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# Free Banking Law

William Batchelder Greene

June 4, 1851

The law of the late session, authorizing the formation of banking associations, is of so much importance that we give it a place in the first page of the paper. It meets with the decided approval of some of the democratic presses; and may have all the excellences claimed for it. This paper has not discussed its merits, because we have not felt inclined to oppose a measure which many of our friends have been disposed to adopt; and especially because we have doubted the expediency of any considerable enlargement of the paper currency. The object of the law is, of course, an augmentation of the paper currency; otherwise it would not have become a law. If the field were clear of all banks, and this matter came up as an original question, we might regard it with more complacency than we now can. But without the associations which this act contemplates, we have already a pretty formidable array of banks, old and new. A very considerable increase of banks and banking capital has been authorized by the very legislature that has passed this new banking law; and it is not supposed that there is to be any diminution of this immense force for supplying the people with paper money.

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What, then, is to be the effect of this new banking law? Plainly, to augment, inflate, and swell up, the paper circulation. Is this desirable? No; for it will but enlarge the already capacious reservoir that draws within its vortex the fruits of the labor, the profits of the industry, of the laboring masses. There is no rule more certain in its operation, than that the prices of property rise or fall as the currency expands or contracts; and that *the wages of labor are the last to rise, and the first to fall*. Consequently under an expanded or augmented paper currency, which has carried up prices, the laboring man has the increased prices to pay for whatever he buys, without any augmentation of wages from which to pay. When the currency contracts or is diminished, wages fall first; and prices afterward; so that the profits of industry are pared down at both ends—both by the expansion and the contractions.

If this new banking system were any thing but an addition to the facilities for making paper money, we might regard it with more favor than we are now able to do.

A correspondent sends us the following comments upon the law:—

*Mr. Editor:*—I am disposed to think that a misapprehension exists in the minds of some persons, in regard to the true nature of the free banking law. The bill as it was at first presented by Mr. Frothingham was one thing; the bill as it is now, after having been amended, modified, and passed by the legislature, is something quite different. According to the new law, fifty persons disposing of a capital of \$100,000, may at their pleasure, commence and carry on the business of banking. They can operate as a bank of deposit and discount, and they can issue bills if they see fit to do; but they are under no obligation to issue bills; they can act under their pleasure in that matter. Here comes the peculiarity of the law; for, if they do issue bills, they may issue such as they receive from the auditor in exchange for stock deposited; or, if they see fit, they may issue their own notes, precisely as other banks do now, without depositing any

stock at all. For the enabling clause gives the new banks all the powers, privileges, &c., possessed by the existing incorporated banks, while the qualifying clauses do not deprive them of the privilege of issuing their own notes. It is true, the law says that if the new banks deposit stock with the auditor, they shall after such act of deposit be held to observe certain regulation: but it nowhere commands the new banks to deposit such stock, and it curtails the privilege of no banks except such as voluntarily deposit stock. If therefore any bank going into operation under the new law, keeps away from the auditor's office, it becomes and remains a bank of issue of identically the same nature with those heretofore chartered in this commonwealth.

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