

**AN EXAMINATION OF THE  
THEORY AND THE EFFECT OF  
LAWS REGULATING THE  
AMOUNT OF SPECIE IN BANKS**

Published @ 2017 Trieste Publishing Pty Ltd

ISBN 9780649322534

An Examination of the Theory and the Effect of Laws Regulating the Amount of Specie in Banks  
by Samuel Hooper

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Cover @ 2017

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BOSTON:  
LITTLE, BROWN, AND COMPANY.  
1860.

Econ 4899.4.5

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DEPARTMENT OF ECONOMICS 6  
Sep 21, 1930

CAMBRIDGE:  
Allen and Farnham, Printers.

## P R E F A C E .

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In the following pages I have endeavored to show, that the "deposits," as well as the "circulation," of banks, are mainly created by the banks themselves; that bank-credits, in these two forms of "circulation," and "deposits," constitute the currency, or medium, for the transaction of the business of the United States; and that their security and permanency depend upon the possession by the banks of an adequate amount of specie to redeem them at all times and under all circumstances. I have endeavored also to trace or point out the origin of, and the causes that influence, the "exchanges" between different banks in large commercial cities, between different parts of the country, and between this country and other countries; in order to show, that a careful observation of these "exchanges" may—in connection with a law requiring the banks to hold a suitable amount of specie in proportion to their liabilities—provide a sound and stable currency for the country; and, as a practical illustration of this, I have referred to the condition of the banks of New Orleans under the operation of such a law in the State of Louisiana.

With a firm conviction that mistaken opinions and practices connected with the system of banking and currency prevail in the United States, and that these entail great dis-

advantages and losses on the enterprise and industry of the country, without benefit to the banks, I have endeavored to state the grounds of this conviction, for the purpose of submitting them to the consideration of others who are interested in the subject, and with the hope of thereby influencing the action of the States, which control the banking laws; believing, as I do, that, in matters of legislation, "what is practicable is of as much importance as what is absolutely just and proper."

S. H.

BOSTON, December, 1859.



# CURRENCY,

BASED UPON

## AN ADEQUATE AMOUNT OF SPECIE.

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THE weekly reports of the Boston banks, for some time past, have exhibited a great decline in the amount of their specie, as compared with its amount in the corresponding period of the previous year. It appears, moreover, from the details of several of the recent reports, that some few of the banks disregard the law of 1858, which requires an amount of specie to be held by each bank equal to fifteen per cent. of its liabilities; for, although the aggregate of specie in all the Boston banks was more than twenty per cent. of their liabilities, some of them were "*out of line*," that is, had less than the required fifteen per cent.

In December, 1858, there was an aggregate amount of \$9,547,699 of specie in the Boston banks, against an aggregate liability for circulation and deposits of \$29,345,560, being more than double the amount of the fifteen per cent. in specie required by the law. The loans at the same time were \$58,510,123, and soon after were increased to \$60,319,965. The amount of specie was gradually diminished during the subsequent six

months; and it appeared from the weekly report dated July 18, 1859, that there was then only the sum of \$4,645,866 in specie against \$25,313,627 of deposits and circulation; being in the aggregate only about three and a half per cent. above the legal amount, while some banks had less than the law required. The specie was afterwards slowly increased by over eleven hundred thousand dollars; but since the end of October it has been again suffered to diminish; and according to the last return, dated December 12, there was then the sum of \$4,703,134 in specie against \$25,461,656 of liabilities, while the loans amounted to \$59,701,811.

It is to be regretted that any of the banks are disposed to keep so near the legal limits in regard to their specie, because it can be made obvious that a larger amount in the vaults of the banks is more profitable to their stockholders and more beneficial to the community, as it enables the banks to sustain a larger amount of loans, while it is also *safer* for the public and for the banks. Near the commencement of the present year the Boston banks had \$60,319,965 of loans, and held at the same time \$8,295,392 in specie; they were therefore rendering at that time more accommodation to merchants and others in the way of loans, and earning more interest for their stockholders, than in the following August, when their specie was reduced to \$4,667,352, and their loans to \$57,972,321.

It may seem paradoxical to state that banks can give greater facilities to the business community by having larger amounts loaned out, and hold at the same time larger amounts of specie in their vaults; but nevertheless it is true, as may be seen by the statement just

made; and it is also consistent with the soundest theories and the soundest practices of banking. An examination and comparison of the published reports of the condition of the banks in different years will show, that their loans are usually highest when the amount of specie is large.

Commencing with the reports of the Boston banks during the year 1857, we find a weekly average amount of specie ranging, in the different weeks preceding the suspension of specie payments in that year, from \$4,083,622 on the 1st of June (being the highest amount during the year), down to \$2,370,887 on the 21st of September, three weeks before the suspension. Only two of the weekly reports during the year exhibited an amount of \$4,000,000 of specie, and there were eleven reports in which it was under \$3,000,000. The average of circulation and deposits during that time was about \$24,000,000, and of the loans about \$53,000,000. During the financial crisis the loans were rapidly reduced, and on the 19th of October were \$48,454,479; the deposits and circulation at the same time were reduced to \$18,847,341, with specie amounting to \$2,560,119. It is interesting to notice, that after the 21st of September the specie in the Boston banks began to increase,—slowly, it is true, but sufficiently to show that the exchanges with other places had turned in favor of Boston, and therefore that the immediate danger of a suspension of specie payments by the Boston banks had passed. But the suspension was forced upon them about three weeks later by the condition of banks in other cities. The specie continued to increase, notwithstanding the suspension of specie payments, until near the close of the year 1858, when