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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.*

THE following explanations were prepared, to remove objections which had been urged to discourage subscriptions to the Farmers Bank, previously to the passage of the law of incorporation, and are now offered, under an impression, that the subject is still not sufficiently understood, and that the principles of the institution have been much misrepresented.

The arguments of the opponents to the system have been principally to the following effect: *That banks are calculated solely to aid commercial operations; that Annapolis and Easton, not being commercial, are improper situations for a bank; and that the agricultural interest neither required, nor could support, such an institution.*—That part of these objections which relates to Annapolis and Easton, being disconnected with the general chain of reasoning on the subject, will be previously discussed.

Although the accommodation and promotion of the agricultural interest of Maryland was certainly the primary, yet it was not the exclusive, object of the Farmers Bank; it was imagined, that by extending the benefits of a monied institution of this nature to Annapolis and Easton, the commercial interests of those places, and consequently of the state at large, might be essentially promoted. It is unquestionably true, that at this time the merchants of both places, are but little engaged in foreign commerce, but the want of such an institution as the one now contemplated by law, or rather the collection of all the active capital of the state at Baltimore, may sufficiently account for this fact; to convince the most sceptical that it is a principal cause of the depressed state of Annapolis, the following observations are suggested.

The harbor of this city opening to the Chesapeake, is one of the safest and most commodious of the United States; it enjoys the inestimable advantage of being rarely closed with ice in the severest winters. At that season, therefore, of the year, when the commerce of Baltimore, is excluded from its own harbor, it finds a safe and convenient refuge at Annapolis, whence, with little exertion and less risk, foreign mercantile operations might be carried on during those months when they must necessarily cease at Baltimore, or a gambling speculation be substituted for regular commerce — So convenient a winter harbour, even without a town, would be of great advantage to Baltimore; but connected with a town, and that town furnished with a bank, it would be inestimable.—For instance, if the cargoes of the Baltimore shipping that lay idle in the harbor of Annapolis during the late winter, could have been sold or stored there, and other cargoes furnished, what an immense sum would have been saved to the commerce of Baltimore?

With a city already well built, intelligent inhabitants, merchants in many instances wealthy, and so excellent an harbor, Annapolis, destitute of foreign commerce, exhibits a political phenomenon amidst the commercial enterprise and rapid improvement which at present distinguish the United States. It is true, that hitherto the capital of the state, its existence has been too much connected, in public opinion, with the variable dispositions of the legislative body. That this uncertainty has created a stagnation in the pursuits of industry, to a certain degree is admitted, but its citizens could have so long submitted to a state of suspence and dependence, when the sources of independence and affluence lay open before them, if some more powerfully and extensively operating cause had not weakened the spirit of enterprise, and unnerved the arm of industry; and no other could have produced so extraordinary an effect, but the entire monopoly of the monied institutions of the state at Baltimore. These observations flow from no jealousy of the well earned advantages of that truly respectable and flourishing city; on the contrary, her prosperity is considered as inseparably connected with that of the country around her; they flow from a wish to see her, like Boston, surrounded by a Newburyport, a Salem, and other flourishing commercial towns, all fostered by their separate monied institutions. And in this view the Farmers Bank itself will be found eminently calculated to promote her prosperity, for every facility given to those employed in agriculture, that would enable them to be more punctual; every impulse given to the cultivation of the soil, that would increase its produce, must unquestionably operate principally in favour of the great emporium of the state; and even the accommodations of the bank, as far as they could be spared from the primary objects of the institution, would no doubt prove frequently as serviceable to the commerce, as its situation will be convenient to the merchants of Baltimore.

The want of back country has been urged by some as the principal cause of of the depression of Annapolis, but certainly New York and Norfolk, without any back country exclusively attached to them, are rapidly taking the lead of the commercial cities of America, and if ever the mass of produce which the Susquehanna must soon pour into the market, should find its way through Maryland, as nature seems to have destined, Annapolis affords the first and best harbour for its foreign shipment, and in that event, even the merchants of Baltimore, would probably prefer continuing the craft in which they may be interested, in a direct course to this port, to a reversed course up the Patapsco, which it would generally require a change of wind to accomplish. Annapolis too, is situated in the heart of the country producing the fine tobaccoes, which, in a great degree, peculiar to her soil, must long continue the principal staple of Maryland; she is more convenient to the extensive peninsula, which stretches to the eastward of the route from Baltimore to Washington, than either of these cities, and she is situated precisely at the point of communication established by nature between the two shores into which Maryland is divided.—A market opened here, devoted immediately to the object of vending abroad and procuring returns for the tobaccoes of Maryland, although it would interfere with a branch of trade but little regarded in the commerce of Baltimore, would yet prove of inestimable advantage to the state at large. This trade, once steadily pursued that fluctuation of price must necessarily cease, which is frequently ruinous both to the cultivator and the merchant, as the supply would soon be proportioned to the demand. This fluctuation is perhaps solely owing to the neglect of this commodity in the Baltimore market, until its scarcity produces a price abroad that promises an higher gain to a few adventures than their ordinary objects of speculation; then the sudden rise of price diverts a greater proportion of the labour of the community to the article than foreign consumption requires, and no longer yielding a profit, it will hardly command any price at all, to the great injury of the disappointed cultivator, and sometimes to the ruin of the merchant.

