

## CHAPTER III.

### PUBLIC AND PRIVATE FINANCE.

The treatment of the financial history of the state being somewhat limited by the scope and plan of this whole work, it has been deemed advisable to lay special emphasis on one aspect of the subject, but at the same time to cover all of the more important questions involved. The point of view selected is that of the legal relations of the subject of taxation, because from them have arisen many points which effect the constitutional relations of local with central government. This close association of finance in Rhode Island with the development of the principles of home rule is one of the most unique facts in the state's history.

The history of the public finances of Rhode Island is divided into three periods. The first lasting until 1710; the second ending with the year 1800; the third covering the present century.

#### PART I—COLONIAL AND LOCAL TAXATION

The sources for the first period are the Rhode Island Colonial Records, Vol. I-III. The Colonial and Provincial Records of Massachusetts. Felt's Massachusetts Currency. Williams's Key to the Indian Language. The Providence Town Papers, Portsmouth Town Records, and the Warwick Town Records. Some secondary authorities are noted in the general bibliography of the state's history.

The financial history of Rhode Island is not an isolated topic that can be treated apart from the economic and political events of which it was partly the cause and partly the effect. It reflects both the peculiarly narrow limitations of the state government and the excessive individualism of the people, which were part and parcel of the relations of the citizens toward the local government, and of the local government toward the central government. It illustrates the world-wide movements during the seventeenth century in which the state had some share.

The fiscal history of the colony began in the three towns, Providence, Portsmouth and Newport—Warwick not having had any local government until the formation of the colonial government in 1647, had therefore no fiscal institutions. Between the two towns of Portsmouth and Newport on the one hand and Providence on the other the contrast was marked. In the former a singularly complete form of civil government seems to have been at once established. It was not a development of a generation. The leading spirits of the settlements were men of some property and a large degree of legal training. Communal labor may have existed in Portsmouth—bread was baked by the

town baker—but in Newport there were fewer traces of it. Individual effort was encouraged by the clear recognition of the right of private property in land, although here as in Providence fee simple title could not be sold to a non-resident without the town's approval. The system of government consisted of a legislative department—the town meeting; an administrative department—the judge and elders, elected to serve for one whole year or until their successors were appointed, and vested with ordinance making powers, subject to revision by the town meeting; and a judicial department with original cognizance of all kinds of cases. A miniature state was formed in 1640, of which the two towns were component parts. To each local organization was reserved full and complete authority in all strictly local matters, while the central government with its governor, deputy-governor and assistants and general assembly was vested with authority over the general matters of the two towns. Here then was a thorough-going system of governmental organization, in which individual rights and privileges on the one side were balanced by individual obligations and duties on the other. The individual yielded obedience and was protected by the supreme state. The sense of corporate life was the dominant force of the whole scheme.

Here then were also the conditions precedent to a thoroughly adequate fiscal system. From the beginnings of the settlements taxation was resorted to. The first proposed levy upon the people was in the form of a land tax. A general fence five rails high was to be erected "at the head of the spring" in Portsmouth, and the charge was "to be borne proportionately to every man's allotment"; but the fence was not built and the tax was not assessed. Subsequent taxes were levied according to the ability of those taxed. The Newport men incorporated into their first compact of government the clause, "we do engage ourselves to bear equal charges answerable to our strength and estates in common". Public service when not gratuitous was paid for from the treasury. Roadways were built, "wolf catchers" were provided and the town watch was maintained at the public charge.

The common land was the property of the towns and their income from taxes was augmented by receipts from sales of it and by fines for breaches of the law. Payments were made by the treasurer upon the approval of bills by "the judge and some of the elders", and exact accounts of such transactions were rendered to the quarterly town meeting. At the establishment of the two-town government in 1640 each town was required "to have a joynt and an equal supply of money in the treasury for the necessary uses of the same." The governor and one assistant in one town and the deputy-governor and one assistant in the other town approved the bills of the general government. The treasurers of each town were to keep an accurate account of all moneys "received or dispended, the charges were to be equally

balanced and each town was to bear its true proportion". The amounts involved in these mutual transactions were sometimes large, and had not the fertile soil yielded good returns and had not wealth been prevalent, they would have constituted a heavy burden on the people. In March, 1641, the town of Newport was indebted £111 3s. 4d. There is no record of the amounts paid during the year, but if the Portsmouth debts were proportional to those of Newport, the unpaid accounts would have averaged more than £1 for every male on the island. In the same year Indian corn was made legal tender at four shillings per bushel "in all payments for debts" between man and man. The per capita cost of the general government therefore was five bushels of corn from each annual crop.

The conditions in Providence were in sharp contrast to those of the island towns. Here both the soil and the people were poor. Though the settlement made by Roger Williams antedated those made by Codrington and his friends, Williams had no scheme of civil government nor had his friends sufficient legal training or education to evolve one. By the time that he could have patterned after Newport, elements of discord had already begun to play an important part in local affairs. In Newport no man was to be molested for difference of "doctrine". In Providence the broader ground was taken, that government concerned only "civil things". Many of the adventurers who soon began to seek association with Williams were prone to interpret the absence of religious powers in the voluntary compact of government as an absence of moral obligations also. The pure economic motive became the sole balance wheel of government and a condition approaching anarchy resulted. The original "purchasers" attempted to retain exclusive ownership of all the common lands, and the quarrels over land questions absorbed the public attention. The view of Samuel Gorton that no local government was valid unless sanctioned by the authorities in England had many adherents in Providence, and the free play of self interest led to excessive individualism, to a system of voluntary government so unstable that its decrees could only be enforced by the individual consent of each and all, and to a general lack of the sense of corporate life. Local government was here evolved out of the bitter necessities of experience, and its evolution was many years in process.

Here then were no conditions precedent to a financial system. The income of the town was derived from fines, the collection of which was almost impossible, from sales of land, the payments for which were in some cases delayed for many years, and perhaps from taxation, though the earliest record we have of a tax is dated 1650, when an assessment was made on live stock only. The treasurer was first elected monthly, then quarterly, and finally annually, but his duties were not burdensome. He expended "the town stock" as the town should

“appoint”. Here public service was not altogether voluntary, and a system of compulsory duties seems to have been imposed upon the freemen in rotation in lieu of a paid service, which was doubtless difficult because of the difficulty of collecting taxes.

These fragmentary details are all that we now know of the fiscal system of the towns before 1647, but it is not improbable that crude as they seem they sufficed for the needs of a people solely occupied in the simpler forms of agriculture.

A brief outline of the nature of taxation and its development from 1647 until 1710, when the more facile method of raising revenue by the issue of paper money was adopted, will aid in our understanding of the detailed history of the period. The system of colonial government established at Portsmouth in 1647, though in theory sovereign, because it derived its power directly from the citizens as colonial freemen, was not so in practice, and except on rare occasions when external danger resulted in a temporary subsidence of local factions, was a prey to what may euphemistically be termed a spirit of localism. This spirit of localism was illustrated in the administrative phases of state taxation. Until within a few years before 1710 taxes were not assessed at regular or stated intervals or periods, but were in the nature of an extraordinary source of income. They were resorted to only as the current expenses of the colony or town exceeded the current income, and some supplementary income became necessary to pay accrued debts, or they were levied for some special object too costly to be paid for in any other way. During this entire period there were but one or two instances of an assessment of so large a sum as to leave any surplus in the treasury which the government might subsequently expend for general purposes. Money was not raised in anticipation of public needs, and indeed during most of the period the length of time given for the collection and assessment of taxes and the semi-annual election of the deputies enabled one session of the legislature to repeal a tax assessment law passed by its predecessor before the law could be enforced.

The Stuarts in England at this time were occupied in their attempts to impose taxes *ad libitum* by virtue of their sovereign royal authority, but in Rhode Island political thought had not advanced much beyond the stage wherein a tax was conceived of as a voluntary contribution. The theory of no taxation without representation, which is but once removed from the thought of a tax as a voluntary offering, was here carried to its extreme form, which resulted in laws in 1672 that colonial taxes could not be assessed unless representatives from all the towns were present. The town of Warwick protested against a tax assessed in 1664 because her deputies did not participate in voting it. In Providence, however, the theory had its most unique illustrations. In 1645 certain non-members of the

Purchasers' corporation succeeded in breaking through the exclusive barriers of that body and obtaining a so-called quarter-right in the ownership of the original purchase of land, and when the "quarter-rights men were called upon", says Williams, "to do service to town and country, as well as the purchasers, they did so and thereby came to an equal ordering of all town affairs". Thus the political privilege, the right of the franchise, accompanied as a matter of course the obligation to do public service. Many years afterward some asserted that the validity of a tax assessment depended upon the individual assent of the taxpayer. When town meetings were held for the purpose of levying a rate many absented themselves, declaring, says Williams, that the tax was none of their doing. If in the minds of such extremists the sovereignty of the individual transcended the sovereignty of the state, it is probable that the idea of the state as a sovereign taxing power, implying in the idea, as Marshall says, that the power to tax is the power to destroy, would have found little acceptance in early Rhode Island.

We shall not be far from the truth if we find in this absence of a clear conception of the theory of taxation, and its association with the thought of a free-will gift, a partial explanation at least of the fact that neither the parliamentary charter of 1644 nor the royal charter of 1663 contains any specific reference to a grant of the right of taxation, as the term is now understood. The power of self-government implied the power of self-taxation, as taxation was understood by those who believed in democratic government.<sup>1</sup>

If then the first three-quarters of a century after Roger Williams laid the foundations of the settlement of Moshassuc were devoted to an experimental stage of local and state government, in which religion was divorced from state, much more was it true that the essential notions of taxation were still in embryo, and that a system of tax machinery developed only as the conception of its voluntary character gave way to its compulsory character, and taxes began to be paid to the local officials rather than contributed by a willing member of the community. The great body of local law was transplanted from England, was adapted to local needs and was, therefore, nearly complete at the beginning; but the system of taxation and the laws embodying it were entirely indigenous products and were evolved slowly through experience. Williams, in 1654, writing to Vane of the blessings of free government, said, "Sir, we have not known what an excise means, we have almost forgotten what tythes are; yea or taxes either to church or commonweale", and he was not far from the literal truth.

<sup>1</sup>On the other hand the Stuart view of taxation, as an arbitrary assessment imposed by an unlimited sovereign, was expressed in the royal charter in the clause granting the authority to impose mulcts and impositions on the people. The term mulct appears in local writings of the time in the sense of a tax.

The details of the form of the first colonial government were the work of the island men. The remarkable code of laws and provisions for the "administration of justice" then adopted were cast upon the model of the two-town government already established by Portsmouth and Newport, and as in the latter system financial matters had been largely left to the localities and settlement was made by an annual balancing of accounts between the state and town, so in the new colonial government some such scheme seems to have been intended though it was never fully worked out. The extreme spirit of localism was not yet ready to vest the tentative central government with authority to receive and pay out all moneys due to and from the state. The "public treasurer" received only "such fines, forfeitures, ameracements and taxes as fall upon such as are not within the liberties of the three towns specified in the charter and Warwick". The general sergeant and sheriff seem not to have returned the fines imposed by the general court into the treasury until ordered to do so in 1656 and 1658. The first tax imposed by the colony was a levy of £100 to repay Roger Williams for his trouble in procuring the charter, and although the share of each town was set by the general assembly, the towns through their town councils were to collect the tax and pay it directly to Williams. The treasurer's duties, therefore, were not burdensome, and John Clarke returned "his accompte into the courte for the year 1649, that he [had] received nothing as Treasurer, and therefore have nothing in his hand."

The colonial government's right to levy taxes seems to have been assumed by it at the outset, though it used that power but twice during the first seven years of its existence. One of the taxes was in the nature of a free gift and grant to Williams, and was levied by the first general assembly of the whole people in 1647. In 1650 the gift was "ordered" to be paid by the commissioner's court and penalties attached for delinquency. The second was a levy for a magazine or powder house in each town, and each town was to make provisions for its own needs. The experimental character of governmental power was very prominent during these first years. The commissioners elected after the first meeting in 1647 were called the representative court, but for the first few years they were vested with authority "to act", or arrogated to themselves that power, at the beginning of every legislative session, while the semblance of the referendum, impractical as it proved to be, deprived their doings of the full character of sovereignty. Their requests and orders in regard to taxes were even less regarded by the northern towns than were their other decrees, and in the absence of power to enforce them we may assume that until 1654 the colonial power of taxation was exercised by sufferance. Its decrees had rather the authority of requests than orders. Williams had not been recom-

pensed by Providence in 1651 and he seems never to have been fully paid. We know nothing of the results of the magazine tax.

The secession of the island towns under William Coddington in 1651 and the reunion of the government in 1654 was followed by some clearer statements of tax powers. Among the earliest laws of the new government in May, 1655, when the freemen from the whole colony seem to have been present, it was enacted "that ye raisinge of Generall Taxes shall be ordered by the General Court of Commissioners, as they shall see cause from time to time as to ye sumes, and how they shall be proportioned on each Towne: as alsoe, who in each Towne shall have power to make ye rates, and who are to give forth warrants for ye gatheringe of them: as alsoe in case of any refusinge to pay, to order assistance to him or them that are authorized to give warrants, or to gather ye rates as need shall require."

This was the fundamental law of the colony in matters of taxation. In the absence of objection to it, or repeal of it, it had a degree of theoretical sovereignty and constitutionality which cannot now be questioned. It was comprehensive in its provisions and covered both the power to tax and the power to determine the methods of taxation. But like many other statutes of the time it voiced the theories of the island towns rather than those of the mainland, and was never enforced in its entirety. The question which at once presented itself for solution related not so much to the fundamental right of taxation as to the character of the machinery by which that right could be most efficiently exercised. Should the towns be treated as responsible corporate entities, and should the taxes be apportioned on them as such, leaving them to use their local machinery of assessment and collection; or should the colony erect an independent tax machinery and reach the taxpayer directly without the recognition of the locality or intermediation of the town? The central colonial government was the creation of the people, forming a colonial corporation and acting by virtue of their rights as colonial freemen, and had the majority so wished they could have created a strongly centralized government and tax system. That such was not the case was partly the result of a contest between centralization and local autonomy, in which the working out of a duly efficient tax system was associated with the due recognition of the spirit of localism. This adjustment was more than fifty years in process.

The commissioners' court under the statute of 1655 at once levied a tax for colony prisons in Newport and Warwick, and in conformity to the provisions of the law appointed assessors in each town, but the spirit of localism was recognized in a clause allowing the towns to add to or change those appointed by the colony, provided "ye worke be not neglected". The work was, however, neglected, and after three years' delay, during which fines of £10 each were imposed on the towns for

negligence, the Newport prison was adopted as a colony prison. The building of a prison in Warwick was abandoned and with it was abandoned for many years the attempt of the colony to appoint its own tax officials.

The next taxes, assessed in 1658 and 1659 to pay for powder and shot and the expenses of the colony agent in England, were apportioned on the towns, the assessment was left to them and payment was to be made to the town treasurer who was to remit to the colony treasurer.

After the Restoration it became necessary to procure a new charter, and various expedients were resorted to in order to raise the funds for the colonial agent, John Clarke, to whom the matter was entrusted. A voluntary contribution of £200, which was apportioned among the towns, was requested in 1661, but the hope of the legislature that it might thus "be raised with allacrity and cheerfull freeness" was not realized. Only £40 seems to have been contributed, and two men were appointed in each town to see what "moneies" they could "rayse in the severall towns", and "old England moneye" was accounted "double the value of other pay". Country pay or products, in which barter was carried on, was reckoned at about half the value of money or bills of exchange, because of the cost of transportation to England, and New England silver was reckoned at about two-thirds the value of English money.<sup>1</sup>

A tax of £288 was levied in June of 1662, and the whole was paid by a few men in each town, they looking to the town for repayment. This method of securing the tax from a few able and well-disposed marks the extreme weakness of the state power of taxation. It was said to have been adopted in this instance because, being levied in early summer, "particular persons cannot pay the rate untill come be ripe and merchanable, and cattle be fit to kill", and "therefore the persons commissioned in each town saw a necessity for the honor, safety and ease of the collony to engage for the present supply and to stay for the same untill the rate be gathered", but in October of 1663 the money had not all been raised, and although presumably the corn was ripe and the cattle fit to kill, at this season of the year, another tax of £100 was apportioned upon the towns and payment was again volunteered by a few from each locality.

Under the royal charter some improvement was made in methods of taxation. The locally elected town deputy or magistrate was succeeded by the colonially elected assistants, who under the new government were both magistrates and members of the town council. The peculiarly important position which these state officials occupied in local affairs gave to the central government an extraordinarily large influence in all local government, and in theory at least until

<sup>1</sup>Its coinage value was three-fourths that of sterling.



1729-30, when they and the justices of peace ceased to occupy *ex-officio* a position in the local town council, the principle of home rule that local officers should be locally elected yielded to the principle of centralization, according to which in some towns local government was practically administered by colonially elected or appointed officials. The assistant or magistrate, therefore, under the new system became the official through whom the colony exercised its tax powers. He called town meetings to levy rates proportioned by the colony, he issued the warrants to the general sergeant to distrain the property of delinquents, and when the towns were negligent in appointing assessors he had authority to appoint them.

While John Clarke was in England, acting as the colony agent in procuring the charter, he had engaged in preaching and writing in order to eke out his income, and had been compelled to mortgage his property in Newport for £140 in order to pay some of the colony's debts. In 1664 the colony was indebted to him £343 13s. 6d., and to meet this and other charges a tax of £600 was levied. Collections were slow. In 1666 a committee found "very much of the aforesaid levy taken up, withheld or suspended upon other and later accounts", and the assembly enacted that no debt or debts belonging to any other person or persons should be offset against the taxes levied for Mr. Clarke's benefit.

The custom here forbidden was the outgrowth of the practice of using local tax machinery for state purposes. Assessors and collectors had become accustomed to deducting their charges from the tax. The towns themselves deducted charges borne by them in the colony's behalf from the sums paid to the town treasurer, and finally, in the absence of a clear notion of the compulsory character of the tax, individuals deducted not only audited bills but sums due to them for services rendered the colony from their individual assessment. Thus the tax claim of the sovereign state was offset by the claim of a seemingly equally sovereign individual. A committee empowered to proceed and collect the tax of 1664 found themselves therefore "obstructed in the premises soe as not to be in a capacity to discharge the trust reposed in them". Another committee, appointed in 1669, of which Clarke himself was a member, recommended that all outstanding accounts be audited and allowed to be deducted from the taxes assessed for his account; but in 1671 the official records contain references to futile efforts to collect, and the executor's of Clarke's estate in 1678 asked for the payment of sums still due. The mortgage on Clarke's home had been meanwhile discharged by voluntary contributions of the state officials.

For the districts lying without the limits of the four original towns various officials had been appointed by the general assembly, and though for each of them special assessors and collectors had usually

been selected, tax levies had been difficult to enforce. In 1671 for assessing a tax of £250 the state again appointed special officers for the outlying districts and for two of the original towns, Providence and Warwick, but left to Newport and Portsmouth the direction of the portion of the tax assessed on them. As in 1655, however, the right was reserved to all towns and districts to take action as they saw fit, but if they failed to act within three weeks, then the state appointees were to proceed in the premises. This enactment carried the responsibility for the assessment of the tax to extremes. If the towns and districts appointed assessors and they neglected to act, they and their estates became liable for the full amount of the tax. If, however, the towns failed to appoint and the appointees of the Assembly neglected their duty of assessing the tax, their estates were likewise liable for the amount of the tax. This discrimination against Providence and Warwick was doubtless warranted, but it created bitter feeling, and at the April session of the assembly in 1672 the objectionable clause appointing colonial assessors was repealed and the two towns were "only left" to "make choyce" themselves. The assembly seems to have made no subsequent attempt to appoint assessors at the time of levying a tax, and in but one instance did it use that method as a last resort. In May, 1690, a war tax was levied, but in September, "finding that Providence, Portsmouth, Warwick, Westerly, Kingston, Jamestown and Greenwich had not proportioned the rate and still neglected and refused to do so", the assembly appointed three men in each delinquent town to levy the rate. "But the Assembly being concerned for the ancient privileges of every town" in the colony, declared that if they would "proceed according to former custom forthwith" it "would be accepted". Otherwise the colonial appointees should act, and for neglect their estates were liable for the tax.

Taxation had, however, become almost an impossibility, and this session of the general assembly made itself famous by passing some remarkable tax laws. It was forbidden thenceforth to convert taxes to other uses than those for which they were levied, and charges against the colony were no longer allowed to be offset against the sums levied on individuals or towns.

Some part of the difficulty of enforcing tax levies in the mainland towns and districts was due to the poverty of the people, and in some cases to uncertainty of land title in the western districts, pending the settlement of the boundary line between Rhode Island and Connecticut and uncertainty of town and district jurisdiction for lack of clear lines between them, but the greatest difficulty in most cases was not economic. It lay in the fact that the separation of church from state had retarded education and had blunted the sense of moral and social obligation which is essential to all successful communal effort. In the

two island towns these effects had not been so noticeable, partly because, as has been noted, the separation of church from state was not complete, their local laws being founded on "the Word of God", partly also because the possession of a fertile soil enabled them to retain and increase the considerable amounts of private property which they had brought with them, and such possessions were a potent factor toward the maintenance of a reasonable government, especially among men seemingly prone to a lawful course from the outset. In the two northern towns, and especially in Providence, not only were these factors to stability wanting, but many of the settlers were only too ready to carry their individualistic views to the verge of lawlessness at the slightest provocation. The principles of the Quakers, which forbade them to bear arms or support military service, which was an important part of the public burdens imposed upon all, added to the forces of discontent. A pending war with the Dutch in 1672 made these forces seem more than usually dangerous, and the Sedition Act was passed in April. "The assembly", so runs the preamble, "being sensible of the great detriment the colony in general, and well-minded persons in pertickular doth sustain by reason of a covetous or ffactions and mallicious sperritt appeereinge in sundry towns and places in this collony; who oppose all or any rates, and thereby prevailinge, by their deluded adherants, in overpowering the more prudent and loyall partys in such town and place, to the frustration of the most necessary and needful ends for which such rates are levied; whereby the collony is exposed to much discredit, and other detriments great and dangerous, even tendenge to ruin and subversion thereof in the issue, and in meantime to the intollerable burden and oppression of the more tractable and rationally people, who readily comply with the collony's injunctions in paying the severall rates imposed on them, which are yet rendered ineffectuall as to the full discharge of the collony's engagements, by reason of non-conformance to and non-performance of the collony's orders in such cases by such refractory persons."

