, but the easy terms on which the Scotch banking companies accept of repayment, are so far as I know, peculiar to them, and have been, perhaps, the principal cause both of the great trade of those companies, and the benefit which the country has received from it. Whoever has a credit of this kind with one of the companies, and borrows a thousand pounds upon it, for example, may repay this sum piece-meal, by twenty or thirty pounds at a time, the company discounting a proportionate part of the interest, &c. All merchants, therefore, and almost all men of business, find it convenient to keep such accounts with them, and are thereby interested to promote the trade of those companies, by readily receiving their notes in all payments, and encouraging all those with whom they have any influence to do the same, &c. &c. And thus almost the whole money

business of the country is transacted by means of them; hence the great trade of those companies." Montefiore, vol. I. p. 235, 236, (American edition,) speaking of the bank of Scotland, remarks, that the bank of Edinburgh is conducted on precisely the same principles, and continues to observe, "the shares are only £.83 6 8 sterling each, but from the flourishing state of its affairs, they usually sell for nearly double that sum. Any person, (he adds) may deposit money here at the rate of four per cent. if to lie for four months, or three per cent. if to be drawn on demand. Another species of transaction peculiar to this, and the other Scotch banks, is, that the directors grant credits from £.200 to £.1000, principally to persons engaged in trade, agriculture and manufactures, on their giving bond, with approved security. On this a cash account is opened with the party to whom credit is given, who may draw or pay in any sum, not under twenty pounds, paying interest on what he owes at the rate of five per cent. Every half year accounts are adjusted, and although there are thousands of these cash credits, so careful is the bank of the securities they take, there is hardly ever an instance of any loss. These credits have been of incalculable benefit to the country, and they are now diffused all through Scotland, there being no less than twenty-four different branches of the bank in the principal towns of that part of the kingdom."

These banks, examples from England and Scotland have not escaped our clear-sighted neighbours of the northern states; among their numerous and increasing banks, most of them extend their aid to the agricultural interest, and some are established to lend exclusively on landed security, particularly one in Boston, and one in New-York. See Montefiore on Banks. *Sub. fine.*

The objection that the nature of bank accommodations, limited to sixty days, is not calculated to serve, and may ruin planters and farmers, will be found, on examination, to be equally destitute of foundation. Farmers have not been injured in England or Scotland, but on the contrary have been highly benefited by bank accommodations, as we have observed from the best authority, and it would be difficult to discover what can distinguish the agricultural interest of those countries from that of our own. Were these accommodations really to cease at the end of sixty days, still they might frequently prove beneficial; for in no country on earth is the nature of the cultivation so well adapted to temporary loans; crops come twice a year, the tobacco from March till May, and the wheat from September to November; in the intervals, frequent occasions occur when a farmer or planter could borrow to convenience and profit, and repay with much more certainty than a merchant, who depends upon the safe return of a ship and cargo employed in foreign commerce. But it is a fact well known, that these accommodations, although nominally limited to sixty days, yet are in reality seldom discontinued, where the security is undoubted, and the borrowers are industrious and thriving; but on the contrary, are renewed as long as customers may require, unless the bank is obliged to curtail its discounts, in which case timely notice is usually given.—Instead of merchants paying up their accommodations at the end of sixty days, it is a fact that will not be denied, that most of them renew, during their continuance in trade; and it cannot be supposed, that a bank established for the accommodation of the landed interest, would subject its safe customers to more inconvenient conditions than are imposed on merchants in mercantile banks.

To render the institution as convenient as possible to landholders, and to avoid the necessity of providing endorser in town, as the present banks require, the law provides for the appointment of a director in each county, who may give the necessary information respecting the circumstances of country drawers and endorser; and finally, to remove the very ground of this objection, the principle of Cash Accounts has been introduced into the establishment with all the latitude, and agreeably to the improvements, made by the banks of Scotland, as they have been just stated on the authority of Smith and Montefiore. Loans will therefore be granted on open accounts, to be settled every six months, but renewable at discretion, and repayable in small sums, each repayment stopping a proportionable part of the interest; this process will be attended with these important advantages, that where payments are made by checks on the bank, receipts that can be legally authenticated will be preferred at the expence of the institution, of which the planter and farmer may avail themselves without risk or trouble, and that the present serious danger of counterfeit notes will be wholly avoided. Such are the advantages resulting to individuals, but the benefit to the institution is still greater; as it will in a great degree, diminish the number, it will prevent the overloading circulation with notes, and their consequent return on the bank to be exchanged for specie.