In addition to these advantages, resulting from her own situation and that of Baltimore, sufficient to elevate Annapolis to a respectable rank as a commercial town, considerable benefit must be ultimately derived from a connexion with the Federal City, as it progresses to the important station which the capital of an immense empire must hold. Rarely a winter passes that the long navigation of the Patowmack is not obstructed by the ice; Annapolis, at the distance of less than forty miles, must, from its proximity, be preferred for winter communication to either Norfolk or New-York, the next nearest winter harbours, and each two hundred and fifty miles distant.

Easton is situated in the centre of the eastern shore, that great peninsula formed by the waters of the Atlantic on one side, and those of the Chesapeake on the other, comprises a greater extent of level fertile land, every where intersected by navigable waters, than can be found united in any one other tract, perhaps on the surface of the globe; so rich a contry cannot long remain without a great commercial city. Easton, from the rapid advances she has already made to wealth and importance, seems destined to take the lead; and already her commercial operations would beneficially employ all the facilities which this institution could spare to their aid.

Such are the advantages that commerce may derive from a bank establishment at Annapolis and Easton; but it will be proper to close the remarks on this part of the subject by observing that the sessions of the legislature being held at the one place and those of the supreme court at both, each nearly central to its respective shore, they are certainly the proper situations for a bank, intended for the accommodation of the agricultural part of the community; thither the country interest must perpetually resort from every part of the state; with these places they have at present constant communication, consequently they can be there accommodated to their greatest convenience and advantage.

The objection, as first stated "that banks are calculated solely to aid commercial operations, and that the agricultural interest neither requires nor can support an institution of this nature," recurs now to be considered, and certainly the theory and practice of political economy prove that the reverse of this proposition is nearer to the truth than the proposition itself.

Land in an uncultivated and unimproved state is but of little worth, its productions, and consequent value, must forever depend on the potion of human industry that may be applied to it. Money, or some circulating symbolical representation of property and industry, is more essentially necessary to its improvement and utility, and consequently to landholders, than to any other object of property or class of society. The owner of land may be destitute even of food and raiment and he may want an house to shelter himself and family he cannot divide his land into such minute parts as would pay for articles of food, still less into such as would compensate a tailor, carpenter or other mechanic, for their occasional services; he cannot, like the owner of personal property, transport it to a distant market for sale, where a purchaser may examine, buy and use it, without changing his residence or his plan of life; he must invite industry to his land, in order to use or improve it; if he can represent this immovable property by an artificial circulating medium, that will command industry, he may then procure, (because he can pay for their services,) labourers to till, and mechanics to improve, his land, and he may purchase stock and implements of agriculture; the industrious thus invited, and assembled on the land, not only produce from it the subsistence and convenience of the owner, but a support also for themselves, and for families which naturally grow up where sustenance can be found; all the advantages of agriculture, population and domestic commerce, then arise, where nothing but a wilderness could exist without this artificial aid. To promote agriculture, therefore, by encouraging commerce, is beginning at the wrong end, it is in truth, not less absurd than to attempt to build a house by erecting a roof or upper story before the basement or foundation is secured.—When lands are improved, and have become productive, commerce will be necessary to vend superfluous produce; but there must be produce before it can be vended, and there should be superfluous produce before it should be vended abroad, and whenever there is superfluous produce, it will necessarily create commerce, even without the assistance of a bank at all, because foreign commerce depends for its support, not on the facilities of any one country, but on those of the whole commercial world, which form a joint and active capital, ever in search of commodities that will pay the expence of transportation from one country to another, and yield a moderate profit. The experience of these states has demonstrated the truth of these observations at every period of their history. The first settlers were by no means ignorant of the practical advantages to be derived from the foregoing principles; as the precious metals were not found here, and could not be commanded from abroad by indigent emigrants, a paper substitute could alone supply their place, and whenever the popular feelings and influence was not restrained by the distant and unfeeling hand of royal prerogative, loan-offices were established, to enable land holders to improve their estates; on perusing the history of the then colonies it will invariably be found, that wherever cultivation was aided by these institutions, the progress in improvement was astonishing, not only in agriculture but in commerce, whilst, on the contrary, wherever loan-offices were not established, the land lay mostly uncultivated, agriculture and commerce made slow advances, and the needy inhabitants were kept in wretched dependence on foreign merchants. To illustrate these principles, the following citation is made from the celebrated work of Sir James Steuart on Political Economy, vol. II, book xiv, chap. 3. "In countries where trade and industry are in their infancy, credit must be little known, and they who have solid property find the greatest difficulty in turning it into money, without which industry cannot be carried on, and consequently the whole plan of improvement is disappointed. Under such circumstances, it is proper to establish a bank upon the principles of private credit; this bank must issue upon land, and other securities. Of this nature are the banks of Scotland; to them the improvement of that country is entirely owing—although I have represented this species of banks, which I call Banks of Circulation upon Mortgage, as peculiarly adapted to countries where industry and trade are in their infancy, their usefulness to all nationt, who have, upon an average, a favorable balance upon their trade, will sufficiently appear on examination of the principles upon which they are established."