The law classed as guilty of high contempt and sedition all who appeared "by word or act in opposition to rates and impositions" or "any acts or orders" of the assembly, and all who spoke against, moved to reject the same in public meetings, or otherwise by word or deed slighted them. The penalty on conviction was thirty stripes or a year's imprisonment or a fine of £20. Something of a political revolution followed the passage of the act. Within a month a general election was held. Governor Benedict Arnold and Deputy-Governor John Clarke were replaced by Nicholas Easton and John Cranston. Of ten assistants four only were re-elected, one refusing, and Cranston being advanced to the office of deputy-governor. Of the twenty deputies none were returned. But too much emphasis should not be laid upon the change in colonial officers, for it had not been customary for

some years to return the same members to successive assemblies, or to state it more accurately, it had not been customary for the deputies to accept office twice in succession if they could avoid it. There was a great deal of feeling against the act, and at an adjourned session, held in the latter part of May, this and indeed every other act of the April session was repealed. In November of the same year, "for the preventing great and eminent dangers of pretended debts, which by some mens subtilty and others simplicity, this colony may unjustly and undoubtedly incurr", it was "enacted that noe tax nor rate from henceforth shall be made, layd or levied on the inhabitants of the colony without the consent of the Deputies present pertaining to the whole collony". In the May session of 1678 this provision was abrogated and the major vote of any legally convened general assembly was declared sufficient for the levying of a tax, but according to the assembly's interpretation of the "intent and meaning" of "the charter", it was also enacted that "noe rate, tax or mulct" should be laid or imposed upon the inhabitants without legal notice by warrant from the governor to the towns that such a "rate, tax or mulct" was to be assessed. In about one year this law was also repealed as "prejudicial to the carrying on and management of the publick affaires and weale of this collony". It was ordered "that it shall be lawful for the General Assembly at any time being to assess and impose such rates, taxes and mulcts on the inhabitants of this collony as to them now, or at any time in the future shall appear necessary for the maintaining his Majesty's authority". Nevertheless at times thereafter it was not unusual to notify the towns of the pendency of measures imposing a tax, and they were requested to send their deputies with instructions accordingly.

In 1679 also the assembly passed a law imposing a fine of £10 upon towns that were delinquent in levying taxes and added that sum to the town's proportion of the tax. If they still failed to act, the law empowered the governor or deputy-governor and their assistants to appoint "five honest persons to levy and proportion the rates". This law marks a new departure in the legal aspects of taxation. Previously the state had subjected only delinquent individual taxpayers to fines. It now subjected towns to penalties for failure to comply with its orders to assess a tax. It thereby clearly recognized the corporate town as a legal individual and as a part of its own legal machinery. The passage of this general law empowering the governor to appoint tax assessors also relieved the legislature of the necessity of repeated action in regard to delinquent towns, and very properly shifted the supervision of them from the legislative department to the administrative department—the governor and assistants. In 1682, if the tax assessors thus appointed neglected their duty, they were made liable for the whole town tax, including the £10 fine and all costs of enforcing

the penalty upon themselves. Soon also the varied custom of payment by the taxpayer directly to the creditor of the colony or town or to the general treasurer, or to the town treasurer to be by him accounted for to the colonial government, or to a specially appointed committee, was abandoned, and in 1684 the constable, a locally elected official who with the sergeant had acted only in case of delinquents, became the regular tax collector, to whom all payments were made. In the same year it was also enacted that "if any person in any [of] the respective towns, have ought due to him, from the collony and desire to be paid either out of his own rate and the rate assessed in the town where he dwells", he was to secure the magistrate's approval of his account and the constable was to "discount and offset so much."

Thus in 1684 the question of the selection of the official tax machinery, which had involved the fundamental question of home rule, was settled by a partial compromise. In ordinary cases the localities were free to select their own tax officials and thus local autonomy was preserved, yet in the last analysis the supremacy of the central government was maintained in its recognized authority to levy reasonable taxes in the same way that it passed other laws, and in cases of necessity, when the towns neglected or refused to act, to supervise the assessment and collection of its levies by officials of its own selection. At the time this arrangement seemed as reasonable as any that could have been devised, but the concessions then made to localism contained within them the seeds of future difficulty. Such difficulties could only develop as methods of valuation became important.

As questions relating to the selection of tax officials approached their final solution, methods of valuation had already become important topics of the general subject of taxation. Our discussion therefore naturally shifts to them.

The year 1680 was approximately a turning point in early Rhode Island history. It marked the end of the period during which the new form of democratic government may be said to have been on trial; it marked the time when the contest between localism and centralization ended in the practical establishment of the latter. The Indian war of 1675-76 had exterminated the hostile natives, and the king in 1679 confirmed to Rhode Island jurisdiction the whole southwestern portion of the colony which Connecticut had claimed, and as his decision was based largely upon priority of purchase from the Indians, all land titles thereby acquired a degree of certainty not before possessed. Thus the mainland portions of the colony were on the eve of a new economic and governmental development.

In the earlier years of the settlements when all property was comprised in the crude and tangible forms of an agricultural people, every citizen could know the wealth of his companion. Self-assessment and self-valuation would be likely to result in equity. As late as 1650 both

Providence and Portsmouth levied taxes on livestock only. They next taxed lands and cattle, and as late as 1679 these two forms of wealth comprised the total ratable estates of Providence. In Portsmouth in 1687 the list of taxable property included only "Inclosed Lands, Cattell, horskind, Sheep and Swine above one year old". In Newport, as we have already noticed, taxes were assessed according to both "strength and estates", and it is probable that here the taxable valuation of "strength and estate" began to be based on other forms of property than lands and cattle. That taxable wealth was not confined to land and livestock elsewhere we know from a list of personalty which the assembly ordered to be inventoried in Westerly in 1671. Personal estate included "houses, household stuffs, goods, cattle, horsekinde or any other chattels whatsoever". Until 1673 the colony left all matters of valuation to the towns, and it had been the custom to set a fixed value upon all kinds of property, live stock being valued according to age at so much per head, from £2 to £4 each for a horse or cow, 6d. to 4s. for swine and goats, and meadow and planting land at £3 to £4 per acre. At other times a specific tax was levied on specific forms of property, varying according to the amount required to be raised from 1d. to 6d. on each four year old ox or two year old horse, and about the same rate per acre of arable land. The method was reasonably equitable and simple in operation. The lack of equity lay not between individuals of the same town, but, owing to the method of apportionment of state taxes among the towns by guesswork, between individuals of different towns.

In the year 1672 the "Assembly considering the great dissatisfaction and irregularity that hath been by makinge rates or raisinge a common stock for public charges and the necessity there is for public charge to be borne and the justice it should be done according to equity in estate and strength", passed a law directing that every one should be informed when a rate was made and should be required to make a true valuation of "theire estate and strength, every thing that is any estate to them be valued which they are not rated for to another place". Estates were to be valued according as they would "be worth to pay debt in old England", *i. e.* about one-half of the local value, and taxes were to be paid in country pay.

The tax law of 1672, however, besides fixing property values for purposes of taxation at fifty per cent. of its sale value and requiring an individual and personal valuation, directed that taxes should be laid on this valuation at so much in the pound. The act was, therefore, complicated and permitted evasions. Only one tax seems to have been assessed under it. But some months afterward, "under severall pretences few or none paid", and the towns were compelled to nominate two men each to go to each tax payer and "demand what their estates" amounted to and "take an account of the same". Ow-

ing to the Indian wars the next tax does not seem to have been assessed until 1678, when the towns were empowered to make or to appoint freemen to make "an equal rate according to their best understanding amongst the freemen and inhabitants of each respective town". Portsmouth and Newport appointed officials to rate the property of the towns, but ratable estate in the former town and in the mainland towns seems to have included only the kinds of property previously reckoned as such.

In 1690 Warwick petitioned for redress from overrating, and the assembly acknowledged that "the manner of rating towns by guess" was "no suitable rule", and determined that for the future all rates should be levied at "so much in the pound". A committee was appointed "to draw up some rule for apprising of lands or cattle, to be valued, to known men's estates by", but nothing was done by them. But by this time commerce and trade were developing rapidly. Wealth was no longer confined to livestock and real estate. The Newport men though engaged in legitimate commerce, made large gains by slave trading, privateering and smuggling, and some of the colony officials grew wealthy by conniving at such practices. Tax laws, therefore, were passed, specifically providing for valuing and assessing tangible property in the form of trading stock and other personalty in intangible forms. In 1695 a committee reported a "way for the rating all lands and meadows, and merchants, tradesmen and housings" so much in the pound according to value. Each town was to choose yearly two or three able and honest men to take the view of the "lands and meadows; and so to judge of the yearly profit at their wisdom and discretion; and so also of the merchants and tradesmen, and to make this part of the rate according to the yearly profit, or as they, where they shall have had a more narrow inspection into the lands and meadows, shall see cause to set by the acre". The three men were to order each person in the town to bring in the proportions of their estates which they were "to inspect and make their assessment accordingly". In the case of a colony rate the assembly was also to choose a commissioner to aid the three local assessors. The act provided for a specific rate on certain livestock. Later in the year a tax of one penny in the pound was levied and 1s. 8d. was laid on negro men servants and 10s. each on negro women servants. Under this law the sum of £146 18s. was collected, and in the following year a tax of two pence in the pound was substituted for a tax of £300. From these data the taxable valuation of the wealth of the colony seems to have been about £36,000, and as property was taxed at one-half its real value and doubtless some of it escaped taxation, we may approximately estimate the wealth of the colony in 1700 at £80,000 or £90,000.

This plan of direct taxation on individual wealth, as the ultimate

unit by the colony, instead of apportioning the tax upon the towns as the unit, though using the local tax machinery for the purpose, was followed in only two assessments, the second yielding only £219 of an estimated tax of £300. In 1698 the colony returned to the method of apportioning a tax among the towns, and no change has been made since that time. In this year also a poll tax, which had been first levied by Andros in 1688, was imposed by the colony on all males between the ages of sixteen and sixty. The attempt to reach tradesmen and intangible personalty seems to have been a complete failure. The commerce and trade which had developed between 1690 and 1710 was almost wholly confined to Newport. Of the twenty-nine vessels owned in the colony in 1708, all but two or three belonged in that town, and in the agricultural prosperity of the period Newport had had her full share. We should therefore expect to find Newport's portion of the state tax increasing rapidly. Such, however, was not the case. In 1690 twenty-seven per cent. of the tax was assessed on Newport. In 1698, immediately after the time when the assembly should have obtained some definite data from the individual returns required under the taxes assessed on individual wealth in 1695 and '96, it bore 28.12 per cent. of the taxes, but in 1707 its portion was only 28.5. On the other hand, Providence, which had no commerce and almost no tradesmen, bore 13.1 per cent. of the total tax in 1690, and 16.1 per cent. in 1707. Portsmouth's share had declined from 20 per cent. to 15.8 per cent., while Kingston, wholly agricultural, had increased its share from 9 per cent. to 17.5 per cent. All of the other towns except Westerly, which showed but slight change, bore a much smaller portion of the taxes in 1707 than in 1690.

But if between the towns some injustice continued, the efforts made in 1695 to reach all kinds of property resulted in a closer approximation to equity as between individuals within the towns. When the colony in 1698 returned to the gross tax system, it was specifically enacted that within the towns assessments and valuations should be made on the basis of property taxable under the law of 1695. In subsequent taxes this principle was followed, and in addition to the regular assessors and constables acting as collectors for some years, a set of officers called inspectors, or persons to take account of individual "stock", were appointed. By a law of 1704 the towns were required to elect three rate-makers annually, and they were empowered to administer an oath to those making the personal property returns required in the law, and in 1706, owing to some cases of embezzlement by the constables, the assessors were required to return copies of their rate lists, divided according to the precincts allotted to each constable, to the general treasurer.

In 1699 the laws intended to tax tradesmen were amplified so as to include non-resident peddlers and merchants. Inasmuch as they gath-



cred "up quantities of ready money" and carried "it off", but were not subject "to those charges the freemen and inhabitants are at", it was enacted, in order that the government might "receive some proportional consideration from them", they should pay 2 1-2 per cent. on the invoices of goods brought in by them for sale at retail. Merchants, factors and wholesalers paid at the rate of 1 per cent. In 1700 the rate was increased for peddlers to 5 per cent., and in 1701 non-resident merchants remaining in the colony one month were made liable to such rates as others (inhabitants) were subject to, with such modifications as the colonial authorities should think proper. The former taxes were local and were to be devoted to the poor and mending the highways and bridges. The law of 1701 may have applied to colony taxes only.

Exemptions from taxation seem to have been used as inducements to settlers in the colony of Massachusetts, as Bristol lands were exempted by the general court for seven years, but in Rhode Island the only exemptions of this period were the house, land and conveniences of the governor while he was in office. (Law of 1707.)

It is impossible to estimate accurately the proceeds of the various taxes until about 1695, partly because the administrative machinery was not sufficiently developed to enforce payment of them, partly because, although Peter Easton, General Treasurer, by order of the assembly began to keep a treasurer's book in 1672, the accounts are by no means complete and cannot be balanced, but chiefly because owing to the scarcity of English and New England money many transactions were carried on in terms of the Indian money, peage, until 1662, when it was declared to be no longer legal tender, and subsequently until near the end of the century largely by processes of barter. From 1662 until 1695 taxes were assessed in terms of New England silver. The colony taxes assessed, however, between 1647 and 1664 reduced to "country pay" aggregated £1,200. From 1664 until 1700 the nominal sums assessed in various money media amounted to about £4,450, while from 1700 until 1710, when all taxes were assessed in terms of money, they amounted to £11,700. Until 1690 taxes were frequently unpaid, as we have already seen, for many years. But beginning in 1695 they seem to have been collected with comparative promptness, owing to the improved administrative machinery, and with comparative ease, owing to the increase of wealth. Of a tax of one penny in the pound, amounting to about £150, assessed in October of that year, £146 18s. was collected within the time limit. Of a tax of £400 assessed in March, 1701, and payable before October 20 of the same year, £380 17s. 2d. had been paid by July 2.

The cost of collecting the taxes was not great as long as the system of voluntary assessment and payment was operative, but soon became

large. From 1684 the constables received two shillings in the pound for collecting. The inspectors and assessors had wages from 1695 at the rate of two shillings six pence a day, but by 1703 the constables' fees were reduced to one shilling in the pound. There were also fees of the town clerks for copying the rate bill and fees of the treasurer for receiving and paying the tax of from one shilling in the pound in 1695 to six pence in the pound in 1705. The colony paid for "inspecting", assessing and collecting £750 of the £800 rate of 1698, £108 7s. 8d., of which £37 10s. was the treasurer's fee. The additional fees for collecting the remaining £50 amounted to £7 10s., making the total cost £115 7s. 8d., or over fourteen per cent. of the tax.

The excise on liquors and the license for the sale of them were matters of social rather than fiscal importance. The dangers to the peace of the community caused by the sale of intoxicants to the Indians resulted in numerous and severe laws, the fines for breach of which were greatly in excess of the rate of license. Three to twenty shillings was not an unusual penalty, while the rate of license varied from one to ten shillings.

The code of 1647 gave the towns authority to license ale houses and taverns, and though Newport and Portsmouth issued such licenses, Providence seems not to have done so. In 1654, in addition to the money payment for a liquor license, the duty of providing entertainment for strangers was imposed on such as sold liquors. The local license rate was left to the towns to fix, but in 1655 the assembly enacted an excise law providing for an import duty of five shillings on every anker of liquor and every quarter cask of wine. All liquor must be entered or recorded, and the fee of the town clerk for recording was three pence per anker. The towns were, however, given authority to provide for greater excise rates at their discretion, and the excise duty, like the local license, was paid to the town treasury for town uses. An attempt was also made at this time to limit the price of liquor to four shillings a quart, but on complaint of the "ordinarie keepers" the price limit was removed. The rate of excise on liquor was reduced in 1669 to ten shillings a hogshead, or less than one-half the former rate, and that on wines to ten shillings a pipe, or about one-fifth of the former rate. The fees for entering were approximately the same. But neither the excise laws nor license ordinances were enforced, and in 1674 the excise was taken from the towns and appropriated to the colonial treasury. For the more "effectual performance" of the laws, it was then farmed out to local collectors. This law seems to have been equally inoperative, and in 1686 all laws relating to excise, to selling liquors to Indians and houses of entertainment, were repealed. With the beginning of activity in commerce and the increasing needs of the treasury in 1696 excise was again imposed on all liquors imported from

foreign places.<sup>1</sup> The proceeds of the duty were to be "improved" by the governor "for the collony's use". Capt. Samuel Cranston, afterwards governor, was appointed collector of the duty and had ten per cent. for "receiving and paying."

In 1680 the failure of some of the towns to enforce the license laws led to the transfer of license powers from the towns and town magistrates to the town councils, and as in some towns (Providence) the taxes paid for licenses were appropriated by, and in other towns (Portsmouth) were voted either in whole or in part to, the members of the town councils who had previously served gratuitously, the laws were more strictly followed.

The first general assembly in 1647 passed a reciprocity tariff law, providing that all "Dutch, French or other Alliants or any Englishmen inhabiting among them" should pay "like customs and duties, as we doe among them", for all goods except beaver, but the law was not enforced, and no other customs duties except on liquors and negroes seem to have been exacted until near the end of the colonial period. A duty of £3 per head was laid on negroes in 1708. The price of negroes was from £30 to £40. The duty therefore was about ten per cent. The number imported seems to have been about twenty-five a year; the income should have been in proportion. The law, however, seems to have provided no penalty for failure to notify the collector of the port or the naval officer, and so "the good intentions of the act were wholly frustrated" until a more stringent law of 1712 provided fines, penalties and methods of search for failure to make reports to the official of number, age and sex of the cargo.

In accordance with the acts of Parliament relating to trade and commerce, a naval officer was established in Newport in 1682. All masters of vessels were required to pay for the entry and discharge of their vessels at the rates of 2s. 6d. for vessels under forty tons, and 5s. for vessels over forty tons burden. With the beginning of commerce, however, and the need of forts and lighthouses at the entrance to the bay, laws exacting specific tonnage duties were enacted. The first bears date of 1690 and imposed a charge of one shilling or a pound of powder per ton on all vessels owned outside the state having over ten tons burden. The money was to be used in supporting a magazine or powder house for the Island's use, and later (1701) for fortifications in the town of Newport. In 1704 coasting vessels carrying grain or provisions were exempted. Presumably some of these duties were collected as fees were provided for the officers. The treasurer had a slight income from rental of ferries across waters lying without town bounds. Within town limits the town of Providence directed the

<sup>1</sup>The rates were ten shillings to twelve shillings six pence, according to quality for wines. The rate for brandy, rum and other distilled liquors was one penny per gallon; molasses paid a duty of one-half penny per gallon.

prices of ferriage. The free transportation of magistrates, deputies and jurymen was the first public exaction required of those in the ferry business. In 1700 Josias Arnold, his heirs and assigns, were granted a seven years' monopoly of public ferriage between Conanicut Island and the mainland, at a rate of £2 10s. a year. Subsequently other ferry lines were established in other sections and the usual annual rate of rental was £4.

There was a slight income also from the sales of lands belonging to the colony, but there is no record of the amounts received, and in 1705 they were devoted to paying the expenses of the proposed Canadian Expedition.<sup>1</sup> The greater portion of the lands in the colony belonged to the four original towns, or to the proprietors and purchasers in them, and the proceeds of the sale of such lands went to the towns themselves. But the proceeds were small in amount, as most of the land in Portsmouth, Newport and Providence was granted to successive newcomers at the same price contributed by the original settlers; namely, two shillings an acre.

During the first half century fines and fees provided the most important part of the ordinary income of the towns and the colony. The towns fixed the fees of local officers, the colony those of the general officers. The amounts of fines were fixed in the same way, but the officials seem to have rendered no accounts of them. There is no record of the amounts of fees received, but they pertained to every local and colonial office.

It is suggestive of the peculiar mixture of despotism and freedom, that this nearest approach to real democracy that the world had then seen should have been of necessity accompanied by a system of heavy fines for failure to exercise the privileges and to perform the duties of citizenship. During the first few years, when local affairs were still managed by the original proprietors' corporations, and when the idea of unanimous and voluntary consent rather than majority vote seems to have been thought necessary to validate a law, penalties were exacted not only for absence from town meeting, but for being late or departing without leave, and the fines varied from one to two shillings—the latter being the price of an acre of land. When at a later period government had advanced one stage, and a majority vote and the establishment of a legal quorum facilitated public business, these fines were abandoned. Failures to perform public service were usually punished by fines, at first of an amount equal to the annual income of the office. Those refusing to serve as town magistrate or colonial deputy were fined £5, while the fine for refusing to serve as constable

<sup>1</sup>A survey was made of the Narragansett and Kingstown lands in 1707 and within the next two years about 80,000 acres seem to have been sold, part of them at the rate of 8d. per acre.

or sergeant was £4, but excuses were plenty and in many cases the penalties were remitted while in others it was impossible to enforce them.

Fines for non-performance of official duty seem to have been most frequent in the cases of the deputies and jurymen, the former paying three shillings per day, which was their rate of pay, and the latter at the rate of £1 for the term of court during which they should have served. Later the fines were increased to double daily wages received by the deputies. Fines for breach of the peace were usually devoted to paying court expenses, but in 1702 all goods and sums of money forfeited to the colony by judgment of the court were appropriated to building fortifications and a battery. It is probable that this law applied especially to the judgments in the admiralty court.

The sorts of income already described furnish a key to the character of both local and colonial expenditure during this period. The limited scope of the state function confined ordinary colonial expenditures wholly to payments for personal service. Until 1705 the colony took little share in public improvements, but left the care of highways and bridges, to which such improvements were confined, to the towns. In some of the unincorporated and outlying districts, such as Conanicut Island or the Narragansett Country, the colony authorities directed the layout and supervised through its own appointees the construction of necessary highways, but the charges were laid wholly upon the surrounding proprietors of lands. In the towns, both before and after incorporation, such functions broadened the scope of public expenditure, but as highways in Providence were maintained by adjoining land owners, and as the only important bridge seems to have been built by Roger Williams, partly assisted by voluntary subscription and for a short while was maintained by him partly from tolls exacted from non-residents and contributed by residents, neither caused any considerable public outlay. In 1699, with a view to aiding the postal system, established in that year, town councils were authorized to lay out highways as post roads and to submit their returns to the general assembly for approval.

The other extraordinary expenditures of the towns were confined to building pounds, occasionally stocks, and in this period to the prison built in Newport, after many years of ineffectual effort on part of the colony to have at least a "cage" in each town. Not until 1695 was a prison begun in Providence. In Providence and in Portsmouth as well, the fees of the sergeant or town sheriff were soon supplanted by wages, and the chief taxes levied were for the sergeant's wages, "house rent" and the poor—"house rent" being the money paid for the use of a room for public meetings—usually that of the leading local tavern-keeper. The maintenance of the poor was not a large item of expense, as but few during this period became chargeable—only those being

admitted to settle in any town who after rigid scrutiny were seen to be possessed of sufficient property to care for themselves.