The usual process will be thus: A. has a cash account at bank, and owes B. a sum of money, for which he gives him a check. B. will find that the money is more safe, and nearly as convenient, when lodged in the bank, as in his own chest; and as a check on the bank will generally answer all the purposes of money or notes, he will perceive it to be his interest, instead of drawing the money, to have a cash account opened in his favour, on which the draught of A. is passed to his credit. He then may draw in favour of C. or D. as his occasions require, and C. or D. will find it equally their interest to act in the same manner. When therefore a number of men of business have cash accounts at bank, it will necessarily follow, that notes will seldom be issued to them, and the purposes of those customers will generally be answered, and their mutual payments made, by debiting one and crediting the other, on the books of the bank, without the advance of a shilling, either in notes or specie, and yet the bank will draw an interest on the full amount of all those several transactions. It is this process that has produced such wonderful advantages from the Scotch banks, without exposing them to injury, or even hazard, as has just been stated.

In addition to cash accounts, there is another provision introduced by the law, which distinguishes this institution from any other bank hitherto established in America, and which is peculiarly calculated to promote the interest and convenience of planters and farmers, in receiving deposits of money, and paying an interest on them of four per cent. if for six months certain, and three per cent. if to be returned on demand. It has been found by experience, that the banks of Edinburgh, the most solid and flourishing perhaps in Europe, can well afford to pay this interest on deposits, although they receive, but five per cent. legal interest on their loans; the profits of this institution, on such transactions, must necessarily be more considerable, as their loans will yield a legal interest of six instead of five per cent. and yet to individuals, the Farmers Bank offers the advantage of being the only institution of the kind in America that allows any interest at all on deposits. The great benefit those engaged in agriculture will derive from this provision consists in this, that it will afford them a moderate annual profit on money that would otherwise be dead on their hands, and that it will give a steady value to land, by increasing the number of purchasers. It is well known that a considerable time must elapse before a planter or farmer can raise a sum sufficient to purchase a tract of land, and when he has raised the money, the land he wants may not at that time be in the market, and he must take time before he can procure such land as will suit him; during the whole term therefore requisite to raise and collect the sum, and to effectuate the purchase, the money must lie idle, for if he risks keeping it at home, or deposits it in some other bank for safety, it will yield him no interest whatever, but if he lends it to an individual, or vests it in some stock, so as to draw an interest from it, he can no longer command the principal when an opportunity offers of making the purchase he wishes. The Farmers Bank, therefore, which will receive the money on deposit, allow a moderate interest for its use, and return it at the moment it may be wanted, is precisely the institution that will suit the landed interest.

But it has been farther objected, that farmers and planters are so deficient in punctuality that they cannot be relied on as customers of a bank. General reflections, when fairly examined, almost invariably prove unjust. It is not expected that all farmers and planters are to be credited at the bank. A bank is intended to promote industry, not to encourage extravagance. Those who are worthy of credit, it is presumed, will only be credited, and that there are a sufficient number of such characters among the planters and farmers of Maryland, who would be customers of the bank, cannot rationally be doubted. The authors before cited do not make any complaint of a want of punctuality in the agricultural interest of England or Scotland; on the contrary, it will be recollected that they give a decided preference to landed customers; and why should it be supposed that the planters and farmers of Maryland, as a body, are less honest than those of England, Scotland, or any other country whatever? Promptitude and punctuality in payments depend more on the aid and facilities afforded by monied institutions, than on the moral qualities of any class or description of persons; but it has always been believed, and in general it will be found true, that the pursuits of agriculture are more favourable to morals than the occupation of buying and selling, and living by the gain. Let the landholders be provided with the same means, and make it equally their interest to be punctual, by rendering punctuality indispensable to future accommodations, and no candid mind can suppose, that the American farmer or planter will yield to the European landholder, or American merchant, in either integrity or punctuality.