To become a great state, to be highly commercial and opulent, it is necessary to commerce, by giving every facility, every encouragement to agriculture, commerce will follow of course. Excluding, as unworthy of consideration, those casual mercantile speculations which sometimes make the fortunes of a few individuals, and generally are pursued till they ruin double the number, money can be no ways employed so advantageously for a state as in agriculture, particularly in a country like our own, where good land bears so great a proportion to the number of inhabitants; a given sum of money expended in labour, implements of agriculture and stock, to cultivate and improve land, must yield more to a community than a like sum applied to any other purpose; for the expenditures on land are aided by nature herself, who performs by far the greater part of the operation; the earth labours conjointly with man, and a product is the result, which owes but little of its value to his labour or ingenuity. In proportion as the product of this labour is applied to domestic commerce and exchange, it maintains an industrious population at home, who increase by their numbers the strength and wealth of the state; who furnish a market here for our produce, without loading it with the expence of carrying it abroad, and augment the resources of our own, instead of those of foreign countries, where manufacturers must make consumers pay for the taxes they are obliged to advance to the governments under which they live; and if ultimately a surplus produce should be forced abroad for a market, loaded with freight and commission, it will still be exchanged for a greater proportion of foreign industry than it cost at home, whilst the countries we trade with have more hands in proportion to their lands than we have. On this subject, the following extract from the admired Treatise on the Wealth of Nations, by Sir Adam Smith, is made for the satisfaction of those who cannot refer to the work itself, where the foregoing principles are conclusively established. Vol: II, pages 48, 49, "No equal capital puts into motion a greater quantity of productive labour than that of the farmer, not only his laboring servants, but his labouring cattle, are productive labourers. In agriculture too, nature labors along with man, and although her labor costs no expence, its produce has its value, as well as that of the most expensive workmen. The most important operations of agriculture seem intended not so much to increase, tho' they do that too, as to direct the fertility of nature, towards the production of plants most profitable to man," &c. &c. Again, page 50. "Of all the ways in which a capital can be employed, it, (agriculture), is by far the most advantageous to society. The capital employed in agriculture, and in the retail trade of any society, must always reside within the society, they must, generally too though there are some exceptions to this, belong to the resident members of the society."

From the experience both of Europe and America, the position of Smith vol. I, page 361, "that banks furnish the best medium of circulation, so far as it is safe to substitute paper for the precious metals," seems now to be universally admitted, but the solidity of a bank, principally supported by operations with landholders, has been doubted, and the doubt has furnished an objection to the Farmers Bank. This will naturally excite surprise, when it is considered, that landed security has ever heretofore been considered the best in the world; nor can it now be believed, that there exists a well judging individual in the state, who would not sooner lend his money on landed than on mercantile security; and what would be safe for one individual, must be equally safe for a number of individuals incorporated into a company. Notes issued on landed security have this solid advantage, that the security can never be diminished nor removed, it must remain for ever unimpaired; but notes issued on the paper of merchants, depend for their solidity on the life, skill, integrity and good fortune, not only of the merchants themselves, who are known and trusted, but also on the life, health, skill, integrity and good fortune, of their numerous and unknown correspondents, and upon the safety of perishable commodities, exposed to the casualities of an uncertain element. Sir James Stuart, treating at large on this subject, makes the following remarks. Vol. II, book xiv. chap. 6.—"The notes in circulation may far exceed in amount the largest bank stock, and therefore it is not on the original stock, but on the securities taken at issuing the notes, that the solidity of the two currencies is to be estimated, those secured on private credit are as solid as lands and private estates, they stand on the principles of private credit; those secured on the obligations of merchants and manufacturers, depending upon the success of their trade, are good or bad in proportion; every bankruptcy of one of their creditors involves the bank, and carries off a part of their profit or their stock."

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 old banks early foresew the effects, and wisely curtailed their discounts, but in doing this they raised 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 prudential 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 accommodation; 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 stock holders 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. 360 to 394, and Sir James Steuart, 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 bank and similar institutions have wrought in favour of England and Scotland, the following