Military service was required of all between the ages of 16 and 60, and besides the cost of powder, shot and his matchlock each soldier was required to train a few days annually. When actual military service was demanded the colony paid the cost of maintaining the forces. In 1676, during the Indian war, Arthur Fenner was commissioned as captain in command of the Providence garrison, consisting of seven men with wages of "six shillings a week a man, money pay"—the captain had double pay. In a military law of 1701 all housekeepers, including widows, were required to furnish one man or pay for one. The fines imposed for neglect of duty were devoted to the use of the train bands at first, but in 1676 they were appropriated to paying for colors and drums.

*fines*

The expenditures of the colonial government, even more than those of the towns, were payments for personal service. The honor attaching to colonial service seems to have deprived it of that compulsory character which attached to local service. Of the general officials the governor and assistants, being not only legislative but judicial officers, received only the fees attached to their latter duties until 1695. In 1650 the deputies, then officially known as commissioners, were allowed 2s. 6d. a day by the respective towns which they represented, and the next year the rate was raised to three shillings. Jurymen at first received 1s. 6d. a day, but in 1655 they were allowed 2s. for each case. With the impulse toward stronger government which occurred about 1670 there was a change made toward increasing the pay of the members of the general assembly, the aim being partly also to secure thereby increased attendance—an end which the imposition of heavy fines had failed to accomplish. In that year the treasurer began to receive one shilling in the pound on all taxes paid in provisions, but he had no commission on taxes paid in money or on fines, and in 1672 the assembly that passed the sedition law provided for payment (presumably by the colony) of the governor, deputy-governor, assistants and deputies, by day wages at the rate of 6s., 5s., 4s. and 3s. respectively, but at the following session this law, like the sedition act, was repealed. Again in 1679 the deputies and assistants were encouraged to attend to their official duties by an order providing that their expenses for "diet and lodging" during their official service should be paid from fines and forfeitures, and in the same year a bill for twenty-two shillings for the convivial entertainment of the members of the assembly was ordered paid. In the following year they were allowed only seven shillings a week for their necessary expenses. The November session of 1685, in view of the "thinness" of the assembly, voted an annual salary to the governor of £10, which was raised at

various times until 1701, when it was fixed at £40; gratuities were frequently voted to him, sometimes amounting to sum as large as his annual salary. In 1695 also the deputy-governor and assistants were allowed salaries of £6 and £4 respectively. The deputies were thenceforth to be paid by the general government. The payment of these salaries and day wages was not always prompt. Of the governor's salary £19 was paid in 1699. Many of the assistants were creditors for three years' salary, and although in 1698 the towns were again ordered to pay their deputies, the latter in 1699 were paid £125 8s. 9d. of wages which seem to have accrued during the two years 1696-97 and the first five months of 1698. After a change to payment by the colony again in 1703 towns were finally in 1706 required to pay their deputies.

The general sergeant or high sheriff was then as now one of the most highly paid officials in the service of the colony. In 1673 his bill for salary and fees was £27 18s., and the assembly declared that the "debts of the collony are very much by reason of the sergeant's great wages". In the future he was to receive only 3s. a day for attending on the assembly and fees only for attending on the courts of trial.

The cost for the agent who was employed in England to care for the colony's interest was a heavy charge. In 1700 he received £80 a year and expenses, and in the same year he drew on the colony for £270. The salary was reduced later and in 1708 Wharton, who had succeeded William Penn in the duties of agent, was allowed £80 a year including ordinary expenses.

A clearer picture of the finances of the period can be had by reference to the treasurer's book which Peter Easton bought in Boston for fourteen shillings in silver in 1672. The transactions of the colony were previously kept on loose sheets of paper. Easton kept a system of quadruple entry, the first column containing "What is to pay in", the second "What is paid in", the third "What is to pay out" and the fourth "What is paid out". Accounts were kept in terms of English coin, New England silver and country products. English coin was valued at double the local value of products, while Boston silver was valued at one and one-half times the nominal value of products. Captain Morris received for serving dinners to the grand jury, 21 1-2 pounds of pork and veal and 41 pounds of pork. Walter Nuberry for similar service was paid 9s. in the form of "meat, buter and eggs", while Henry Palmer for auditing the treasurer's accounts received 136 pounds of pork. Of 20 shillings expended for refreshment of the members, 16s. 4d. was paid for wine and brandy. The executioner of the Indian Punnean and one Thomas Cornell received £2 for each service, and 16s. was expended for "rum" for the guard. A messenger to Plymouth received £2 5s. and two "posts" were paid £1 10s. for bringing news about the Hollanders from Boston and Plymouth. The transportation of members from the mainland to the island cost £2 11s.

During the period from the third month, 6th day, 1672, to the eighth month, 28th day, 1675, the total payments, of which these are typical instances, seem to have been £96 6s. 3d. The treasurer seems to have received during the same period £94 1s. 10d., of which £63 12s. were fines, £14 15s. were received from the forfeited estate of the murderer, Cornell, and £16 14s. 10d. from miscellaneous sources.

The books of the treasurer were not balanced annually, but accounts were kept with each separate tax until after 1700. The expenditures of the period can be illustrated by the payments made from the £800 rate for general purposes. The period covered is from January 19 to October 12, 1699.

	£	s.	d.
Salaries .....	322	00	09
Fees for assessing and gathering rate including £37 10s. treas. commissions and auditing £2 14s....	110	10	8
Military services including Block Island £75 06s....	90	1	
Entertaining Lord Bellomont.....	74	15	4
Entertaining Connecticut men.....	19	07	
Wolf bounty .....	16	10	
Transcribing laws.....	12		
Physician's services for soldiers.....	8	10	7
Dinners .....	5	07	
Pension to soldier's widow.....		10	
Miscellaneous .....	100	09	8
Still due from towns.....	39	18	
	£800	—	—

Rhode Island took no part in the world-wide wars previous to 1702, her exposed coast, especially the situation of Block Island, requiring that the whole of her expenditures in service and money should be devoted to protecting her own territory. In Queen Anne's war considerable sums were spent and for many of the years 1702-10 the taxes on Block Island were remitted because of heavy military expenses. The Queen's tenths of Captain Wanton's prizes, amounting to £170, were expended in 1703 on great guns and other utensils of war. Weston Clarke in 1705 reported to the English government that £6,000 had been spent in the previous seven years for military and other governmental expenses, and of this sum more than one-third seems to have been devoted to the former purpose. A fort mounting fifteen guns was built on the island in front of Newport harbor for which taxes were levied amounting to £700. Governor Cranston stated in 1708 that the cost of the Block Island garrison was about £100 a year and the treasurer's accounts confirm the assertion. During the active period of the war 1708-10 the cost of the soldiers at the fort was about an equal sum. The colony equipped and maintained 200 men for



more than four months in 1709 for the intended expedition to Canada, at a cost of £2,238 12s. 8d., and £840 paid for the two sloops, *Diamond* and *Endeavor*, subsequently resold for £461. When in July, 1710, the expenditures for the Port Royal expedition reached £5,033 19s.<sup>1</sup> the colony voted to issue £5,000 bills of credit, and a new phase of financing was entered upon.

The attempts of Dudley to interfere with the charter rights of the colony in 1702-1705 caused heavy legal expenses for the agent in England, and during the years 1699-1708 about £1,500 seems to have been paid to Jahleel Brenton, William Penn and William Wharton for that purpose.

An approximate estimate of the general uses of taxation during the sixty years 1650-1710 can be had by reference to the fact that taxes were usually laid for some specific object, and, except in one or two cases, carefully applied to that particular purpose. Of the £17,300 levied, £3,920 was devoted to diplomatic service abroad, £6,200 to military purposes, £450 to public buildings and £6,730 to general purposes.

In the years 1698-1702 the average annual expenses of the colony were about £550; in the three years 1709-10-11 they averaged over £4,250.

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## PART II. 1710-1800.

### *The Colony as a Banker.<sup>2</sup>*

During the period of agricultural development, the meager financial transaction of which we have just traced, exchanges of goods between individuals were made by processes of barter and by means of peage and gold and silver coins of England, Spain and Portugal, but the standard of value and the fundamental money of account was gold and silver of the weight and fineness of New England coin. These coins were worth about three-fourths as much as the corresponding English coin. A brief account of the money media of the first two generations of settlers therefore will furnish a fitting introduction to the period 1710-1800, when the subject of money was the chief economic and

<sup>1</sup>In the next year upwards of £3,500 more was spent for the same purpose.

<sup>2</sup>The sources for this period are the Rhode Island Colonial Records, vols. iv-x; the acts, resolves and reports of the general assembly; documents, reports and letters in the archives of the secretary of state; American state papers, volume on Finance, account books of the treasurer; newspapers of Providence and Newport beginning in 1763; Staples's R. I. in the Continental Congress; the works of Paine, Hamilton, Madison and the *Federalist* and the letters of Robert Morris.

As to paper money and lotteries, see especially the Providence Town Papers.

political topic of discussion, when taxation was almost wholly resorted to as a war expedient and when, in the issue of paper bills of credit, the colony itself performed some of the functions of banking.

In the earliest days of the settlements coin was scarce, partly because its exportation from England was forbidden, partly because the colonists had little money to bring with them when they came, and partly because the products of the country did not suffice to pay for the goods imported and the local stock of the precious metals was exported to balance the foreign trade. Rhode Island seems to have followed the precedent set by Massachusetts in declaring peage a legal tender, and the early government of Newport and Portsmouth, as we have seen, had used corn as money. Under clauses of certain tax acts also agricultural products and livestock were received at stated prices in payment of public dues. Usually the prices set for such articles were those current in the local market, but at times products were overvalued and the treasury was filled with goods which could only be sold at a loss. Articles received in payment of taxes were kept in the colony store-house and the treasurer was not inaptly known as the "keeper of the public stock". The law that the cheaper money invariably drives the dearer from circulation was early illustrated by the tax paying money quality conferred upon products. As such products were receivable at fixed prices, according to measure or weight, the tax payers turned in only inferior qualities in payment of public dues. "Lank kine" were barred by law in Massachusetts, but in Rhode Island the thrifty citizens at times paid their taxes in goods that were "not merchantable."

The Indian money first used was called peage, wampum and wampumpeage, but was of two sorts only—the black, properly called wampum and the white properly called peage. The black wampum was made from the dark eye of the quahog shell and the white peage from the thick neck of the perrywinkle shell. Each piece of shell was disc shaped or tube shaped, about an eighth of an inch in diameter, a hole being bored through the center to facilitate its use in strings or for embroidery. The edges, both inside and out, were rounded and the whole surface was more or less polished. The so-called "black peage" seems to have been rather dark blue, purple or variegated purple and dark reddish in color, and probably there was no black peage until counterfeiters began to dye the white peage black in order to enhance its value. For the purpose of large transactions the discs were strung together, 360 constituting a fathom. Wampum was twice as valuable as peage, the shell of the quahog being more scarce and more difficult to work than that of the perrywinkle. The Narragansett Indians were most skillful makers of this money. Rhode Island and the eastern end of Long Island were the centers of production, and peage was used as far west as the country of the Mohawks. To the

Indians it was both a money media and a means of ornament, just as silver and gold were among more civilized peoples. "With it", says Lawson, "they buy off murderers, and whatever a man can do that is ill, this wampum will quit him of and make him in their eyes good and virtuous though never so black before". By means of it when sewn or strung together on belts in imitation of their picturesque language they preserved the most sacred records of the tribe. Thus peage had many of the qualities of real money. Among the aborigines its value was fixed partly by the cost of production and partly by the demand for it to satisfy their desires. To the colonists, however, it was rather a representative money. It had value to them chiefly because it could always be exchanged for furs, and was therefore redeemable in an article of useful and salable merchandise. Among the Dutch traders a beaver skin was at first worth 960 peage and in Massachusetts about six shillings per pound, which was approximately an equal price. Probably nearly the same value prevailed in early Rhode Island. Williams says that a fathom of white peage was at first worth ten shillings, that is, three for a penny; but by 1647 a fathom was valued at five shillings seven and three-fifths pence. Other records would indicate that peage was reckoned at the rate of three black or six white for an English penny. As early as 1649 the decline in the beaver trade had begun. The skins fell in value, and as they were the basis of the value of peage among the English, peage fell in value also. The commissioner's court declared that peage should be rated at four and eight per penny for the black and white respectively. In 1662 wampum had fallen so low in value that the general court declared it no longer legal tender and directed fines and forfeitures to be thereafter paid in current pay. Nevertheless peage continued to be received in local public dues and to be used among individuals for many years.

The periods of the paper money issues may be roughly divided according to the technical name of the kinds of money emitted. The first period lasted until 1740, when new tenor bills were first issued and all previous issues were called old tenor bills; the second period lasted until 1756, when the first issue of lawful money bills was made. The third period lasted until 1786, the date of the last issue of paper money.

The latter part of the seventeenth century was a period of widespread financial unrest and to England, involved in the costly wars on the continent and struggling for commercial supremacy, the value of a well-defined monetary system was of the highest importance. But while the transition from the system of barter economy of the middle ages to the modern system of money economy was nearly complete, banks having been already established in Genoa and Amsterdam, the nature of the new system was not clearly understood. England was

wedded to the "Mercantile theory", which emphasized the money forms of wealth and a favorable trade balance. The exportation of coin was prohibited. The landed interests, in bitter antagonism to the merchant classes, whose rising power they could not check, dallied with the notion of paper money issued against landed security by private companies, and King William himself, in 1696, subscribed £5,000 to a land bank scheme in which the notes were to be issued to the full value of the land pledged.

Thus the scarcity of coin as a money medium, noticed in Massachusetts in 1650 and in Rhode Island a few years later, was not an isolated phenomenon. With the true spirit of Mercantilism, many of the colonists attributed the absence of money to an unfavorable balance of trade, but instead of trying to remedy that condition by increased industry and decreased consumption of foreign products, they sought to stop the natural exportation of the precious metals by debasing the coinage. This was one of the reasons for the fact that under the mint act of Massachusetts of 1652 the value of the coins struck was about three-fourths of that of the corresponding English coins.<sup>1</sup> This attempt to prevent the exportation of coin as well as other laws passed by Massachusetts, giving legal values to foreign coins in excess of their bullion value, was a failure. In 1686 the paper money advocates first issued a private bank, and in 1690 the colony issued bills of credit to pay the expenses of the expedition to Canada. The bills at once depreciated to about two-thirds of their value, but legal tender laws were soon passed. In 1692 the bills were receivable for public dues at five per cent. premium, and their redemption was promised in one or two years. By these means they were raised to and maintained at about par. Thus England and Massachusetts had run the whole course of financial experience previous to 1700, and by 1710, when Rhode Island first issued paper money, New Jersey, New York, Connecticut and South Carolina were added to the list.

In 1704, at the request of Queen Anne's government, Sir Isaac Newton assayed the coins then current in colonies and set the value of the Spanish milled dollar at 4s. 6d. sterling or 6s. New England currency. Governor Cranston, when requested by the Board of Trade to legalize these values of foreign coins, explained that the trade of Rhode Island was so closely related to that of Massachusetts that the colony could do nothing effectively until the assembly should learn

<sup>1</sup>The following facts will be of value to the reader in converting the various money media during this period: An ounce of silver was worth in the sterling coin of England 5s. 2d.; in New England coin 6s. 8d.; the par of exchange between New England and old England was 133 1-3 to 100. The Spanish silver dollar or piece of eight was worth 4s. 6d. sterling and 6s. New England coin. In converting lawful New England money into Spanish dollars calculate 3 1-3 dollars to the pound. The Spanish silver dollar was worth a little more than \$1.07 of the present United States standard.

what attitude the neighboring colony intended to adopt toward the request. He claimed that Rhode Island bought foreign goods from Massachusetts annually worth £20,000, and if the statement is approximately true the drainage of coin from the local field must have been very considerable in amount.

Although, therefore, the more intelligent members of the community at least must have known of the evil economic effects of a depreciating currency, yet, when in 1710 the colony took an important part in the operations against Canada, the expenses arising in connection with the expedition and the alleged scarcity of currency furnished somewhat plausible economic grounds for the first issue of bills of credit. At the July session of the general assembly in 1710 the first issue of £5,000 bills of credit was authorized; at subsequent sessions in the same year £2,000 more were ordered, and in the following year £6,000 more. The laws authorizing these issues or soon passed as amendments to them, had they been observed, would have gone far toward maintaining the bills at or near parity with coin. The bills were made legal tender for all payments public and private except where "specialities" or other specific forms of payment were agreed upon. They did not bear interest, as did some of the Massachusetts issues, but by an act of October they were receivable for taxes at five per cent. premium; they were redeemable at the end of five years and the funds for their redemption were to be raised by taxes payable £1,000 each year. But the specific and implied pledges of the laws were unavailing. The taxing power of the central government was weak and those who possessed property, doubting both the colony's ability and intent to redeem the bills, received them only at a discount. Their suspicions of the integrity of the legislature were soon confirmed. The marvelous art of enriching one's self by running into debt was contagious and no sense of moral obligation availed to restrain the general assembly when once its members had tasted of the sweets of inflation. In any new community the debtors usually outnumber the creditors and the law making body here soon began to feel their influence. The first tax of £1,000 levied to redeem a portion of the bills was due on June 30, 1711. At a session of the assembly, convened on the 28th of that month, the tax was ordered to be used for the expenses of the second expedition to Canada. The taxes due in 1712 were delayed and in 1714 those of Providence and Newport had not been paid. Meanwhile the monetary question had become political. By 1713 distinct political parties were formed of those in favor and those opposed to fiat money. In that year a Providence town meeting issued a vigorous protest against the further issue of such bills. Queen Anne's war was over, and the hard money party then in power made some efforts to redeem the emissions. Unused military stores were sold and a proposition to burn £500 made by the house of deputies was laid aside pending an audit of

the treasurer's accounts. Repeated votes were taken in favor of burning some of the bills, but the committees, to which such matters were entrusted, and the treasurer himself were negligent. The assembly finally ordered £2,000 burned on April 1, 1714, but, although the audit in 1713 had found a balance in the treasury of £2,900 and £1,000 due from taxes, only £655 8s. 6d. were now on hand, and this sum, with £447 due from the sale of stores and ships, a total of £1,100 8s. 6d. was burned in the presence of the assembly in June. Thus of the £4,000 which should have been redeemed, only about one-fourth part was "sunk" at the time and no further taxes were levied for redemption purposes. In 1715 the paper money party was successful at the polls. All coins had disappeared from circulation by 1713. In 1710 silver bullion had been worth eight shillings New England standard an ounce; in 1715 an ounce of silver was worth over twelve shillings paper money; in 1711 exchange on England had risen from its par of 133 1-3 to 140 in Boston.

The struggle between the landed and trading classes then prevailing in England had its counterpart in New England. Massachusetts had issued its first bank in 1714.<sup>1</sup> South Carolina had issued a bank in 1712 based on both land and personal property. The success of the landed paper money party in Rhode Island in 1715 gave to it a control of the financial system which was maintained for over fifty years. Two issues of bank notes, amounting to £40,000, were authorized. Bank notes differed in many ways from bills of credit, although the face of the bill and the note were the same and both were colonial promises to pay. The bills had been issued to meet the demands of the treasury; the notes were issued and loaned to individuals on mortgage on lands appraised at double the value of the amount loaned. Borrowers were to pay five per cent. interest. The interest payment was not covered by the mortgage, but was secured by a personal bond of the borrower. The notes were legal tender; they were to be redeemed in ten years by the borrowers, and the law provided for the inspection of titles of mortgaged land and the renewal of both mortgage and interest bonds at the end of five years. The notes were apportioned among the towns according to their last tax assessment and loaned in sums not over £500 nor under £50 to each individual. They seem to have been subscribed for by some of the leading citizens of the colony. The interest on the notes, amounting to £2,000 annually, was to be used one-half for redeeming the outstanding bills of credit and the remainder for public expenses.

<sup>1</sup>In the present discussion bills of credit or the term bills will be applied only to the issues of bills by the colonial government and based only on the government's promise to pay. Bank notes or notes will be applied only to notes issued by the government to private parties on pledges of mortgages on real estate.

This venture in financial legerdemain had many advantages over an issue of bills of credit. The colony, with no available assets except a few public buildings, with no available income except from fines, which seem to have yielded in 1717 the sum of £1, and small amounts received from tonnage dues and the sovereign power of taxation which it could not then enforce, loaned its promises to pay to individuals at five per cent. interest and thus got an income from its debts. The government of the merchant classes, which had found it difficult to redeem its pledges with regard to bills of credit, now in the hands of inflationists, began to assist those who had borrowed from it in violating the terms of their agreement to pay. A requirement that the loans should be paid in the issues of the notes borrowed had obvious advantages, but it would not have suited the purpose of those who expected to pay their debts without labor. This section of the law was, therefore, repealed, and payments were allowed in the current money of New England. In 1724, the year before the mortgages were payable, the method of payment was changed to five annual payments with interest, and though in 1728 many had already paid portions of their principal, the payments were refunded and the method of payment was again changed to ten annual installments without interest. The bonds pledged for such payments were called "tenth bonds". Thus the redemption of this issue of notes promised in ten years was deferred for twenty-three years and then not completed. The collection of interest was more difficult than the collection of the principal, as the former was secured by a personal bond only, and the leniency of Rhode Island law toward debtors rendered legal process against them difficult to enforce. Borrowers not infrequently sold their mortgaged land and departed from the colony, thus leaving it without means for enforcing its claims for interest. In 1738 purchasers of mortgaged land were therefore required to give bonds for the payment of the interest; otherwise the mortgage was to hold for interest as well as principal and the subsequent laws providing for the issues of notes required that the mortgage cover both interest and principal.

To prevent counterfeiting, bills and notes were numbered and indented. Indenting a bill was a process of printing a scroll across the upper margin of it, corresponding numbers being printed both above and below the scroll. The scroll was then irregularly cut through, usually by shears, and the upper piece retained in the treasury; the bill with its irregularly indented edge being sent into circulation. Bills which when presented for redemption did not correspond to the portion of the scroll retained by the treasurer were declared counterfeits. When counterfeits became numerous it was necessary to call in the whole issue of the counterfeited bill and reissue it in another form. The indented bill was used in all issues until 1738.

The bills of credit of 1710 and the bank notes of 1715 are typical

issues of the first period of paper money issues. The assembly never lacked an excuse for a new issue and the reasons assigned in the preambles of the various acts of emission but thinly disguised the real sentiments of the advocates not only of cheap money but of constantly cheapening money. The colony was in debt; the colony house was out of repair—and to judge from the frequent mention of it, it must have been in a chronically dilapidated condition; previous issues were about to be retired; there was a scarcity of small change; a more plentiful money medium was necessary for the encouragement of trade; the



RHODE ISLAND PAPER MONEY, 1738.

fortifications, a subject dear to the English authorities, needed rebuilding, for though a state of war did not exist the imaginations of the Rhode Island legislators readily anticipated one in the near future and preparation for it was important. Changes were rung on these and other excuses *ad nauseam*.

The bills and notes were not, however, all issued for public purposes. That paternalism of government which was normal to the teachings of Mercantilism found here its illustration in a system of assistance to



industry by means of bounties. In May, 1721, a loan of £200 was made to Samuel Bissell, a blacksmith of Newport, for "improving the nail trade". In the same year £40,000 bank notes were emitted, and hemp at 8*d.* and flax at 10*d.* per pound were receivable in payment of the interest. In the following year an exclusive bounty on duck was granted to William Borden at the rate of £1 for every bolt. Subsequently Mr. Borden got a loan of £500 for three years with interest, and later another loan of £3,000 for ten years without interest. A bounty on hemp for seven years had been provided by a law of 1721 and it was renewed in 1728. The interest of a bank of £60,000, issued in 1728, was devoted to paying bounties on hemp, flax, whale oil and whalebone. At this time Newport was largely engaged in commerce and ship building, and such measures must have tended to conciliate the commercial interests of the state which were opposed to fiat money. Shrewd political moves on part of the paper money advocates were numerous. One-half the interest of a £40,000 bank issued in 1721 was refunded to the towns "to improve as they shall think fit in the management of their prudential affairs". The interest of the two £100,000 banks, emitted in 1733 and 1738, after providing for a few specific objects for a year or two, was divided equally between the colony and the town. In this way from 1722 to 1748 sums varying from £1,000 to £2,900 were annually legislated into the town treasuries. The legislature, however, seems to have been as unable to fulfill its agreements in this matter as it had previously been in regard to other similar engagements. In 1735 of the £2,500 due to the towns only £956 18*s.* 6*d.* were paid.

From time to time the colony also emitted small sums of bills for treasury purposes. There were also large amounts issued to withdraw counterfeited and old and torn bills from circulation, and as the amounts ordered for these purposes were usually the amounts of the original issue of the denomination in question, while the amounts actually redeemed fell short of the original sum, there was always a large excess of such reissues left for treasury uses. Of an issue of £46,634 in 1726 to redeem counterfeited bills only £30,383 had been called for by 1739 and the surplus in the treasurer's hands was £16,251.

Between 1710 and 1739 inclusive the colony authorized £22,300 of original issues of bills of credit; and £380,000 of original issue of bank notes and it issued £94,701 to redeem counterfeits and old and torn bills and notes—a total of £497,001. During the same period the sum burned was £105,704, leaving outstanding in 1740, £391,297. At the same time Massachusetts seems to have had outstanding about £230,000. The amount of the tenth bonds due on the various banks previous to 1740 was £60,000.<sup>1</sup>

<sup>1</sup>How much of this sum was included in the £105,704 mentioned as burned

The population of the colony was approximately 24,000, the per capita debt, including all the notes, was nearly £16.3, and excluding the overdue notes about £13.4. The number of borrowers of the £40,000 bank of 1728 was about 550. If the number of borrowers in the other banks outstanding in 1739 were proportionately as numerous, and such an estimate was probably well within the mark, the number of debtors exceeded 4,100, or an average a little higher than one person in every six of the total inhabitants. Of the heads of families it would seem that nearly every one was in debt and that every land owner had burdened his land with mortgages. The state was debauched with paper money. Issue after issue had been added to the already depreciating mass by legislators who knew, and whose debtor constituents knew, that each new bank would not only enable them to borrow with greater ease, but that the impetus given to depreciation would enable them to pay their debt in a currency much less valuable than that which they had borrowed. Repudiation was not even thinly disguised and as Collector Kay had declared in 1721, the widows, the orphans and those who had only money incomes suffered most. Numerous acts for the relief of debtors were passed. In 1731 a law granting legal release to insolvent debtors who could make terms with two-thirds of their creditors was enacted, although it was repealed soon afterwards. The courts were crowded with cases and the prisons with debtors. In 1739 the plaintiff in an action was required to pay the board of the defendant while the latter was confined in jail. Debtors refused to pay their obligations and protracted their cases in courts by legal subtleties and appealed to England from judgments obtained against them until in 1750 the assembly voted that appeals to England, on bonds promising a sum of money only, should no longer be allowed.

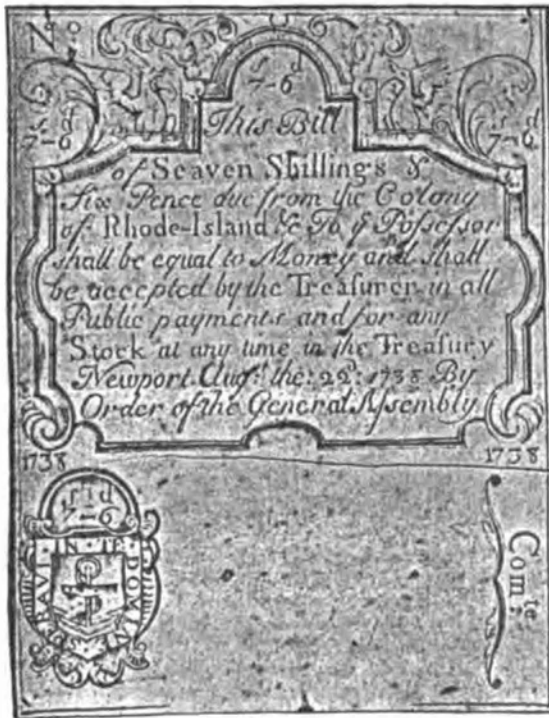
The depreciation of paper money is difficult to estimate. The official reports invariably underestimate the value of silver and figures covering actual transactions in foreign exchange are not sufficiently numerous to be averaged. They thus represent perhaps but for a day or two rather than for lengthy periods the true state of paper depreciation.<sup>1</sup>

As the bills of each of the colonies in New England circulated throughout the others the values of the issues of each was dependent upon the issues of all the others. In 1721 exchange on London was 3.55 for one and though Governor Ward quotes silver at 16s. an ounce, the real price was therefore 18s.

there is no means of knowing. The figures given in the text do not correspond with those in the official reports for the reason that such reports were always "doctored" for the occasion.

<sup>1</sup>Allowance must always be made for the difference already noted between the old England and the New England standard in estimating depreciation by means of rates of exchange.

In the same year an English half-penny was declared equal to three half pennies of local money in all public payments. In 1723 sterling exchange was purchased at a rate of 2.6 paper for 1 of coin. This appreciation of paper may be due to the restrictions on Massachusetts issues, which had been somewhat effective since 1720. Governor Shute and other royal governors in the colonies had been instructed not to allow issues of bills of credit except such as were necessary to meet current expenses of the administration unless approved by the King. These instructions were sent to Governor Cranston of Rhode



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Island in 1724, but were not applicable because a governor had no veto power and could not control the acts of the legislature, and because the charter did not provide for the submission of the acts of the R. I. assembly to the King. From this time until the practical interdiction of paper issues by Parliament in 1751 the value of Rhode Island credit money became largely dependent upon the field offered for its circulation in the neighboring colonies. In 1728 Governor Burnett arrived in Massachusetts bearing express instructions not to permit issues of

bills in excess of £30,000, except with the sanction of His Majesty, and subsequently the order was extended to all the colonies, but this, like the former order, was not observed in Rhode Island. The limitation of paper issues in Massachusetts was a tempting opportunity for the neighboring states. Rhode Island therefore issued £40,000 in 1728, £60,000 in 1731 and £100,000 in 1733, but despite the larger field offered for circulation, these large additions to the currency depreciated rapidly. Sterling exchange rose from 2.3 for 1 in 1729 to over 5 for 1 in 1733. The action of Rhode Island aroused the jealousy of the paper money in Massachusetts and government issues being limited by Governor Belcher, a private land bank of £110,000 was issued at a nominal rate of 19s. for an ounce of silver, but the cheaper Rhode Island money, which was then 27s. for an ounce of silver quickly drove the private bank notes from use.

Within the colony itself the hard money party assumed the offensive. A vigorous protest to the issue of 1731 asserted that the course pursued by the assembly in opposition to the express wishes of Parliament endangered the charter. The protest was disregarded and the signers sent their objections to England asking the authorities to interfere. Governor Belcher was exercising his veto power effectively in Massachusetts, and Governor Jenckes of Rhode Island, being opposed to paper money, placed his dissent at the bottom of the act of emission of 1731. This action caused great dissatisfaction and a special session of the general assembly was convened by the deputy-governor to consider the legality of the veto power thus seemingly assumed by the governor. But there were more fundamental constitutional questions involved than the right of the executive to dissent from an act of the legislature and it is doubtful whether, considering previous instructions which the governor had received from England, directing him to prevent excessive issues of paper money, he was not simply conforming to such orders. It is true that the charter had not provided any specific method for the submission of the acts of the assembly to the governor for approval or disapproval, nor to the authorities in England, and the scope of legislative power was limited only by the vague expression that its enactments should conform to the laws of England as far as local circumstances would permit. The Rhode Island general assembly, moreover, had interpreted the charter so liberally as to enact all of its laws in entire disregard of English precedent. In this case, however, Governor Jenckes might well doubt that local conditions were such as to warrant the passage of a law in direct opposition to the wishes and orders of the home government. The real question at issue therefore was not only the veto power of the governor, but the determination of whether the home government or the colonial government was to be the final arbiter of the necessity of laws passed in the colony. Not alone the veto power of the governor, but the conditional veto

power of the home government, clearly implied in the charter, was at stake. Whether the full import of the issue was understood in Rhode Island is not now known. When, however, Governor Jenckes sent to the king a request for decision as to the matter he confined his questions to the veto powers of the governor in general, and failed to ask regarding the validity of this particular law or the method of testing the validity of any law which seemed to contravene the orders of His Majesty. Moreover those who had protested against the act in a petition to the Board of Trade, while distinctly explaining the nature of its illegality, then proceeded to ask the more general but less important question as to the necessity of submitting an act of the legislature to the king in council. The questions being thus narrowly limited, the answers of the king's officers could have but one meaning. They simply explained that the governor had no veto power, and that the charter made no provision for the reference of the acts of the legislature to the king before they could be considered valid. The validity of the law, they pointed out, did not depend upon the approval of the king, but on its conformity to the laws of England as closely as local conditions would permit. If it did not thus conform it was *ipso facto* void, but they did not explain who was to determine in any specific case whether a law was or was not void. Thus the replies, like the questions, failed to touch the most vital point involved, but the king's officials hinted at it when they significantly said that it did not then seem expedient to attempt to enforce the law limiting the issues of paper money in the charter colonies. Twenty years later, however, this question was settled by the peremptory law of Parliament, which might equally have been enacted and enforced in 1731.

The paper money party seemed, therefore, to have been sustained by the home government, and at the spring election in 1732 members of the Wanton family, advocates of fiat money, were elected governor and deputy-governor, and the judicial, legislative and executive departments of the colony were vested in the hands of inflationists. This success of the paper money advocates in Rhode Island added to the bitterness of feeling between the chief executive and the legislature in Massachusetts. The legislature desired to issue more paper, and Governors Shute, Dunmer, Burnett and Belcher were, one after the other, tired out by the persistence of the Yankees. The first so-called sugar act dates from these years, and thus to the restrictions on colonial paper issues was added the restriction on colonial commerce; the two chief causes of the Revolution originated at about the same time.

No further issues were made by Rhode Island until 1738, and as the issues of Massachusetts were limited, the rate of sterling exchange varied but little during the intervening years, being about 5.4 for one. In 1737 Massachusetts issued the first batch of so-called new tenor bills, and in 1739 the general court ordered that no bills of other colonies

should be circulated unless payable in lawful money, *i. e.*, silver and gold. Rhode Island at once accepted the situation and in the following year issued its first bank of new tenor bills, and made them payable in gold and silver bullion. By prophetic coincidence the emissions previous to 1738 had borne the motto "*In Te Domine Speramus*"; those of 1738, the last of the old tenor banks whose circulation was thus forbidden in Massachusetts, bore the motto "*In Te Domine Speravi*."

Before describing the new tenor period a brief account of the expenditures of the peace period will be presented. No classification of such expenditures, however, is possible because the treasurer's accounts were kept in alphabetical books and payments were made to individuals, no mention being made of the objects of the payments. The period of peace from 1713 to 1739 was one of commercial development. The central government emerged from its somewhat experimental state. No longer dependent upon local taxes for its income, the weakness of its authority, previously most conspicuously shown in its fiscal relations to the towns, ceased, and having the pecuniary resources to execute its projects, it began to exercise a degree of sovereignty which before it had only theoretically possessed. A degree of paternalism also toward local authority became possible as new towns were set off from the four original towns—such new towns being creatures of the general assembly and deriving their whole powers from it. They were usually composed of the agricultural section of the state where the land bank note system had its strongest advocates, and many of them seem to have been created partly at least for the political assistance which their representatives would give to the party in power. In 1731 Providence was divided into four towns, three of them being wholly agricultural, and their representatives took their seats in the general assembly for the first time during the heated discussions which have just been described. The dominant party, therefore, represented the new and the country towns, and under such conditions the paternalism of the central government was much more congenial to the localities than it would have been at an earlier period when the four original towns had comprised the whole colony. From this time dates that feeling of antagonism between the urban and rural districts, which had since persisted in a marked form. The towns, being politically in control of the central government, also began to depend upon it for assistance. In the first fifty years of the settlements the local governments had sufficed for emergent occasions and many of the colonial laws merely confirmed local custom. Within this period when an occasion arose for the exercise of an unused power the towns began to ask for such powers from the general assembly. The town of Newport, for instance, had always imposed taxes in the form of public service for the watch and for mending the roadways—such an imposi-

tion being in the nature of a per capita tax on males of age, but when the right to levy a money tax for these purposes was desired, the authority to do so was asked from and granted by the colonial assembly. The colony also exercised its paternal policy in providing for extensive internal improvements. Beginning in 1711 with an appropriation of £200 for bridges in Providence, large expenditures for many years were made for bridges and highways. Within the town of Newport the principal street was paved by the proceeds of a duty on slaves of £3 each, and when in 1732 the duty was abolished, a lottery was instituted for the same purpose. Piers were erected at Block Island and Point Judith and every material encouragement offered to a growing commerce, while bounties were granted, as we have already seen, for many of the local products. Governor Belcher in Massachusetts urged the extension of the system of bounties to other agricultural products than hemp and flax, believing that industry would thereby be stimulated and enough goods produced to offset the unfavorable balance of trade. He thought that the money metals might be retained in circulation and paper issues would then be unnecessary. But his advice was not followed in Massachusetts and its wisdom was not likely to find favor among the farmers of Rhode Island, who believed borrowing a much easier way to get money than working for it.

Under the bounty act of 1733, which was repealed in 1745, the colony paid out about £1,300 annually. The bounty system was a failure, as was subsequently acknowledged by its advocates, but whether because of the depreciating value of the specific rates payable under it or because of the greater profitableness of other forms of industry or both is not quite clear. The amount paid increased from £431 in 1733 to £1,781 in 1738, but did not again reach the latter figure.

In a typical year of this period, 1735, the total expenditures were a little less than £5,800 paper money, or about £1,300 sterling. The items were as follows: Refunded interest to the towns, £956; repairing the jail at Providence, £289; Block Island pier, £1,100; bridges in Newport, £50; chairs for colony house, £27; cannon for the fort, £300; paper money burned, £1,015; bounty on hemp, flax, whale oil, bones and codfish, £910; miscellaneous expenses, including salaries of all officers, £1,152.

The judicial system, though extended and rearranged in 1729, continued to be supported by a system of court fees. The fee system prevailed in almost every department of public service; a fee of £4 was imposed on every petition presented to the general assembly, and the proceeds of this tax on the right to address the legislature was distributed among the members of the upper and lower houses. In 1721 the salary of the assistants was increased to £10 per annum, and the wages of the deputies were raised to 6s. per day. The cost of maintaining the agent in England was at times a heavy charge. His

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS.

salary remained at £40, but the incidental expenses of feeing, tipping and treating the crown officials and their lackeys in order to get a hearing, averaged more than the salary.

The evil effects of the paper money system showed in local expenditures as well as in colonial. In 1719 the appointment of vendue masters or auctioneers became an annual duty of the freemen. A tax of two and one-half per cent. on the price of the goods sold was paid to the local treasury. In 1723 the town of Newport first voted to erect an almshouse, and in 1725 the mainland towns were authorized to build houses of correction for vagrants. The care of the poor constituted the heaviest local burden. Education in Portsmouth was provided for in 1716, and in a few years two additional school houses were built by the town. In 1735 thrifty Providence, with the permission of the general assembly, granted to George Taylor the right to keep school in the county house.

The receipts from imports were appropriated to the lighthouse or to the fort, usually the latter, but no statistical account of them is possible. The colonial government was continually endeavoring to oblige the collector of customs, who was appointed by English authority, to charge only the fees set by its own laws and in most cases seems to have succeeded. The naval officer appointed by the governor had charge of the entrance and clearance of vessels and collected tonnage duties. The duties already noticed during the earlier period seem to have been abolished. In 1731 a duty was laid on sugar manufactured in the neighboring colonies, and in 1732 a tonnage duty of six pence per ton was levied on all foreign vessels on each entry into the harbor, and on all coasters an equal sum once each year to be used for the fort.

We shall turn now to the new tenor period lasting from 1740 to 1756.

The new tenor period was brief but was marked by events of prime fiscal importance. In 1744 direct taxation of property was again resorted to, and in the same year the lottery was introduced to provide for internal improvements. In 1751 restrictions were placed upon note issues by Parliament, and in 1752 the colony for the first time began to accumulate a permanent debt.

The war between England and Spain in 1739 marked the close of the peace period of Walpole, and just as the advocates of hard money were beginning to gain a foothold in Massachusetts the preparations for an expedition against the Spanish West Indies furnished a new excuse for further paper money issues. The opportunities for the circulation of the issues of Rhode Island in Massachusetts seem to have been but slightly changed by various laws enacted by that colony and by Parliament. Those of the former which were restrictive seem to have been entirely disregarded.<sup>1</sup>

<sup>1</sup>The Mass. law of 1739 prohibiting the circulation of bills not redeemable in lawful money, was followed by a Parliamentary enactment of 1740 extend-



The emissions of 1740 were of two kinds: £10,000 old tenor bills of credit for the supply of the treasury to meet war expenses, and £20,000 new tenor bank notes. The old tenor differed in form from the new tenor in that in the former the colony of Rhode Island promised to pay the number of pounds, shillings or pence expressed in the face of the bill in money; in the latter it promised the payment of the face of the bill in silver at a rate of six shillings nine pence per ounce, or gold at the rate of £5 per ounce, or "in any medium of exchange" "as will be equal to so much gold or silver". The bank notes were to be loaned for ten years at four per cent. interest, and the loans were to be payable in the bills themselves or in their legislative equivalent in coin.

The standard adopted at the recommendation of Parliament conformed quite closely to the New England standard, which was six shillings, eight and two-thirds pence per ounce, and it had the additional merit of being a little cheaper money than the Massachusetts bills at a standard of six shillings eight pence per ounce of silver and therefore would circulate in Massachusetts. The new tenor bills had scarcely been sent on their way when increasing expenditures and a decreasing income made other financial expedients necessary.

The expenditures of the colony for the year ending in August, 1740, had been about £9,100 in addition to £4,921 for the colony house at Newport. In 1741 they were £29,650 and an additional £3,300 for the colony house. They decreased to about £11,000 in 1743 but rose again to £16,500 in 1744, and for the four years 1741-44 averaged over £22,000 annually. Meanwhile the income of the colony decreased. In 1740 the interest payable on the outstanding banks annually amounted to £8,000. In 1741, by the expiration of the banks of 1731 issued for bounty purposes, £3,000 of interest ceased. In 1743, £2,500 more ceased, and in 1744 the total receipts from interest, had the whole been punctually collected, would have been only £2,500. The bounties alone due that year amounted to over £1,766. As the effects of the depreciating currency increased the payment of mortgages became more difficult. Tenth bonds also were constantly defaulted. A plan of electing a colonial attorney for each county had been adopted in 1740 in order to facilitate legal redress by the colony against its debtors, but it was abandoned in 1742, and the prosecution of such cases was left to the attorney-general. In 1741 there were 539 suits on

ing the provisions of the Bubble act of 1720 to the colony. The issue of circulating notes based on land or specie by private parties was thus forbidden and such issues already made were ordered to be redeemed. This curtailment of paper money was met by a further law of Parliament, repealing the law of 1728, under which governors had been instructed not to allow the circulation of more than £30,000 paper money at any one time. In 1743 Massachusetts prohibited the circulation of bills which had been issued by neighboring colonies after 1742.

bonds pending in Providence county alone. In 1742 1,040 more were instituted. According to the reports of the treasurer, who was responsible for their prosecution, there were overdue bonds of towns in his hands amounting to £10,234; there were bonds in suit amounting to £5,000 and in the attorney's hands amounting to £4,902. The industrial resources of the colony were drying up with the fever begotten of its financial excesses. Four thousand pounds new tenor bills had been emitted in 1741 to meet the cost of the reinforcements sent to Santiago, but Parliament, spurred on by the protests of the Massachusetts and Rhode Island hard money parties, was closely watching the issues of the colonies. Agent Partridge used his best efforts to allay the suspicions of the home government at a cost of £900 for his services. In the absence of active warfare in the colonies Rhode Island kept the sloop *Tartar* on the Spanish main at a cost of nearly £15,000 in four years. In the four years, 1741-44, the total expenses were £88,500. The income, had it been collected, would have amounted to £75,700, of which £52,000 were tenth bonds, which should have redeemed a corresponding number of outstanding notes.

In February, 1744, a bank of £40,000 new tenor was issued in spite of a most earnest protest by a not insignificant minority of the legislature. This bank was loaned at four per cent., although the real rate of interest was much higher, and one-fourth of the interest money was refunded to the towns annually. To the protests the legislature replied in May by the issue of £2,500 bills of credit, and levied a tax of £10,000 old tenor payable in nine months to redeem them with. It had been just thirty years since any tax had been assessed, and although this tax was used for other purposes and the redemption of the bills deferred to 1748 and 1749, the taxing power which had so long lain dormant was again exercised and a noteworthy step in advance was made in fiscal methods. In October the first lottery was authorized to furnish funds for building a bridge at Weybosset (now Market Square) in Providence. It was for £15,000. One thousand prizes valued at £12,000 were offered, thus leaving £3,000 for the bridge. The venture was a success. The bridge was built for £1,610 7s. 4d., and a balance of £1,389 12s. 8d. was invested in 1750, the interest to be used to keep it in repair. The property tax, which had been again resorted to as a war expedient, was thus supplemented by the lottery to provide for internal improvements.

The beginning of the war with France in 1744 dulled the hopes of the hard money men, and from that date until the declaration of peace in 1748 bills of credit were issued every year. From 1740 to 1748 new tenor bills amounting to £58,650 were issued (equivalent to £234,600 old tenor). £96,000 old tenor had been issued to redeem the bank of 1740, but not a shilling of all these issues was redeemed. Two banks of new tenor notes, equivalent to £240,000 old tenor, had also been

emitted. The total calculated in old tenor was £570,600. There was outstanding in 1740 of previous emissions of bills of credit the sum of £117,001 and of bank notes £380,000. At the beginning of 1749, therefore, Rhode Island had issued and seemingly not redeemed £1,067,601. A few thousand pounds of a recalled issue of 1740 were redeemed by a special committee, but there is now no evidence that any considerable portion of the total issue was exchanged.

When, in response to a representation in 1746 from Rhode Island and other colonies, Parliament in 1747 decided to reimburse the colonies for the expenses in the Cape Breton and Canada expedition, £800,000 sterling was appropriated for the purpose. The Massachusetts share was £183,649 2s. 7 1-2*d.*, and with this and a tax of £712,000 old tenor, all of its old paper was redeemed. Had Rhode Island maintained during the previous ten years an attitude of honorable dealing with the holders of its bills of credit, the same course would have been quite possible though not quite as easy. Of the sum outstanding in bills of credit the colony had already pledged to redeem those issued previous to 1746 by taxation. This sum was £24,900 new tenor or £99,600 old tenor. Of the sum emitted for the expedition to Louisburg and Canada, amounting to £33,750 new tenor or £135,000 old tenor, the allowance from England of £12,338 sterling would have redeemed (at a rate of 10 1-2 to 1) £129,550, leaving only £5,450 old tenor to be redeemed by a special tax. If to this sum is added the £117,001 outstanding in 1740, there would have been but £122,451 old tenor to redeem and a per capita tax of £3 14*s.* would have sufficed. The per capita tax necessary to redeem all Massachusetts bills was about £3 5*s.* Even had all the taxes pledged to redeem the bills issued between 1740 and 1745 been levied at one time in Rhode Island, the total would have required a tax of about £6 14*s.* per capita, and the sacrifice would have been slight in comparison with the losses subsequently sustained by a continuance of paper issues.<sup>1</sup>

The feeble effort to redeem its bills then made by the general assembly seems to have been scarcely more than an attempt, of which that body had been so often guilty, to persuade the public that it was trying to be honest, although its whole course then and for some years after proved the opposite. Governor Wanton in 1748 drew on the lords of the treasury for £10,144 9*s.* 6*d.* and the amount was allowed to Agent Partridge. Deducting £507 4*s.* 6*d.* for commissions and charges

<sup>1</sup>The outstanding bank notes amounting to £640,000 and the £96,000 emitted to exchange the bank of 1740 are not included in the above calculations of the cost of redeeming the colony's paper issues, as they either had been redeemed or the colony held mortgages of nominally double their value against them and the notes should have been redeemed when the mortgages were cancelled. Massachusetts had issued no bank notes since 1728. Much of the disposition to excuse the colony for its thoroughly dishonest procedure at this time has arisen from failure to distinguish between the amounts of bills of credit outstanding and the notes of the various banks.

there was a net of £9,637 5s. sterling applicable to the redemption of bills. Of this, however, only £7,800 was used for that purpose and £88,725 of the bills redeemed. The remaining sum was devoted to paying other debts of the colony. There was in the treasury £24,000 bills of old tenor. These were used for general purposes. Of taxes of £17,500 new tenor which had been pledged in 1740-45 to redeem the bills of credit then issued and were to be levied between 1748 and 1752 only £5,000 were assessed and they were diverted to other uses. At this time as at earlier dates there was no earnest effort to redeem the outstanding bills.

Instead, and in violation of the express wishes of the home government the servile house of deputies, in response to a large number of petitions, passed another bill in August, 1750, for emitting £50,000. The bill did not pass the upper house owing to final adjournment without a quorum. Another bank of £25,000, however, was emitted in March, 1751, the interest to be devoted to paying bounties on hemp, flax, woolen manufactures, whale oil and codfish. The bounties promised by this issue were repealed in the same year, but no attempt was made to recall the issue. It was the last bank emitted for thirty-five years.

The first emissions of bank notes had been subscribed for by some of the better classes of people. The maximum and minimum limits to the amounts subscribed for by a single individual were £300 and £50. In the issue of 1744 the limits had been reduced to £100 and £6. In the issue of 1750 the limits were £37 10s. and £3. Only the poorest and lowest classes were now borrowers. The rights to subscribe had in each successive bank been confined, for a period of two or three months, to those who had not before subscribed. The multitude of debtors far exceeded the opportunities to borrow and the fortunate ones found themselves able to sell their rights at a premium, which was probably determined by the anticipated depreciation of the bills. The committeemen of the various towns who allotted the loans began to charge for transfers of rights and doubtless fattened on the needs of their neighbors until their extortion was checked by the legislature. They were forbidden taking more than 1s. 3d. for each transfer.

With an assurance worthy of a better cause the assembly calmly asserted that "the one great and principal cause of the depreciation of bills of public credit" was "the illegal practice of some persons giving and offering more of them for gold and silver than the face value". A force bill was therefore enacted to aid the value of these bills. Any persons "who either by themselves, or by the procurement of others, wittingly or willingly, directly or indirectly, shall after the 10th day of May, 1751, contract for, settle, account, allow, receive, take or pay at any greater or higher rate for any silver, gold or bills of exchange, than at which the same is hereby regulated, settled and

allowed" were to be fined £50. Executions were to be granted by the court only upon oath of the plaintiff that he had conformed to the law. All public officers were required to take similar oath before they were qualified to act. All traders from outside the state were subjected to a like pledge. A law fixed the equivalent values of this and other issues at one ounce of silver—6s. 9d. of the bills of 1750—16s. new tenor—64s. old tenor. All of these values were expressed in the note, the weight of silver being expressed in the body, the value in new tenor in the upper margin and the value in old tenor on the back. Death was the penalty to counterfeiters.

The passage by the house of deputies of the bill to emit £50,000 of bank notes brought forth a final and effective protest from seventy-two of the leading merchants of the colony to the king to prohibit further issues of paper money. The assembly wrote to Partridge to oppose any and all such legislation and repeated all the usual jargon about its anxiety to preserve the "valuable liberties and privileges" of the charter. Partridge wrote that through his efforts "the sting" was taken out of the bill, but Parliament passed the act on March 12, 1751, prohibiting any issues of paper money subsequent to September 29, 1751, with some exceptions; it prohibited the postponement of the time of payment of bills and notes already issued; it allowed the issue of bills of credit for not over two years, for current expenses, on the approval of His Majesty; it provided for the issue of such sums as were needful on the occasion of sudden emergency such as war or invasion, for five years, with the approval of the home government; it declared that no bills of credit or notes should be legal tender for debts.

The applicability of a Parliamentary law which required an act of Rhode Island to be submitted to the king or his government, which was a violation of the charter right, had been questioned, as has been noted, as early as 1724. Such reference of Rhode Island laws was in 1731 decided to be beyond the scope of royal power, and now although the spirit of the law was observed, the clauses relating to the approval of the king were entirely ignored; the colony emitted bills as it judged needful, but did not submit such measures to the home government. In June, 1751, a scale of equivalents was adopted for debts. Six shillings nine pence of the notes of 1751 or 16s. new tenor or 64s. old tenor were declared equal to one ounce of silver, and debts expressed in terms of the various issues were to be paid in as many bills as at the time of payment were equal to an ounce of silver. Thus silver bullion or its equivalent was made the only legal tender for debts.

During these years depreciation went on with increasing but irregular pace. In 1747 when the colony declared the legal rate of exchange to be 5.5 for 1, it paid the wages of the officers serving in the Canada

expedition at a rate of 7.5 for 1. In the same year the treasurer bought £500 sterling for £4,550 old tenor bills, a rate of a little over 9 for 1. In the latter months of 1748 the assumed legal rate of exchange was declared to be 5.7 for 1; it probably was about 9 for 1. In January, 1749, Massachusetts adopted the coin standard and prohibited the circulation of all paper money. Rhode Island bills in February dropped to a rate of 10.5 for 1. Paper money was like a seat in a stage coach; its possessor paid for its use by the hour.

The trade of Massachusetts in West Indian products, which before 1749 was almost wholly through Newport, was driven at once to Salem and Boston. It was a commercial disaster from which the colony never recovered. Heavy failures occurred in 1752. Providence was authorized to build an almshouse in 1753. A general act of insolvency was passed in 1756. Driven thus by force of circumstances the colony began to provide for the redemption of its paper money, but the first tax of £25,000 was scarcely ordered in 1754 when war began again. The colony tried to supply its war needs by loans, and it borrowed £4,000 old tenor, but so great was the industrial depression that 10 per cent. interest was paid and the old expedient of bills of credit was again resorted to. Within the year 1755, £240,000 old tenor bills were emitted for the Crown Point expedition. According to the order of Parliament they were nearly all redeemed within two years, partly by taxes and partly by the issue of interest bearing treasury notes. In the following year £14,000 bills were emitted for a second similar expedition. These were the first so-called lawful money bills, but except the law of 1751, already noted, there was no colony act defining lawful money. Such acts had, however, been passed by the two neighboring colonies and the bills of 1756 were therefore made payable to bearer in lawful money of Massachusetts or Connecticut. Massachusetts's lawful money being 6s. 8d. per ounce of silver, these bills promised payment at the same rate, instead of 6s. 9d., as all previous issues of new tenor bills had specified. They were redeemed within two years. As war expenses rapidly increased the legislature, now become solicitous for the credit of the colony, directed the treasurer to borrow gold, silver, bills of 1756 or old tenor bills at 6 per cent. interest in sufficient sums to meet the needs of the treasury, payment to be made December, 1759. Although gold and silver were promised in payment of all but the old tenor bills, and the right was reserved to pay them at the rate of \$1 in silver for every £5 10s. paper, which was a very high premium, paper being then current at more than £6 for a Spanish dollar, the loan could not be negotiated. The assembly had granted to the treasurer the alternative of issuing lawful money bills payable in two years. The bills, however, were emitted for five years, carried five per cent. interest, and promised payment at the rate of 6s. 9d. for one ounce of silver. The law provided that a milled dollar

should at all times be taken in lieu of 6s. of them. In view of the inability of the colony to borrow money in any other way these interest bearing bills were a forced loan. Protests were made against the rate of interest by some members of the country towns, who were always jealous of the moneyed classes. They claimed that three per cent. was high enough and that the bills would be hoarded, and indeed their prediction proved true to some extent. Meanwhile old tenor bills still circulating continued to depreciate—a condition which could not fail to follow the vagaries indulged in by the assembly on the slightest provocation. In 1756, of a tax of £70,000 levied to redeem the Crown Point bills, only £52,271 seems to have been collected, and instead of burning the bills £33,841 were placed in the general treasury and only £18,430 destroyed. In 1756 the Spanish silver dollar was declared equal to £4 old tenor of the Crown Point bills. For purposes of redemption this rate placed a high premium on the bills, as the current rates were about £5 5s. for \$1, or nearly 18 for 1; sterling exchange being therefore above 23 1-2 for 1. In June, 1763, the assembly declared gold the only legal tender in contracts unless otherwise specified. In the following year the last notes of the ninth or last bank were called in and the name "old tenor" was abolished. The notes and bills were to be redeemed by the colony at a rate of £7 for 1 silver dollar. In 1770 a law was passed by which the circulation of old tenor bills was prohibited after January 1, 1771, and they were to be redeemed by treasury notes having one year to run, payable in lawful money at the rate of 6s. lawful money for £8 old tenor. As lawful money was at that time at par with English coin, old tenor had fallen to 26 2-3 for 1 lawful money or about 35 for 1 sterling.

The large issues of lawful money from 1758 to 1762, although their interest rate caused them to be hoarded and though their payment was pledged by taxes and by the receipts from England in payment of war expenses, depreciated, being in 1762 at five per cent. discount. The two taxes of £19,000 levied in 1763 and 1764 brought them to par in the latter year and they remained so until the outbreak of the Revolution. From 1756 until 1774 there were issued of lawful money bills £96,909 and of old tenor £240,000. During the same period the treasurer seems to have borrowed £9,000 lawful money and £210,000 old tenor. From 1756 to 1764 there was received from England in payment of expenditures for war £56,928 4s. 3d. sterling, equivalent to £75,904 5s. 11d. lawful money. Taxes were assessed amounting to £157,015 in lawful money and also £686,687 in old tenor. The old tenor taxes reduced to lawful money at the various times levied amounted to about £35,000. In the twenty years, therefore, from 1754 to 1774, the taxes levied amounted to about £192,000 lawful money, an average of £9,600 annually. Taking the average population at 50,000, the annual per capita tax was less than 3s. 10d.

The permanent debt, which began in 1752, accumulated during the seven years war and in 1764 was about £70,000 sterling or £93,300 New England standard. In 1775 it had been reduced to about £4,000.<sup>1</sup>

The colonial and state finances of the Revolution are inseparable from those of congress and the confederation. The colony, however, attempted to meet the extraordinary demands made upon the treasury in this period as it had those of the previous sixty years—by the issue of paper money. The bills issued in the early part of 1775, amounting to £40,000, carried interest at 2 1-2 per cent. and were redeemable by taxes one-half at the end of periods of two and five years. They were not legal tender. In June, 1775, the continental congress began to issue bills of credit and in August they were made legal tender, and the same quality was given to subsequent colony and state issues. A colony issue of £20,000, ordered in November, carried no interest and as the other colonies had generally issued non-interest bearing bills, Rhode Island recalled its interest bearing bills. In January, 1776, it ordered that interest should cease on them. They were redeemed by another issue of £40,000 and by the proceeds of the first assignment of continental money to the state by congress in payment of war expenses. The colony claims against congress in January, 1776, were about £150,000. A partial payment of £120,000 was received from congress. During these two years the colony issued £152,000 of bills of credit, those in 1776 being due six years from date. In December of the latter year a price convention was held in Providence; goods had already begun to rise and money to depreciate, and it was recommended by the states there assembled that no more paper issues be made except in extreme emergencies and that taxation and loans be solely depended on as financial resources. The recommendation was followed in letter at least by Rhode Island<sup>2</sup> for four years. The treasurer was at once ordered to hire £40,000 and to give his notes for it, payable in two years and bearing six per cent. interest. No note was to be issued for a less sum than £10. A tax was to be levied to redeem the notes, but in case that was impracticable they were to continue to bear interest at the usual rate among the states. In the following February £50,000 of treasury notes were issued bearing only four per cent. interest. The time of payment was not specified and though the former issue had been receivable for taxes the latter issue was made full legal tender. The difference between these treasury notes and the bills of credit was therefore one of form only. They at once depreciated, but as continental bills had come into general circulation and had depreciated even more, the state treasury notes were hoarded. Early in 1776 specie had disappeared from circulation and a committee of fifty

<sup>1</sup>The authorities do not agree on this amount, but all place it between £3,000 and £4,000.

<sup>2</sup>There was one minor exception in May, 1777.



appointed to collect coin for use in the Canadian expedition got only \$1,173.

Most of the subsequent borrowings of the state were made in anticipation of taxes, and taxation, begun early in 1777, was the main source of income until many years after the adoption of the federal constitution.

The financial war measures of the continental congress may be divided into two periods, separated by the date of March, 1780. During the first period congress attempted to secure its income not only by



RHODE ISLAND PAPER MONEY, 1775.

means of taxes requested of the sovereign states, but by issues of non-interest bearing bills of credit and loan certificates bearing interest, for the payment of which it pledged the faith of the Union or the states as a whole. The interest on the loan certificates was payable in exchange on Europe. By the issues of loan certificates and bills of credit it established a direct relation of debtor and creditor between itself and the individual citizens, but it had no means of redeeming the bills or paying the certificates except indirectly by taxes requested of the state governments, which the latter might or might not grant. Such methods of financiering were accompanied by an attempt to

supersede state issues of bills of credit by continental issues, and in pursuance of this purpose state bills were called in and partly redeemed, as we have already seen, by continental bills. In October, 1776, the continental loan offices were established and loan certificates were also issued to redeem state bills. The circulation of the latter was prohibited after July 1, 1778. This assumption by congress of sovereign powers over money issues, and direct liability without power to redeem its pledges was at once attended by depreciation. A convention in Providence to arrest the fall in the purchasing power of money in 1779 discountenanced trading in gold and silver and recommended the citizens to take their quota of a loan of \$20,000,000, asked for by congress. When subscriptions failed to come in the assembly ordered the assessors to apportion \$100,000 of the loan upon those best able to pay it, and although such an assessment was pure confiscation, gave the assessors authority to enforce the loan by severe penalties. This convention also advised the confiscation of tory estates and the assembly passed an act to that effect in December. Early in 1780, owing to the depreciation of continental money, the states were recommended to repeal legal tender laws affecting it. Rhode Island did so with regard to all contracts dated previous to January, 1777. A medium of circulation was then supplied by a return, after nearly four years, to the issue of state bills of credit in March, 1780. Some of the confiscated tory estates were pledged to redeem an issue of £20,000. The bills were made legal tender equal to gold and silver. Continental bills had fallen to 40 for 1. On March 18th congress by an act of repudiation directed them to be called in by taxation by the various states and thus made the states responsible for the redemption of their respective quotas. When the states received them they were to be redeemed by the continental treasury by a new issue of bills at a rate of 20 for 1. In June a scale of depreciation for loan office certificates was established, beginning with par in January, 1777, and graded to 40 for 1 on the date of the enactment. Robert Morris was soon afterward appointed continental financier and ordered the loan offices to close up their business.

These measures mark the practical bankruptcy of the continental treasury and the abandonment by congress of its direct financial relation to the individual citizen. The second period of Revolutionary finance then began. The new bills of credit of March 18, 1780, properly known as "40 to 1 money," were issued under the direction of congress and printed in Philadelphia, but they were apportioned to each state according to population and each state's quota bore on the face of the bills the pledge of the state itself to redeem them. The bills carried interest at the rate of five per cent. and were redeemable in 1786. Congress assumed no direct responsibility for them but guaranteed the payment of the principal by an endorsement on the back

and pledged the payment of the interest in bills of exchange, if requested to do so, drawn on foreign countries where a loan for that purpose had been secured. The bills were to be distributed to the states as rapidly as the old continental bills were presented to the loan offices. Three-fifths of the amounts apportioned to the states were reserved for state uses and two-fifths were to be remitted to congress for continental uses. The taxes pledged for their redemption were to be divided between the state and congress in the same proportions. The taxes apportioned on Rhode Island to call in the old continental bills were \$2,600,000, and they were redeemed by congress by the state's quota of \$130,000 of the new issue—three-fifths or \$78,000 for state uses and two-fifths or \$52,000 for continental uses. As these bills were interest bearing and would have heavily increased the obligations of the states, Rhode Island and other states used them sparingly. Of the \$78,000 for state uses about \$38,000 seem to have been drawn from the treasury and that sum was used chiefly on continental account. The remaining \$40,000 were not issued.

Congress relied for the future on taxes contributed by the states and on loans. As a means of securing loans the states were requested to grant to it the power to levy a five per cent. impost on all imported goods, and in the controversy which ensued between Rhode Island and congress with regard to this question the state appeared in a most unenviable light. Congress had reached the limits of its power. The battle of Yorktown had not yet been fought and the exhausted states partly could not and partly would not comply with the requisitions made upon them. Each state thought its own quota the largest and would have been "very happy to apologize to the world for doing nothing with the thin and flimsy pretext" that it had been asked to do too much. In this predicament congress asked for the right to levy a five per cent. impost tax, the proceeds to be used to pay interest on bonds, the successful negotiation of which depended upon some permanent form of income which could be pledged in payment of the accruing interest—the impost to run as long as the bonds. To this request Rhode Island alone refused to accede. The grounds of objection urged by its delegate, David Howell, were three. First, the tax would bear hardest on commercial states; second, it would introduce a set of officers accountable only to congress; third, it would give congress independent power to collect a tax from the commerce of the state indefinite as to time and quantity. As to the arguments with which Mr. Howell supported these contentions little comment is now necessary. The replies made by Morris were acute but those written by Hamilton and Madison were conclusive. They covered the whole question at issue from a simple refutation of Howell's misstatements in the last objection to a thoroughly satisfactory analysis of the modern theory of price, when discussing the first objection. But in many

respects the arguments on both sides were well taken and whether or not they were conclusive depended largely on one's point of view. The difference between the disputants was fundamental and a limitless controversy could not bring them together. They represented radically different systems of government. Howell stood for state's rights, state supremacy and decentralization. Congress and Hamilton stood for centralization and national supremacy. The arguments of the former were all political and covered in a slightly modified form all the dangers which had been rehearsed again and again from the time of the attempt to limit paper money emissions and the first sugar tax



RHODE ISLAND PAPER MONEY, 1786.

act in 1733 to the outbreak of the Revolution. Mr. Howell believed that great principles were threatened in any bill conferring on congress the simple power to levy an impost, and in comparison with them, the success or failure of the Revolution itself seemed of little moment. On the contrary, Hamilton's arguments were largely financial and the necessity of providing a fixed income for congress in order to carry the Revolution and all that it stood for to a successful issue, was a paramount consideration. When he claimed that congress was in a position of powerless responsibility, he stated a fact patent to all, but this was the position that the states had intended that it should be in when

they ratified the articles of confederation, and it was the position that Rhode Island would not consent to extricate it from by a grant of power which it asked. Hamilton was also right when he said that no federal constitution can exist without powers that in their exercise affect the internal police of its component members. This was the very nub of national life. It foreshadowed the scheme of national finance which he elaborated under the federal constitution of 1789. But the history of Rhode Island had been an almost uninterrupted protest against such a theory. The first fifty years of the state's federal life emphasized no political fact more strongly than that the purse strings, though in theory controlled by the state government, should in fact, through local appointment, election, and control of tax officials, rest in the localities. In the years 1766-67, as we shall soon see, the central government of the state proved to be entirely unable to enforce a tax levy on three recalcitrant towns in Providence county. The position of Mr. Howell was, therefore, in entire consonance with the development of political theory in his state; he accurately represented the views of his constituents. We now know that he was wrong and that had not other fortuitous events interposed, the course which the state adopted would have left no independent states to form the Union in 1789.

Indeed, the cordial support which Howell's constituents gave him was not altogether political nor disinterested. Under the existing conditions of commerce some of the merchants of the state were taxing the trade of Connecticut and Massachusetts and they did not want to be disturbed. Rhode Island also having no western lands, desired to link the imposts to the cession of such lands by the states that claimed them. In 1785, therefore, the assembly voted for an impost of five per cent. for twenty-five years, combined with an annual tax of \$1 on every hundred acres of land and on every male over twenty-one years of age and on horses. The act was to take effect when the other states approved it, but it was never approved.

In November, 1782, the state consolidated its obligations.<sup>1</sup>

There was at this time in circulation a varied assortment of currency. Some state bills of credit were still outstanding and the treasurer had issued his notes for back pay, depreciation and for direct loans from individuals. The state commissary had issued orders on the treasury in payment of army supplies, and the commanders of the regiments had issued similar orders. The continental bills of

<sup>1</sup>The treasurer was ordered to give his notes for the balances due the soldiers and to add a sufficient sum for depreciation. The notes carried compound interest at six per cent. and were due in four years. Outstanding bills of credit were to be presented and endorsed with value according to the scale of depreciation adopted in July, 1778, when they were ordered out of circulation, and on treasury notes issued for this reduced value compound interest was allowed at the rate of six per cent.

credit, both the old and the new issue, were still in use. The treasurer of congress had issued notes for direct loans from individuals and the continental army commissaries and commanders had issued orders in payment of supplies. The loan office certificates and "indents" issued for interest on them added to the money that was daily passing from hand to hand.

At the close of the war Rhode Island, like the other states, was financially exhausted. The British occupation was estimated to have cost Newport \$425,000, and the debt, which at the beginning of the war was \$11,495, was calculated at the close of the war at \$698,000. The economic condition of the people which caused the Gloucester (Massachusetts) riots and Shays's rebellion had their counterpart in this state, in a demand for another paper money issue with which to relieve the burden of public and private debts. The movement was successfully combated in 1784 and early in 1785, but combined with the opposition to even a conditional grant of impost, it arrayed the country and debtor towns against the commercial and creditor towns. It resulted in 1786 in a complete political victory of the former. Repudiation ran riot. Recent tax and impost acts were suspended. The assembly emitted £100,000 bank notes, founded on real estate, to run seven years and bearing four per cent. interest, and then to be redeemed in seven years without interest. They were legal tender, they at once depreciated. The assembly passed a penal forcing act and suspended the usual forms of trial by jury in actions against those refusing to receive the notes. A member of St. John's Episcopal Church of Providence was excommunicated for tendering the bills, and a member of the Cincinnati was expelled for similar cause. Merchants closed their shops. Farmers refused to bring produce to market. A partial famine was relieved in Providence by a supply of food purchased at public expense from Connecticut. A convention was held in Smithfield which recommended the use of lumber and produce in the payment of taxes and other obligations. A test case soon arose. The now famous case of *Trevett vs. Weeden* was brought by the former, John Trevett, against the latter, John Weeden, for refusing to receive paper money in payment for a piece of meat. The court after hearing the facts dismissed the case for want of jurisdiction. This action was equivalent to a statement that such a law could not be enforced and it was so interpreted by the public. The assembly, mistaking the plea of the defence, to the effect that the law was unconstitutional and void, for the decision of the court, cited the judges before them to show cause for their decision. The whole question of the scope of power of the legislative and judicial branches of state government was discussed at length. The judges claimed that the legislative branch had no authority to compel them to show cause for their decisions, that theirs was a co-ordinate but independent branch

of the government. The legislature claimed its complete supremacy over them and its right to review their decisions. The judges were finally discharged and their discharge was accepted as their vindication, but no definite conclusion was reached as to the fundamental points at issue. The four judges who rendered the decision were not re-elected in the following year, and the legislature continued to pass laws as though no implied decision had been rendered.

The attitude of the legislature toward its own honorable obligations is well illustrated by its treatment of the state's congressional delegates. President Manning, of Brown University, was attending congress in Philadelphia, and his salary was so in arrears that, "reduced to the very last guinea and a trifle of change", his "lodging, washing, barbers, hatters, tailors bills not paid", he was unable to return home for lack of funds to pay his passage. The assembly offered to pay him £400 in paper money but "in no other way". Paper money was worth about 6 for 1, so that, wrote Manning, "I must lose five-sixths of my salary—a more infamous set of men under the character of a legislature never, I believe, disgraced the annals of the world". "Rhode Island has not many more strides to make to complete her disgrace, and ruin too, but that is not all—she is likely to hold a distinguished rank among the contributors to the ruin of the federal government."

In 1787 the state debt amounted to £153,047 15s. 9d.<sup>1</sup> This debt was called in in four installments, the last being due in 1789, and ordered paid in paper money depreciated to from 6 to 9 for 1. All debts not thus presented for payment were declared forfeited. Under the four calls there was redeemed the sum of £79,349 0s. 2d.<sup>2</sup> The assembly also voted to pay the taxes and requisitions of congress in paper money, and in retaliation congress approved the action of the commissioner of the loan office in refusing to issue indents of interest on loan office certificates, asserting that it was manifestly improper to make payments of interest to the state after it had declared its obligations payable only in paper currency. In September, 1789, the notes had sunk to about 30 to 1 and the legal tender act was repealed. A scale of depreciation was established. Soon after the return of the sound money party to power in 1790 the burning of the bills commenced, and by 1803 £96,646 had been destroyed. They were, however, receivable for taxes at a rate of 15 for 1 as late as 1819.

The accounts of Rhode Island during the seven years war were kept so negligently that the colony was never fully reimbursed by England, as were the other colonies. The accounts of the Revolution are equally unreliable.

<sup>1</sup>Of this sum notes for £46,000 had been issued to redeem the 4 per cent. notes of 1777. The assembly passed an act requiring all holders of such notes to state when they got them and how much they received them for, and this reduced value, if any, was to be endorsed on the back of the notes.

<sup>2</sup>£29,151 1s. 8d. of the amount were the 4 per cent. notes.

The United States by acts of August 4 and 5, 1790, made provision for funding its debts and a portion of those of the states. Three classes of obligations were recognized. First, those due from the United States to individuals, consisting of loan office certificates, certificates given for supplies and for pay of soldiers, certificates issued by the register of the treasury for individual loans, indents of interest, and continental bills of credit at the rate of 100 for 1. The claims of the citizens of Rhode Island on these accounts were \$598,990.98. They were allowed and funded stock issued for them. The second class consisted of the arbitrary amount of \$21,500,000 of the state debts to individuals which the United States assumed. The debts thus assumed consisted only of those incurred by the state for services and supplies in carrying on the war. The claims of Rhode Island's creditors amounted to \$344,259.49. Of this sum Rhode Island's quota was \$200,000. This amount was paid in funded stock to the state and distributed pro rata to the state's creditors, leaving a balance of \$144,259.49 unpaid. The third class consisted of all equitable claims between the states and the United States.<sup>1</sup> The net balance in favor of the state on this account was \$299,611. This sum was paid by the United States in funded stock. The arrangements were not all completed until 1795, when accrued interest from 1790 seems to have swelled the amount due to \$420,000.

In 1791 the assembly had repealed the repudiation acts of the paper money party and had ordered that the payments of the state debt, made in depreciated paper money, should be reduced to specie basis and notes issued to the creditors for the depreciation, but there had been an express provision that in renewing its obligations the state should not "be held or obliged to pay on any of the said securities, on any other terms" than those proposed by the act of congress of August 4, 1790. The state thus made itself simply the agent for congress in arranging the transfer of indebtedness. But in 1795 the total claims presented amounted to \$503,494.66. Of these \$419,662.30 was paid by transfer of the \$420,000 certificates of United States stock and \$83,932.46 was left unpaid. This sum was increased by various acts from that time until 1806 when the amount due had reached \$138,670.35. For these amounts the state issued its notes with interest at 4 per cent. "until paid". This was the Rhode Island Revolutionary

<sup>1</sup>The state was credited with all advances made by it to the Union and all disbursements made by it for general defence. It was charged with all advances made by the Union to it and with the \$200,000 of its debts assumed by the United States. The sum allowed to the credit of Rhode Island was \$3,782,974.46. The state was charged with \$1,977,608.46, leaving a balance due of \$1,805,366. The same principle was followed with the other states and the total balances due all the states was found to be \$77,666,678. This balance was then apportioned among the states and charged back to them in proportion to their population. The amount charged back to Rhode Island was \$1,505,755, leaving the balance above stated.



debt. By its issue of certificates payable by itself to the bearer, and various other like acts from 1795 to 1803, by an act of 1797 paying interest on the certificates and by the issue of interest certificates receivable in payment of taxes, the state seemed to recognize its legal obligation to pay the Revolutionary debt. On the contrary the state never seems to have specifically and fully assumed the principal of the debt, and claims were made that the certificates were issued because the legislature expected that the United States would make provision for assuming the debts of the states which had been left unpaid in 1791—especially as the federal constitution gave to congress the sole and exclusive power over commerce, and thus deprived the state of its revenues which had been expressly devoted to debt payment. Many of the claims were doubtless spurious, and subsequently many of them got into the hands of speculators. From time to time between 1803 and 1820 the state purchased the certificates at from 75 cents to 57 1-2 cents on the dollar, thus paying \$66,053.46 for a face value of \$94,753.-21. After a controversy lasting until 1847 the remaining sum of \$43,971.19 was repudiated. Thus this portion of the state debt was practically repudiated twice—in 1787 and in 1847. It is interesting to note that when, in 1787, the paper money party was considering the state debt and the disposal of it, the report of the committee in March was printed and sent to the towns with a request that they send their deputies instructed to act with regard to it. A hundred years had passed since the referendum had been applied to a tax levy and this was the last use of it in Rhode Island. It is unpleasant to record that the result of it seems to have been at least a tacit approval of a scheme of repudiation.

Turning now to some minor forms of income, we find that the taxes on trade and commerce, consisting of taxes on traders, peddlers and auctioneers, and tonnage duties, imposts and excise, attained a greater degree of definiteness during this period, and the latter classes also became from 1783 to 1790 a source of considerable income. The tax on peddlers originating, as we have seen, in a tax on merchants and traders in 1699, was modified so as to prohibit peddlers from doing business in the state in 1713, and after various changes, beginning in 1728, became in 1750 an act taxing non-resident persons doing business in the towns the same as residents. Auctioneers had been subject to a license of two and one-half per cent. on their sales since 1719. This tax inured to the towns and during this period must have been a large source of revenue. For a few years of the Revolutionary period vendues were prohibited; but the law was repealed in 1780.

During the period from 1713 to 1744 tonnage duties, which were primarily levied for the benefit of the fort and lighthouse, seem to have been almost if not entirely abandoned as a source of income. In May, 1744, a tonnage duty of 6*d.* per ton was imposed on foreign going

vessels and *3d.* per ton on coasters, the proceeds to be used in maintaining Fort George. Immediately after the treaty of Aix a lighthouse at Beaver Tail was built at a cost of £5,213 11s. 6*d.* and the tonnage duties, then called lighthouse money, were appropriated to pay part of its cost and the subsequent cost of maintaining it, but they fell far short of the amount required.<sup>1</sup>

With the impost duties previous to 1783 financial history has little to do. England took the regulation of colonial trade in hand by means of acts of commerce early, but those chiefly affecting Rhode Island were the Sugar act of 1733, imposing a duty of *6d.* per gallon on molasses and its renewal in 1764 with the duty reduced one-half. Duties were levied also on other foreign goods, but the proceeds went to England.<sup>2</sup>

It appeared, however, from a protest against the revival of the sugar act in 1764, that about 11,500 hogsheads of molasses were imported annually from the French West Indies. The proposed duty at 3 pence per gallon would have yielded over £9,056 sterling. Recalling the fact that the duties of the act of 1733 were *6d.* per gallon, we need not wonder at the prevalence of smuggling nor at the official connivance of it. As molasses was quoted at *12d.* a gallon, such rates were a heavy burden.

The first impost act of the State of Rhode Island was passed in February, 1783, for the purpose of paying the interest on its public securities. It provided for duties on all sorts of imported articles, some specific and some ad valorem, but mostly the latter at a rate of two and

<sup>1</sup>The duties were collected by the naval officer. The rates of duty were increased as paper money depreciated, reaching in old tenor *8s.* per ton for foreign vessels, and *60s.* each for coasters. Some estimate of the importance of the colony's trade can be gleaned from the reports of "lighthouse money". In the two years from August 13, 1751, to July 20, 1753, 18,914 tons of vessels trading to foreign ports and 442 coasters were entered and cleared. The duties collected amounted to £1,639 11*s.* In the two years from May, 1763, to May, 1765, the tonnage of foreign going vessels was 12,352 and the number of coasters was 598. The duties amounted to £5,292 11*s.* 8*d.* old tenor. The cost of maintaining the lighthouse in the same period was £6,355 5*s.* 8*d.*, thus showing a large deficit, which indeed was usually the case. For the year from May 7, 1772, to May 4, 1773, 9,711 tons of foreign traders and 460 coasters passed into the harbor, and the income in lawful money was £176 5*s.* 9*d.* In the year from July, 1784, to July, 1785, the receipts at the four seaport towns, Providence, Bristol, East Greenwich and Newport, seem to have been about £475, and as the rates of tonnage were slightly more than two and a half times as large as those of 1772, being *8d.* per ton instead of *3d.* on foreign bottoms, we may conclude that the state's commerce had increased but slightly, if at all.

<sup>2</sup>The point of contest between the colony and the mother country lay in the insistence by the former on its right to fix the fees of the collectors of customs appointed by England's authority, on the ground that the colony had full powers to regulate the salaries of all local crown officers. The colony had taken special pains since the first appointment of a collector in the previous century to modify his fees as often as possible, in order that its rights in the premises might not seem to lapse by a failure to exercise them.

one-half per cent. It was an excise law as well, and levied a tax on the manufacture of cider and an annual tax on billiard tables, carriages and dogs. The act, however, was too complex. It was repealed in June, and a law imposing a duty of two per cent. on all goods, with a provision for drawbacks on goods in transshipment, was substituted. Collectors, called intendants of trade after 1784, were elected for each county by the general assembly. They had two and one-half per cent. commission for collecting, and though required to render quarterly accounts, seem to have made reports about once in every two years. The law was amended in June, 1784, and the rate of duty increased to two and one-half per cent., and in February, 1785, some specific duties were imposed on liquors, sugar, coffee and cocoa, while the ad valorem rate on other goods was again increased, this time to five per cent. The duties seem to have been evaded and a penalty of £25 was imposed on all vessels breaking bulk or not entering their cargoes within twenty-four hours after arrival, and a discriminating and additional duty of seven and one-half per cent. was imposed on goods imported in British vessels. Although most of the increases in duties were levied for the purpose of increasing revenue—and indeed had that effect, as the amount of impost collected in the year ending May, 1785, was more than double that collected during the previous year—the evident purpose of the discriminating duty against goods brought in British vessels was more fully embodied in a law passed in the following month, entitled an act for imposing additional duties on imported goods “for encouraging the manufacture thereof in this state”. This was distinctly a protective tariff and its schedules were complete. The rates on metals, goods, tools, paper, cards, hats and leather goods were 20 per cent. ad valorem, with a few very high rates on coarse grade iron products, such as 1s. each on axes. Cordage paid five per cent.; tobacco ten per cent.; ready-made garments, toys, and in general articles of luxury as well as the more easily manufactured articles, were subject to a tax of 25 per cent. Some of the rates were scarcely above a revenue standard, but when considered in connection with the cost and time of transportation they were much more protective than similar rates would now be. Various evasions of the heavy duties were attempted by importers, and among others it was a favorite device of foreign vessels to carry two sets of papers, one showing their true ownership, the other showing ownership by American citizens.

No excise law was in force subsequent to the repeal of the law of February, 1783, in June of the same year, until the act of March, 1786, the action of which was suspended at the first session of the general assembly held by the paper money party in May. But another excise act was soon passed. It levied annual taxes on liquors, teas, coffee, cocoa, sugar and lemons. Retailers were required to make semi-annual returns in May and November of the amounts of such goods

sold and to pay the excise on them. Collectors of excise were vested with the same plenary powers as tax collectors. The annual taxes on carriages varied from £4 to 7s. 6d., on horses over two years old, 3s., on dogs 3s., and on billiard tables £6. Ministers, instructors in colleges, and masters of grammar schools were exempt from the excise on chaises and horses. These taxes were additional to the impost duties and were appropriated to paying interest on the state debt. In December clocks and watches were added to the list of annually taxable articles. At the same time the protective tariff act of 1785 was repealed and duties of five per cent. were imposed on all imports. Under this act for the first time the proceeds of the duties were not devoted to the payment of interest on the public debt, but were merged into the general state funds to be disposed of by the general assembly. In May, 1789, Rhode Island, commercially ostracized by the United States, adopted a retaliatory tariff, providing that such duties should be charged on the imports from other states as they charge on imports from Rhode Island, and in September a tariff act was adopted practically in conformity to the United States act of 1789.

The intendants of trade, whose duties included those previously exercised by the naval officer and collector, were, as we have seen, first elected by the general assembly, but in 1787 the governor was vested with their powers and given power to appoint deputies to perform the actual duties of the office in the various counties and towns. It is worthy of note that the naval officers and the deputy intendant of trade seem to have been almost if not quite the only officials appointed solely by the governor during the colonial period.

The duties collected under these various acts can only be given in the aggregate for certain periods, as the reports do not discriminate between imposts and excise and are otherwise not complete; a typical year will suffice to illustrate them.<sup>1</sup> The gross amount of duties collected in the whole state from October 1, 1789, to September 30, 1790, was \$20,890.84. The cost of collection was \$1,150.96, and the discounts or drawbacks allowed were \$2,064.58, leaving a net of \$17,675.29. Assuming the state debt to have been about \$700,000, the impost, if it had all been appropriated to interest payments, would have discharged about two-fifths of the interest accruing at a rate of 6 per cent.

<sup>1</sup>From the beginning of the impost act in July, 1783, to November, 1785, the duties received at Providence amounted to £7,828, while those of Newport, from July, 1783, to September, 1785, amounted to £5,709. During the whole period from 1783 to May, 1789, the duties received at Newport and Providence respectively were £15,073 and £17,067. From some subsequent reports of delayed payments it would seem that a large portion of such duties were refunded under the drawback clause covering goods imported for use in manufactures for export. There were duties and excise collected in Bristol, Kent county, and Washington county. The amounts varied from £50 to £500 annually, averaging about £250 for all combined.

General property taxes were levied, as we have seen, from 1744 somewhat intermittently. It is quite impossible to make an accurate estimate of the relative importance of local, state and continental taxes during the Revolution, because, in spite of the recommendations of congress to the contrary, they were nearly always levied and collected at the same time, and as the tax officials were the same for all kinds of taxes, and were legally responsible for them, the arrears of a local or state tax were frequently paid from the sums collected on a subsequent state or continental tax. The state to a large extent paid the expense of its own troops, and when its funds were depleted, appropriated for state purposes taxes levied for continental purposes—though always with the intention of repaying the same later. The town and Island of Newport were occupied by the British forces from December, 1776, to October, 1779. The valuation of the island was about one-fifth that of the whole state and it contained about one-third of the most fertile land of the state. It was impossible to collect taxes in this district. Between 1774 and 1782 the population of the whole state decreased over 12 per cent. In 1780 taxes had become so burdensome that Governor Greene requested congress to allow the state to contribute its quotas in products raised in the state, and that its money taxes be expended as far as possible in the state in order to preserve a currency medium. Morris refused the request, as the collection and disbursement of such taxes was peculiarly subject to losses. Nevertheless taxes were levied in products at times. In 1778 an assessment of 3,000 pairs of woolen stockings was levied and they were valued at \$14 a pair. In 1781 a tax of £1,200 gold or silver was levied, payable in good merchantable ox beef fit for slaughter, to be delivered at the house of Israel Bowen in Coventry, at 40 shillings per hundred weight. Mr. Bowen received 39 cattle weighing 28,780 pounds—not quite one-half of the tax. The economic condition of the people was an insuperable obstacle to the collection of the taxes. It is doubtful if the collections during this period amounted to over one-half the sums levied, and it is not improbable that during the years 1778-1781 the collections did not exceed one-third the assessment. Between 1777 and 1781 £3,260,000 of paper money taxes were assessed. They were approximately worth in gold £145,000 and constituted a per capita annual specie tax of about 13 shillings. In January, 1781, continental bills had depreciated to about 75 for 1 and soon after reached 200 for 1. Public accounts began to be kept in terms of coin in 1781 and taxes were therefore levied in gold and silver. During the five years, 1781-1785, the taxes levied amounted to a little more than £144,000, or about an annual per capita assessment of 10s. 6d. The average annual tax during the war was about 60 to 80 per cent. greater than during the period of the Seven Years' War, and the economic condi-

tion of the people during the former period was far better, the years 1760-1770 being the most prosperous decade of Rhode Island commerce.

The system of taxation between the years 1744-1800 underwent some administrative changes, more legal changes, but most of all changes in the objects of assessment, methods of valuation and methods of state apportionment. Inseparably connected with all of them as fundamental causes were certain phases of the political and constitutional contest between centralized government and localism typical of all Rhode Island history.

With regard to administration, it was noted in the earlier period that the change in the character of a tax from a voluntary to a compulsory contribution was attended by the selection of assessors, sometimes by the state and sometimes by the town; sometimes the assistants, who were state officers serving in that capacity, and sometimes other strictly local officials; sometimes receiving pay out of the tax and so from the state, and sometimes receiving pay from the town, until 1704, when three assessors, elected and paid by the locality, became regular officials. Much earlier also we saw that the constable became the regular collector, and also that though elected by the local political body, his duties were far greater as preserver of the state's peace than as preserver of the local peace, and hence, as his pay consisted of fees and commissions, his association with, and responsibility to, the central government was close and direct. He had therefore dual responsibility. The differentiation of administrative methods during the present period concerns the collectors and collection of taxes rather than the assessors.

The tax laws from 1744 specifically imposed the cost of assessment and collection on the localities. By a law of 1748 the towns were authorized to appoint collectors of colony rates with powers accountable to the colony, "as constables have been heretofore", and in 1754 the law was amended and became mandatory instead of permissive. The importance of the change thus made, whereby the collection as well as the assessment of taxes was vested in locally elected, locally paid officials, and therefore, though in theory unaccountable to the state, yet in fact wholly subject to local sentiments and having only local responsibility, was perhaps not understood at the time. It was closely associated, however, with two other important changes in the laws and methods of taxation.

We have noted that an attempt was made to remedy the inequality of the apportionment of the state taxes by "guess work" in the earlier period, through a system of taxing individuals directly, and that the attempt was a failure. The complexity of objects of taxation led to a request in 1707 to the local assessors to send their valuation lists to the

general assembly, so that it might apportion "each town's rate in equality". Local assessors' valuations were the basis of state apportionments until 1762. The valuation adopted in that year was made by two local assessors, aided by two assessors appointed by the assembly for each town, and their returns were subjected to revision by a committee of the general assembly. Strictly speaking, this was the first state valuation ever made.

In 1748 also the towns had been vested with power to levy taxes on estates or polls or both for defraying the annual charges and paying their debts.

These three changes occurring in close sequence had important legal effects. They mark the time of the complete severance of local and state taxation. The whole field of local taxation was left solely to the towns. On the other hand, the state, which, during the earlier period, had so signally failed to evolve a system of equitable taxation, now solved the problem by practically abandoning direct taxation of individuals and relying wholly on taxation of the towns as political units, by a system of apportionment made by a state board of valuation. If the state thus lost something of the always desirable close association of the governing with the governed, it gained much in simplicity of system, and though its sovereign power of taxation was much less obtrusive to the individual, it was much more practical. These changes were normal results of a system of state taxation, which in deference to a spirit of localism had sacrificed nearly every evidence of its sovereign origin to administrative efficiency.

The clearer definition of the scope of state activity in matters of taxation left the scope of town activity likewise much more definite. The town now stood between the individual and the state in fiscal matters. The fiscal and corporate entity of the town was much more clearly recognized. In the earlier period the state had had, and had at times exercised, its rights of legal process against local assessors and collectors when the towns were delinquent. Such methods were now also abandoned and the town treasurer, as the legal representative of the financial corporation, became the official against whom the state proceeded when the town officials failed to assess a tax or the town failed to pay its assessment. This method of procedure was embodied in the tax law of 1777. The spirit of localism was thus emphasized in another way. Such emphasis was an important matter when, instead of an individual complaint of over taxation, a whole town felt itself aggrieved and appointed itself judge of the justice of its cause.

The discussion of taxation, therefore, shifts to methods of valuation and apportionment, and for a proper understanding of this phase of the question the reader must keep in mind the peculiar force of the landed franchise as an expression at once of primogeniture and of the

persistence of the power of the landholder in government, and especially the contest between Governors Ward and Hopkins for political supremacy, then at its height—a contest the more intense because it concerned not principles but persons. Mr. Hopkins's home was originally in Scituate and later in Providence. Mr. Ward belonged in East Greenwich. In the state valuation of 1761, adopted in 1762 when Hopkins was governor, woodland was assessed at one-third its value, improved real estate at twelve years' rental, livestock and negroes at full value, trading stock and money at one-half value, and vessels and cargoes at sea at one-third value. Aside from the much greater difficulty of assessing trading stock and money than in assessing livestock and negroes, and the consequent evasion of the former, there was evident injustice in the scheme which taxed the floating capital of farmers, consisting of livestock, at full value, while taxing the floating capital of merchants consisting of trading stock and money at one-half value.<sup>1</sup> The country towns protested against the bill, but it was passed. Mr. Ward was elected governor at the ensuing election. In 1763 and 1764 taxes were levied in accordance with this valuation, but in 1765 and 1766 some changes were made whereby heavier proportional taxes were laid on some towns in Providence county, the home of Mr. Hopkins, than before. The towns refused to assess the taxes, claiming that they were neither lawful nor just. The state began suit against Scituate, but offered to settle on payment of the taxes and costs and make a new apportionment and valuation; if the town then appeared to have been overrated the excess was to be refunded with interest; if it appeared to have been underrated the town was to pay the excess with interest. Scituate refused to accept those terms and the state was powerless to coerce it. At the next election Mr. Hopkins and his party returned to power, and although twenty-seven members of the legislature protested and declared that "the general assembly are the only supreme judges of taxation in this colony", and that other towns led by this example may "refuse to pay obedience to the acts of the general assembly", it was voted that Providence, Cumberland and Scituate proceed to levy and assess the last two taxes according to the apportionment of 1762. The amounts gained by the three towns in the two taxes were £235 and £112, respectively. These sums were assessed on the other towns of the state with legal interest added.

In this contest between the towns and the state over the enforcement of a tax statute some fundamental constitutional questions were raised. The sovereignty of the general assembly in matters of taxation had not been questioned since its claim to that power in 1678. The assembly had not expressly declared that the law of valuation

<sup>1</sup>By this scheme also trading stock at sea in the form of vessels and cargoes at sea was in fact only taxed one-sixth of its value.



and apportionment of 1762 should be the basis of future taxes until a new valuation was made, but such was the general interpretation of its contents. There was nothing to prevent a succeeding session of the assembly from exercising its sovereign power in repealing the act and making a new apportionment; nor did the towns deny such a claim. They asserted, however, that a new apportionment must be just, and that to be just it must be based on a complete revaluation of the state and not be subject to change at the caprice of every session of the general assembly. Their successful protest virtually decided that one general assembly could bind the method of action of its successor, that the intent of a law must be observed until the law is expressly repealed, and that the towns and not the courts were the final judges of the equity of a law. This was something of a legal revolution. It erected a law defining the method of apportionment of taxes into the nature of a contract between the state and the towns. It raised a statute into the realm of constitutional law. It made the towns supreme judges of the powers of the general assembly, and to that extent limited the sovereignty of the latter.

The effect of these events would doubtless have been more marked and far reaching had they not been so intimately associated with the political excesses of the Hopkins-Ward contest. Protests were made to nearly every tax assessed by the state from 1759 to 1796, and in the latter year Providence itself refused on much the same grounds as before to levy a tax, stating in its protest to the general assembly that it was "unconstitutional", but in no case except in 1767 did the protesting town ultimately fail to acquiesce. The incident may therefore be looked upon as illustrating political as well as constitutional development. A new valuation of the state in 1766-67 was the result of the controversy.

During this period the enactment of laws defining specific objects of taxation and fixing their values was abandoned and in their stead was substituted the custom of taxing all forms of property, the law specifying only the exemptions. Not what was, but what was not taxable became the subject of legislation.

The first law, that of 1744, specified very low values for livestock and slaves, four years old cattle and horses being rated at £10, and sheep at 15s., when paper money was depreciated to at least 5 for 1. Trading stock was rated at one-half value, and real estate at ten years' rental. In personal estate was included "money, bonds or other estate that lies concealed". This was to be rated at full value. The law was peculiar in providing that those who made profit by their faculties were to be taxed accordingly.

The features of the law was its leniency toward most working capital; accumulated savings in the form of intangible property and

faculty being alone taxed at full value. A table will clearly illustrate the changes in the form of valuations, beginning 1744 and ending 1796.

	1744	1762	1767	1796
Improved lands .....	10 yr's. rental	12 yr's. rental	20 yr's. rental	full value
Unimproved lands .....	-----	$\frac{1}{2}$ value	full value	"
Live stock .....	nominal	full value	"	"
Manufacturing plants.....	10 yr's. rental	12 yr's. rental	15 yr's. rental	"
Trading stock .....	$\frac{1}{2}$ value	$\frac{1}{2}$ value	full value	"
Other personality .....	full value	$\frac{1}{2}$ value	"	"
Vessels and cargoes at sea.....	-----	$\frac{1}{2}$ value	$\frac{2}{3}$ value	$\frac{2}{3}$ value

The members of the valuation committee of 1766 were instructed to deduct personal indebtedness from the individual ratings if they saw fit. In 1769 religious and educational property was exempted from taxes, and during the Revolutionary period debts due from debtors in Great Britain were excluded from personal assets. These debts, as we have seen, were subsequently assumed by the state. In 1784 they were again included in taxable property. The act of 1795 exempted farming and mechanics' tools, household furniture and one-third of property at sea.

The abandonment of the attempt to specify the various kinds of taxable property was accompanied also by the abandonment of the attempt to discriminate in favor of certain kinds of property, and doubtless the unsettling of values during the Revolution tended to that end. A tax assessment law of 1779 was the first to specify that all property should be rated at its full value. Perhaps also the unsettling of all industry was the cause of the exemption of certain necessities of life in the form of household goods and tools already mentioned. The faculty tax of 1744 was not re-enacted in any subsequent laws. The tendency of these changes in tax laws was to leave more and more in the hands of local assessors the determination of the scope and methods of local taxation.

As to methods of assessment: a peculiar law was enacted as the result of war exigencies in 1778, when in the absence of the owners of lands, the tenants of farm lands who had occupied them one year were taxed for the lands they occupied. In 1782 the idea was expanded into a general law taxing all leased and rented real estate to the occupier, and the provision continued in force nearly fifty years.

There were a few other sorts of income during the few years subsequent to the Revolution, but they were not important.<sup>1</sup>

Of expenditures during the Revolutionary period little need be noted. The contributions of Rhode Island and her citizens, in the

<sup>1</sup>The rental and sales of confiscated estates, the latter sum amounting in 1781 to 1792 to £15,931. Such funds should have been used to redeem the bills of credit issued upon them in 1780, but they were diverted to other uses. The interest on the bank of 1786 was not regularly paid, the receipts for the first six years being only £15,611 10s. The income from fines was very irregular during the war years. In 1796-97 the amount collected was \$615.27.

form of money loaned to congress, taxes paid and loans made to the state, were about \$2,600,000. These figures include interest to 1790, and the principal sum at the close of the war in 1783 may be calculated at about \$1,830,000, or nearly \$230,000 annually. Had the whole sum been raised by taxes during the war it would have amounted to a per capita charge of \$4.30. The amounts advanced to "invalids" for pensions to April, 1786, were £3,334 2s., and from 1786 to 1792 £18,075 2s. 5 1-2d.

The normal expenditures of the peace period were still confined to a small salary list and a few thousands for internal improvements. In 1795 the ordinary expenses were about \$5,000 annually, and for the previous few years about \$8,300 had been expended chiefly on the court houses and prisons. In 1800 the ordinary expenses had risen to about \$6,000, estimated by the treasurer as follows: Governor's salary and fees for signing commissions, \$675; lieutenant-governor's salary, \$300; attorney-general's fees, \$300; five justices of the supreme court, \$1,900; general treasurer, printing and stationery, \$250; other expenses, \$1,375.

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#### PART III—1800-1900.

##### *A Century's Expansion.*

The sources for this period are the acts and resolves and reports of the general assembly, reports of the treasurer and auditor, and the newspapers of the time.

The finances of the nineteenth century present points of marked difference from those of earlier date. Questions of taxation no longer involved the constitutional relations between the local and central government, the supreme authority of the latter being fully recognized. The development of manufacturing and the shifting of population from the country to the towns—Providence having had 11 per cent. of the state's inhabitants in 1800, 28 per cent. in 1850, and nearly 43 per cent. in 1900—has been attended by wholly new problems in finance. The increased duties and functions of local government have increased the expenditures of the cities and towns so much beyond those of the central government as to almost overshadow them. The following table will illustrate the comparative growth of the expenditures of the state and the city of Providence:

Expenditures	1800	1825	1850	1875	1900
of State	\$6,200	\$18,300	\$92,000	\$595,200	\$1,351,600
of City	10,400	38,000	163,100	3,771,200	4,965,500

The legal aspect of taxation since 1825 has been directed to an ever

increasing mass of intangible personalty, and toward the proper methods of assessing legal persons in the form of corporations.

The tendency of taxation from a sole reliance on general property was foreshadowed in 1798 by the first of a series of laws imposing special taxes on occupations and trades. In June an act was passed taxing every attorney \$20 on his admission to the bar and \$8 annually. A tax of twenty-five cents was laid on every writ, and the proceeds of all the taxes were devoted to paying the salaries of the judges of the supreme court. These three sources produced an income of \$1,165.50 in the two years 1797-99, not quite a third of the annual salaries of the judges.<sup>1</sup> License taxes were gradually extended and increased in amount. Licenses were charged for shows, exhibitions, billiard tables, shooting galleries, bowling alleys, liquor selling, peddling and the sale of goods by auctioneers. They were, however, received by the town councils and seemed to have been wholly used for local purposes. In 1822 a state law was passed imposing a duty on licensed persons and bodies corporate as follows: On every person licensed by the town council of the several towns, \$2; on every officer accepting a civil commission, \$1; on every clerk of the supreme court or clerk of common pleas, ten per cent. of all fees over \$400; on every money broker, money changer and vender of foreign lottery tickets, \$100; on banks, except the United States bank, fifty cents on every thousand dollars of capital stock actually paid in; on every insurance company, except mutual fire insurance companies, one per cent. of the amount of their dividends; and on agents of foreign insurance companies, \$200. In the same year hawkers and peddlers were subjected to a license fee of \$25. Auctioneers paid a duty of one per cent. of sales. In 1826 a duty of one per cent. was imposed on each and every class of lottery which might be drawn in the state and upon any amount sold by any bearer or vender of lottery tickets. Many changes have been made in these laws. At the present time hawkers and peddlers pay a state license varying according to the character of goods vended from \$200 to \$60 for the whole state and from \$50 to \$15 for one of the small counties. Itinerant venders pay both a state and local license of \$25 and \$5 each, and under existing statute the towns pay to the state one-half of the license fees on bowling alleys, pool and billiard tables and on exhibitions. Auctioneers pay a duty of one-tenth of one per cent., one-eighth for the use of the town and the remainder for the use of the state.

Licenses were issued by the towns to agents of foreign insurance companies until 1844. The taxes on insurance companies in general have been frequently modified by laws imposing specific taxes on agents of foreign insurance companies of from \$200 to \$350 each, and taxes on companies incorporated in the state at a rate of \$300 for stock

<sup>1</sup>The annual tax was abolished in 1812.

companies and \$200 for mutual companies annually. All such taxes, however, were superseded in 1881 by a tax of two per cent. on premiums and assessments. The taxes and fees of the clerks of court have been abolished by the introduction of the salary system. In 1872 the tax on civil commissions was increased to \$2.

Of the special taxes that on lotteries was one of the most productive. Lotteries had been introduced by private parties early in the eighteenth century; they had been forbidden by law of 1732 but were licensed in 1744, and just one century afterward the last one, granted in 1839 for five years, expired. They were prohibited by the constitution of 1842. They were a prolific source of income, but though used to some extent to procure funds for public improvement, they were used even more for private purposes, and the receipts from them sel-



TICKET IN THE PROVIDENCE FIRST CONGREGATIONAL LOTTERY.  
From the original among the Providence Town Papers.

dom appear as a part of the state income. They reflect the moral standard of their time and were a fitting accompaniment to the wholesale issue of paper money. The economic ills which they caused were incalculable, but they had the sanction of the well-to-do and educated classes until far into the present century. The objects to which they were devoted were varied. Introduced first for building Weybosset bridge, they were granted for building churches, parsonages, furnishing funds for educational institutions, building the market house in Providence and constructing roadways, repairing public buildings and building piers. Those who had become bankrupt by paper money and could not dispose of their property to advantage platted their land and issued lottery tickets against it. Those who suffered by fire on

land or by storm or pirates at sea recouped their losses from their fellow citizens by a lottery. Brown University profited by a lottery scheme, and the steeple of the First Congregational meeting-house is a monument erected by an appeal to the gambling spirit of lotteries.

The lottery taxes of one per cent., imposed in 1826, yielded, during the four years 1827-31, sums varying from \$7,000 to \$16,000 and averaged about \$12,000 annually. Beginning in 1831 it became customary to pay a specific bonus in lieu of the tax, the usual sum being \$10,000. The state's income under this system averaged about \$9,400 a year until lotteries were prohibited. The appropriation of the income from lotteries to the establishment of a permanent school fund in 1828 was a peculiarly fitting use for the state's share of the proceeds of a system sanctioned by ignorance and productive of vice.

Another tax, more important and equally easy to collect, but not now productive, was the tax on banks. It was first levied by a law of 1804 and imposed a duty of one-third of one per cent. on their capital stock. The representatives of Providence, Bristol and Newport counties opposed the passage of the act vigorously and attempted to have the rate reduced to one-fourth of one per cent., but failed. The ground of objection was that it unjustly discriminated against a peculiar form of business, but its advocates claimed that incorporated institutions like banks, by terms of their charters, possessed peculiar advantages and privileges and should bear a share of the public burdens proportionate to the special privileges thus granted to them by the state.<sup>1</sup> Opposition was powerful, however; the banks delayed returns and tax payments were deferred. The law was repealed in the following year. It was revived in 1822, but with the tax fixed at a much lower rate of fifty cents on every thousand dollars of capital stock. The rate was increased from time to time until in 1853 it reached thirty-three cents on each one hundred dollars. Both because of the increase in the rate and the increase in banking capital, the income increased from a little over \$2,000 at first to an average of nearly \$70,000 in 1860. In 1831 an additional tax of two and one-half per cent. on every increase in capital stock was imposed, and during some years a bonus of one and one-half to two and one-half per cent. on the capital stock was paid for the grant of a charter. In 1849 a tax was also levied on all reserved profits over four per cent. of the capital stock. Opposition to the tax of 1822 was more vigorous but less successful than in 1804. The banks claimed that their charters were contracts between themselves and the state, that the vested interests of their stockholders and customers were inviolable, that they were legally and fully performing their part of the contract by offering certain advantages arising out of banking facilities to the public. The supreme court, however, decided that as the charters contained no

<sup>1</sup>The extraordinary nature of those privileges will be discussed later.

clause conferring on them immunity from taxation they were not exempt.

Taxes under this law ceased to have any importance after the national banking act. In 1860, however, a tax of fifteen cents was imposed on each \$100 of deposits and reserved profits of savings banks. The rate has been increased to forty cents and now yields over \$350,000 annually—being about one-fourth of the state's total income.

Licenses for the sale of spirituous liquors were, as we have seen, early regulated by the state. In 1709 the rate of license was fixed at £10, and in 1728 the distinction between retail and wholesale seems to have been for the first time clearly made, the restrictions on the sale of intoxicants having previously, and indeed for many years afterward, applied rather to the classes of persons who were allowed to buy than the quantity sold. The license question was therefore rather social and local than financial and state, and in the enforcement of the laws much was left to the discretion of the town councils. The social aspects of the question were strongly emphasized in a proposed bill submitted to the towns for approval in 1753. In this interesting instance of the survival of the referendum stringent clauses were proposed in regard to illegal selling and more efficient methods of meting out justice to violators of the laws were provided, but as in the case of the reference to the towns of the question of the repudiation of the state debt in 1787, we have no record of specific action having been taken. The purely local scope of license is further illustrated by the facts that until 1822 the whole of the license fees inured to the town, and the fines for breach of the law were devoted, one-half to the use of the poor of the town and one-half to the complainant, until 1826. In the former year \$2 was paid to the state on every license granted, and in the latter year one-half of the fine was taken by the state.

Much of the discretionary power lodged in the town councils had been directed also toward the selection of the proper persons and the determination of the number who should be licensed. The state had aided them in this respect to some extent, but the last state restrictive enactment bears the date of 1806. Retail selling by the law, that is, the sale of less than a pint to be drunk on the premises, was confined to tavern-keepers. The law was repealed in 1817 and licenses could be granted to any one.

The license fee was small, being \$4 to \$20 by the law of 1798. The assumption by the state of \$2 for every license and a share of the fines, together with the increase of the rate of license to \$5 and \$50—the result of the wave of temperance agitation in 1830—mark the beginnings of the fiscal importance of liquor selling.

The public attitude toward liquor licenses has resulted in various laws affecting the traffic since 1830. Thus, from 1838 to 1841, and from 1845 to 1852, local option prevailed. From 1841 to 1845, from

1852 to 1863, and from 1874 to 1875 legislative prohibition prevailed. From 1886 to 1889 constitutional prohibition was in force, and since that time license with a modified form of local option has been provided for. During the periods of license the state and indeed the local income was of relatively little importance, as until 1867 the retail license fee was only \$50. But beginning in 1863 the state took a portion of the license money. The amount then by law appropriated to the state treasury was three-fourths of the local receipts. This law may be looked upon as a war measure. Soon after the war, namely, in 1867 the state's share was reduced to one-half, but at the same time the first reasonably high license law was enacted. The distinction between a wholesale and retail business was determined by the value of the liquors sold, \$30,000 of business being the dividing line; all dealers doing over that amount of business paid \$500 and retailers \$350. The receipts from the city of Providence, owing to these two changes in the law, increased from about \$5,000 to \$34,000 in one year. The state's share was again reduced in 1889 to one-fourth of the local receipts, and the wholesale license fixed at from \$500 to \$1,000, while the first-class retail was only advanced to \$400. The state income from liquor licenses in 1900 exceeded \$109,600 and that of the towns \$338,000.

Owing to the large income from the various special license taxes and the receipts from the United States deposits, in 1837 and a few years thereafter, the state levied no general property taxes on the towns from 1824 to 1849. Taxation was, however, still maintained by the towns for local purposes, and the law governing it developed almost wholly along the line of exemptions and the classification of corporate property. On its administrative side taxation has made but slight advance within the century. The old form of a personal return under oath, required by the law of 1704, is still relied upon as a means of reaching all kinds of property, although returns ceased to be made to any great extent about the year 1830. The personal returns occasionally made since that time, especially those of recent years, have been in most cases only made as a means of escaping taxes imposed by the assessors. The taxpayer has no redress from over assessment unless he has previously made a sworn return. Responsibility for the enforcement of the law rests, therefore, upon the assessors.

The law of 1748, authorizing the towns to assess taxes for defraying incidental expenses and for paying local indebtedness "on real or personal estates or both, and on polls", was interpreted as giving to the town the option of levying a poll tax in connection with a property tax, or levying only property taxes. The town of Providence ceased to levy a poll tax in 1792. The state, however, continued to levy poll taxes until 1811, when they were prohibited by law. A registry tax, or a tax for the privilege of exercising the franchise, was



imposed by a law of 1844, but no poll tax was subsequently levied in Rhode Island until 1889, when a tax of \$1 was levied on all, "who if registered would be qualified to vote". This law, however, is of local importance only because the state taxes are levied upon general property only, and since 1849 the towns have generally assumed the payment of the sums levied upon them by the state and taken the funds to pay them with from their general income.

Except for the abandonment of the poll tax in 1811, exemptions have related to property devoted to religious, charitable and educational purposes. The indefinite law of 1769 was made more specific in 1829 by limiting the exemption of religious and educational property to the buildings devoted to such purposes and the land on which they stood. About the year 1850 the rapid increase of the foreign population of the state and the consequent growth of the number of those who were members of the Roman Catholic church added to the importance of the question of tax exemptions of religious and educational property, while at the same time the rapid development of the state increased the value of such property. Exemptions were then limited to three acres of land, so far as such land was used exclusively for religious and educational purposes. The subject of exemptions became a political question, and a few months after the enactment of the above law, a state election having intervened, it was repealed, and all such land "not leased or rented" was free from public dues. Two years later even this limitation was repealed and all property, whether real or personal, used in connection with religion and education, or the income of which was devoted to religion or education, was exempted. In 1870 the real and personal property of free public libraries or incorporated library societies was added to the list, while the exemptions of the personal property of religious and charitable societies was limited to \$20,000. The financial crisis of 1872 emphasized the questions of exemptions anew. It was estimated that the property exempted by law throughout the state was worth \$20,000,000. It was pointed out by those who were opposed to any and all exemptions that the existing laws did not conform to the fundamental principles of Rhode Island, which pronounced for a distinct separation of church from state, and that this principle had been voiced in the constitution of 1842, which expressly declared that no man should "be compelled to frequent or to support any religious worship, place or ministry whatever". In the arguments presented before a committee of the legislature a prejudice against the Roman Catholic church was but ill-concealed. Many seemed to see in its teachings a lack of respect for and loyalty to the state. The Romanists, however, claimed that the establishment of parochial schools saved the city an expenditure of a large sum of money for educating their children. The law passed, as a result of the free discussion of the question at the time, bore heavily

upon the schools of the Catholics. It exempted only "buildings for free public schools or for religious worship" and the land upon which they stood to the extent of one acre, so far as both land and buildings were used exclusively for such purposes. Under this law the rented property and invested funds of such institutions and the school property of the Catholic church and other semi-private educational institutions were taxed. The Supreme Court in a test case which was presented to it declared that the Catholic schools were not "free public schools" in the statute sense of the words. Continued agitation in favor of extending exemptions to the schools of the Catholic church resulted in the passage of a law to that effect in 1894. Charitable institutions were also added to the list of those whose buildings and land to the extent of one acre were freed from property taxes. There can be little doubt that such laws, in as far as they relate to religious property, violate the strict letter of the state constitution, but in view of the incalculable value of religion as a conserver of our political institutions, the statute law of exemptions is much more sane than the antiquated narrowness of the constitution of 1842.

The deduction of personal indebtedness from the valuation of personal property, provided for in the valuation laws of 1766, became a part of the general law of the state in 1857. Soon after the Rebellion it was provided that personal indebtedness should be reduced by the amount of government bonds owned by the tax payer, and only the balance of his indebtedness should count in offsetting the value of his personal property.

The property of Brown University and that of its professors was exempted by its charter, granted in 1764, but by an agreement with the University corporation in 1863 the exemption of the property of its professors was limited to \$10,000.

A potential law relating to exemptions was passed in 1892. By it town electors were empowered to exempt manufacturing property from taxation for a period not exceeding ten years. Some towns have taken action under this law and certain large manufacturing properties have been exempted. The constitutionality of the law, however, is doubted by many and public opinion is generally opposed to it.

In discussing the law of taxation as applied to corporate property, it will be well to recall the fact that by a law passed during the Revolution real estate was taxable to the occupier. The peculiar nature of the corporation as a legal personality capable of owning all sorts of property, although recognized in the charters which were issued to banks and insurance companies about the beginning of the present century, does not seem to have been considered by the tax assessors. It is not improbable, therefore, that the occupiers' tax then in vogue may have been the cause of the custom, which was adopted by the assessors of taxing the first corporations for their real estate only.

At the same time stockholders were taxed for their stock held in such corporations, and if such stock had been taxed at its full value, the results would have been double taxation of all real estate owned by the corporation. But as property was then not assessed at more than two-thirds of its real value, perhaps little injustice was done. With the introduction of the manufacturing corporations, however, the forms of corporate property began to be more complex, and it became necessary for the laws to specify to whom the various forms of it should be taxed. The law of 1822 declared that the waterwheel, the main shaft and other fixed machinery should be considered real estate, and that picking and carding frames and other movable machinery should be considered personal property. The custom of taxing real estate to the occupier and personal property to the owner, when coupled with this law, resulted in taxing fixed machinery to the corporation and movable machinery to the stockholder. By a law of 1844 machinery of every kind and nature propelled by steam or water power was taxed at its locus to its owner, and fixed machinery was declared to be real estate only when owned by the owner of the building to which it was attached. In 1849 the list of especially taxed property was increased so as to include "merchandise, stock in trade, lumber, coal, stock in livery stables, machinery and machine tools belonging to persons not residing in this state". Such property, like machinery, was to be taxed to its owner at its locus.

Corporate forms of industry increased rapidly in number and character between 1830 and 1850. The statute of 1837 first provided for co-partnerships of limited liability, and in June, 1847, the first general corporation act was passed. The character of a corporation as a legal person for purposes of taxation began to be more clearly understood. When, therefore, in 1855, the tax laws were codified, bodies corporate as well as individuals were required to make a personal return of their ratable property. Real estate which, by a change made in the law in 1826, had been taxable either to the occupier or owner, was for the first time made exclusively taxable to its owner. This law also for the first time particularized personal property. It was declared to include all goods, chattels, moneys and effects, debts due from solvent persons and stock and shares in corporations, except those of religious and charitable corporations, and such property followed its owner for purposes of taxation. Machinery, however, and certain forms of tangible merchandise belonging to those residing outside of the state, though classed as personalty, were taxed to their owner where they were located.

It was evident that from the clauses requiring a personal return from corporations, the inference might be drawn that corporations were to be taxed for both real and personal property, while the clauses defining personal property implied that stockholders should be taxed

for the value of their stock. If so, both the real and personal property of corporations would be twice taxed. The courts, however, decided in the American Bank case, that the personalty of a corporation was represented by its stock and could alone be taxed to its stockholders at their residence. In a codification of the laws made in 1857 an attempt was made to assist the assessors on these indefinite points in the law. It was provided that no shareholder should be deemed liable for taxation for shares held in corporations within the state which in their corporate capacity were taxed for the amount of their capital stock. In 1872 the words were changed so that shareholders were not taxable for shares held in corporations which in their corporate capacity were taxed for the amount of their corporate property. Such phrases were of little value, however, inasmuch as the early laws did not provide any means of reaching, through the corporation, the names of its shareholders or the value of their holdings. The law of 1872, therefore, also marks a step in advance on these points. Assessors were given power to demand the amount of stock held in any corporation by any individual living within their jurisdiction, provided such individual was named in the request, and in the returns required of corporations, the par value and the cash market value of their shares and the proportionate amount per share at which their real estate and machinery were last assessed were to be stated. Stockholders were to be taxed for the difference between the cash market value and the proportionate value per share of real estate and machinery, if any, for which the corporation had been last assessed. These latter clauses were mandatory, and under the court's interpretation of them corporations were liable to taxation only upon real estate and machinery.

It is plain from the phrasing of the tax laws that they were framed to meet the needs of a period in which corporations were exclusively confined to banking, insurance and manufacturing enterprises, and with a special reference to the last. Within the last two decades another form of corporation, the business corporation, devoted to the wholesale and retail trade, has become common, but the tax laws of Rhode Island have not been modified to meet the changed conditions. By a premature dictum of the court, rendered in 1887 in the Dunnell Manufacturing Company case, it was declared that the laws providing that corporations should be taxed only for real estate and machinery were applicable to all business corporations having a capital owned in shares. As a result of the inadequacy of the law, therefore, all tangible property in the form of stock in trade, owned by retail and wholesale business corporations, has been brought within the purview of the law intended to apply to manufacturing corporations. It might seem that such property, when owned by those residing outside the state, could be taxed under the clause taxing stock in trade at its

locus, when belonging to such persons, but such non-residents have formed themselves into corporations under Rhode Island charters and a Rhode Island corporation is a legal resident of Rhode Island. As a corporation it can only be taxed for real estate and machinery. The curious fact in this condition of affairs is that a Rhode Island corporation, whose stockholders reside without the state, cannot in its capacity as a corporation be taxed for the stock in trade with which it does business, but because it is a corporation and a legal resident of the state, its non-resident stockholders cannot be taxed for its personal property. It has been estimated that within the city of Providence alone tangible personal property, in the form of stock in trade to the value of \$20,000,000, escapes taxation.

We have seen that toward the end of the last century the custom had been to tax every kind of property, with a few specified exemptions, but it was not the custom of the local assessors nor of the state committees of valuation to tax all property at its full value, although in many cases they claimed to do so. There was a special tax law during the Revolution, directing a full valuation to be placed on all property, but no general law to that effect. In the laws providing for state valuations in 1849 and 1855 provision was made for undervaluation of country land, as had been done in the valuation of 1767. The committee of 1849 was to estimate at two-thirds of their value "all farms and farm lands and waste and unimproved lands except town and village lots". The first law to specifically direct that all taxable property should be estimated at its "full and fair cash value" was that of 1855.

State valuations have been adopted in 1796, 1824, 1849, 1855, 1874 and 1893. The committee which reported in 1796 seemed to have been actuated by political and sectional motives, rather than by a spirit of justice. A convention held in Providence protested against the report and declared that the committee had made "arbitrary and capricious apportionments" of value to some towns in Providence and Bristol counties, in spite of evidence to the contrary; that in some towns property was estimated by the local committees at its full value, in some at only three-fourths value, in some at fifteen years' rent and in some, entirely regardless of actual prices, in terms of corn at three shillings a bushel; that when the state committee met to equalize the returns of the town committees and make final apportionments, several days were spent in adding sums to certain towns ranging from 25 per cent. to 100 per cent., "without regard to the quantity of land or stock or the number of inhabitants", that when it was decided to reduce the total valuation from \$16,000,000 to \$15,500,000, reductions of valuation were made in those towns which would give the greatest number of votes in favor of the estimate. Washington county, the most fertile in the state, with 18,075 inhabitants, was valued at \$2,780,000. Provi-

dence county, outside the town of Providence, with poor land, less stock and 17,675 inhabitants, was valued at \$3,829,723. The total state valuation was fixed at \$15,500,000. The valuation reported in 1824 indicated that local assessors had been for many years in the habit of estimating property at from one-half to two-thirds its fair value. In Newport real estate was estimated at full value and personalty at two-thirds value, and in some of the rate lists each parcel of real estate was defined and the lands distinguished from the improvements. The state committee made its report as best it could from the returns of local committees appointed to act with local assessors in making the estimates at full value. The state valuation was fixed at \$32,640,000.

In 1849, as we have seen, the committee was instructed to be lenient with country land, but individuals were to report to the town committees a particular and exact list or schedule of "all their ratable property, annual income or productiveness". This last clause indicates an attempt to rate the ability of individuals just as the law of 1744 had done, by means of a "faculty tax". The total valuation was \$70,731,390 (\$49,398,229 real and \$21,333,161 personal). The earlier state taxes were apportionments of a lump sum among the towns, except in one or two instances in 1698-99, but in 1849 the method of a certain rate per hundred dollars was set, the sum being only three cents. The same method has been followed since. During the war period state valuations were at times abandoned and local valuations formed a basis of the state taxes levied between 1861 and 1868. Very heavy burdens were laid on the people during this period. The rate of state taxes, which was only 6 cents in 1861, was raised to 9 cents in 1862, to 15 cents in 1863, to 25 cents in 1864 and to 40 cents in 1865, remaining at that figure until 1869, when it was reduced to 25 cents.<sup>1</sup>

Of the 40 cents of taxes assessed in 1865-68, 34 cents was apportioned to debt purposes, leaving 6 cents for ordinary expenses, as had been the case in 1861. The state valuations adopted in 1874 and 1893 indicated that real estate seemed to be valued at 60 per cent. and 85 per cent. of its real values respectively, and that despite the apparent attempts of the laws to aid them in assessing corporate property, there was in 1874 very little distinction made by assessors between machinery and real estate, all manufacturing property being rated as real estate. In 1893 there seemed to be no standard for valuing this kind of property, under valuation being particularly noticeable. The system of personal property valuations in general was very defective. Personal property was thought to be valued in the most

<sup>1</sup>The rates of state taxation since 1849 have been as follows, the dates being in all cases inclusive: 1849-55, 3 cents; 1856, 5 cents; 1857-60, 5½ cents; 1861, 6 cents; 1862, 9 cents; 1863, 15 cents; 1864, 25 cents; 1865-68, 40 cents; 1869-72, 25 cents; 1873, 20 cents; 1874-78, 15 cents; 1879-80, 12 cents; 1881, 15 cents; 1883-87, 12 cents; 1888, 15 cents; 1889-1900, 18 cents.

careful towns at only 80 per cent. of its real value. Here, as elsewhere, the heaviest relative burdens fall upon those possessed of mortgages and those of limited means.

The total state valuation in 1855 had been \$118,504,576 (\$80,595,174 real and \$37,909,402 personal). In 1874 it was increased nearly three-fold, being fixed at \$328,530,559 (\$243,658,190 real and \$84,872,369 personal). There was much opposition to this high valuation and Governor Lippitt commented severely upon it, claiming that the temporary state committee was less able to determine values than local assessors. The local valuations of the towns in 1875 were \$270,415,023. The state committee's valuation of the same property therefore was \$58,123,536 (about 21 per cent.) higher than that of the local assessors. No representative of the city of Providence was a member of this committee, and it is interesting to note that the state valuation of the city was \$168,547,000, while the local valuation was \$121,954,000. Thus \$46,593,000 of the \$58,123,000, excess valuation of the whole state was apportioned to Providence alone. Only six of the thirty-six towns in the state were valued at less than the valuations of the local assessors, those so valued being with one exception wholly farming towns.

A committee report in 1891 proposed a valuation of \$396,794,000 (\$291,907,000 real and \$104,887,000 personal), but this was reduced in 1893 to \$359,549,000 (\$264,508,000 real and \$95,041,000 personal). The total local valuations at the same time were \$346,544,000 (\$262,015,000 real and \$84,529,000 personal). The local valuations of 1900 were \$407,404,772 (\$320,318,384 real and \$87,086,388 personal).

In spite, however, of the inadequacy of the tax laws and the impossibility of a just state valuation, the state is compelled to rely to a very large extent upon a direct property tax for its income, but the proportion of income from it to the total income is growing constantly less. The following figures will illustrate this fact:

	1800	1825	1850	1875	1900
Gen'l property tax	\$4,300	\$12,500	\$17,000 <sup>1</sup>	\$492,400	\$647,000
Total income.....	6,200	15,100	84,400	786,690	1,482,200

The state imposed no corporation taxes until 1881—the taxes imposed in 1863 being an incorporation tax or a fee for the issue of a charter, at the minimum rate at present of \$100 for corporations with a capitalization of \$100,000 or less, and \$100 additional for every \$100,000 of additional capitalization. The most important corporation taxes are levied by the localities, the steam railroads paying only a real property tax to each separate town through which they pass. The peculiar compactness of the territory of the state and the solidarity of its interests would seem to have made it a field particularly adapted

<sup>1</sup>This was the first year in which property tax had been collected since 1825.

for some forms of corporation tax, which, either like that of Massachusetts or New Jersey, would have furnished a large portion of the state income. But the diversity of interests between the cities and the towns, which, in the eighteenth century was illustrated in the struggles between the commercial and agricultural interests, have resulted in the latter part of this century in a system of unjust tax laws relating to corporate property, and have not been without their effect in preventing the enactment of any laws imposing an adequate state corporation tax.

A franchise tax was imposed on quasi-public corporations by a law of 1881 at the rate of one per cent. on the gross earnings, on business done within the state, of telegraph, telephone and express companies. In 1898 a tax of one per cent. on the gross earnings of street railways was provided for, unless the dividends of the company exceeded eight per cent. per annum. When the annual dividend shall exceed eight per cent. the tax is to be increased by an amount equal to such excess rate of dividend. Of the franchise taxes, that on street railway companies is by far the most important, having increased from \$17,700 in 1898 to nearly \$24,500 in 1900.

Special franchise taxes may be imposed by the cities and towns upon any of the quasi-public corporations in return for an exclusive franchise. These taxes are imposed under a law passed in 1891, and contracts have been entered into by many of the cities and towns in which electric light, gas and street railway companies are located. The rate of tax varies from one and one-half to five per cent. upon the gross earnings of such companies. The franchise tax does not exempt such companies from a general property tax. The city of Providence, under existing franchise contracts, receives in the form of franchise taxes from street railways, electric light, telephone and gas companies about \$107,000 annually.

The state expenditures show a natural growth during this period, due partly to an extension of duties performed in 1800, but largely also to the addition of new duties. The increase of expenditures was delayed in Rhode Island longer than in many other states, as the state did not undertake the building of extensive internal improvements, such as highways and canals, as did many of the other states about 1830. The interests of inland transportation were here cared for by private enterprises. The state took over the Providence and Pawtucket turnpike in the "thirties" and received some income from it for thirty years, but like the purchase of two ferries in 1748, the undertaking was not financially a success and the receipts after the first few years decreased to about \$1,000 a year. The most important act of assistance to transportation was the twelve year exemption from taxation granted to the New York, Providence and Boston railroad.

The marked increase of state expenditures, therefore, is of a later



date in Rhode Island than elsewhere, and is due to other causes; to the aid granted to the public school system, and to that widespread wave of democracy which culminated in the Dorr war in 1842, and broke down some of the barriers of conservatism which had been the natural growth of the freehold franchise. A more liberal electorate, a more liberal legislature and a rapidly growing population—there was nearly a forty per cent. increase in the decade 1840-50—combined to add to the demands on the public purse. In each of the five years ending 1848 there had been deficits in the treasury ranging from \$14,000 to \$8,000, and they amounted to a total of \$69,600. The state debt was over \$187,000, and the outgo for some years seemed likely to exceed the income by \$10,000 to \$12,000 annually. The total expenditures, which in 1800 had been but about \$5,800 and had increased to only \$18,300 by 1825, suddenly increased in the latter "forties" until maintenance charges alone exceeded \$92,000 in 1850.

This date marks the beginning of modern state finances, which can be traced statistically, but before describing the expenditures of the last fifty years, a few topics of special interest need fuller discussion.

The state entered upon the war of 1812 reluctantly. It shared with the rest of New England the feeling that its commercial interests were being sacrificed to national aggrandizement. Governor Jones spoke of it as "a war of conquest", protracted by means ruinous and unnecessary. The state finances were not in a prosperous condition in 1812, as numerous heavy taxes had been levied to buy up the Revolutionary debt. The sum of \$60,000 was borrowed mainly for war purposes, and during the war the sum expended seems to have been about \$52,550. Of this amount the United States at various times after the war reimbursed the state to the extent of \$42,422.57.

The cost of the Dorr war was \$106,044.47, and as the state had no means of meeting the expenses, except by taxation, the expediency of a direct property tax, which had been abandoned in 1825 was discussed, but it was avoided for a few years longer by borrowing from the funds deposited with the state by the United States under the act of June, 1836.

Of the funds which Jackson took from the national depositories and distributed among the states, Rhode Island received \$386,611.33. The income of this deposit was by law appropriated to the support of public schools.

Rhode Island as a state with an excessive conservatism born of the freehold franchise and an extreme individualism which limited the state function to the narrowest possible scope, was extremely slow in recognizing the advantages of widespread public education. The first act authorizing the towns to establish free public schools was passed in 1800, after nearly a generation of almost ceaseless agitation on part

of its advocates. It was at once repealed, and the town of Providence alone maintained public schools until the law was re-enacted with some important modifications in 1828. The state then appropriated \$10,000 to be annually distributed among the towns according to the number of children under sixteen years of age. By the same act a permanent school fund was established, \$5,000 being appropriated as a nucleus, and all income derived from the taxes on lotteries and auctioneers was devoted to school purposes. The surplus of such income, over the \$10,000 to be annually distributed among the towns, was to be added to the permanent school fund. This surplus income was carried in the general balances of the state funds instead of in a special account, but for the first few years seems to have been carefully invested from time to time. In 1833 the demand on the treasury began to exceed the income, and the surplus income of the school fund became a convenient means of forced loans. In 1834 the state owed the fund \$12,884.30. Part of this sum was repaid, but in 1838 the state held \$14,662 of the school funds. Meanwhile the state had received some of the United States deposits and had loaned them to the various state banks at five per cent. interest, and had appropriated the accruing income to public school purposes, under the same conditions as had been provided for the income from lotteries and auctioneers.<sup>1</sup>

The amount distributed among the towns for school purposes was increased to \$25,000, and that sum was to be raised by the income from the public deposits, and such other sum as should be necessary was to be taken from the general funds of the treasury. Thus the total income from the funds was used to increase them, but the law was not strictly observed.<sup>2</sup> During the following two decades heavy drafts were made on the state treasury. In 1839 it was voted to build a state prison and to raise the necessary funds by direct tax, but it was found more convenient to use the United States deposits for that purpose, and \$29,526 was so used. The sum of \$103,192.72 was taken to meet

<sup>1</sup>In 1839 the income from lotteries and auctioneers was appropriated to paying the state's indebtedness to the school fund, and after such indebtedness was cancelled was to be devoted wholly to increasing the permanent school fund.

<sup>2</sup>The taxes on lotteries and auctioneers were used to eke out the income from the public deposits, and in 1840 the state owed the fund \$19,706. The next change in the management of the school funds was made by Stephen Cahoon, elected treasurer in 1841. He diverted all the income of the invested school funds, and the interest of the public deposits, to raising the annual fund of \$25,000, but at the same time he observed the law in using the income from auctioneers and lotteries to cancel the state's indebtedness. Thus, while drawing from the funds with one hand, he added to them with the other. In the next year he took enough from all these sources of income, including the tax on lotteries and auctioneers, to make the required \$25,000, and turned over to the permanent fund only about half the taxes on lotteries and credited the state's debt to the fund with that sum.

the expenses of the Dorr war, and \$10,000 more was borrowed to pay the cost of the constitutional convention of 1842. In 1844 the state owed the United States deposit fund \$142,719.21. The state arsenal cost \$13,000, and the settlement of the boundary line with Massachusetts cost \$14,800. The United States deposits were further drawn upon, and in 1850 the state owed \$194,245.88 to this account. To anticipate a little: The state having come to view the United States deposits as a gift, rather than a loan, made further drafts upon them in order to pay its obligations, until in 1857 it had used \$231,070.06 of the original sum of \$386,611.33, and the auditor congratulated the state on the fact that it was at last free from debt. The balance of the United States deposits, \$155,541.27, was in 1859 covered into the permanent school fund. That fund then consisted of nearly \$72,000, making in all \$229,435.65, which was invested in bank stocks.

From 1854 the school fund had increased rapidly, as a law of 1851 had provided that all income on the invested fund, the tax on auctioneers and the interest received on deposits of the state revenue, should be added to it. Under this law sums as large as \$16,000 were invested in a single year. Since 1860 all income from the fund itself has been turned into the general funds of the treasury and only the income from auctioneers is used to increase the principal. This income has averaged nearly \$2,000 annually, and would have largely increased the fund had it not been for losses due to unwise investments, which are prescribed by the law. The fund now amounts to \$249,183.

But if the state has not adhered to the liberal interpretation of the school fund laws, it has been liberal with the local public school system. The amount distributed among the towns has been increased from time to time, until at present \$120,000 is appropriated annually to that purpose.

The expenditures of the state since 1850 can be briefly described. The most important cause of extraordinary charges was the war of the Rebellion. At the beginning of the war the state had a floating debt of \$4,000. At the close of the war the net debt was \$3,889,000. Some of the towns and cities had also incurred war debts—the debt of \$300,000 of Providence being a typical case. The receipts and disbursements of the military department to January 1, 1866, seem to have amounted to \$7,188,974.97, but many of them were counterbalancing entries, consisting of renewals of outstanding indebtedness. There was as usual a wide discrepancy between the state's early claims against the United States and the amounts of the claims allowed by the latter. Any statement of figures must therefore be liable to some error. From now available records the state seems to have expended a net of \$5,915,805.99 for war purposes, exclusive of interest payments. Of this sum \$4,160,641.90 was raised by the proceeds of bond sales and premiums. The state received from the United States the sum of

\$1,409,036.65, and of the total amount of its final claims all but \$110 was allowed. No sinking funds were provided for the war bonds, but they were bought up by the state as rapidly as the funds received from the United States and the extra heavy taxes already noted became available. At the close of the war \$111,000 had been bought. In 1875 \$1,436,500 had been bought, and as there seemed little prospect of making further purchases at advantageous prices, a board of sinking fund commissioners was established and a fund annually set aside to pay the bonds at maturity. Although small sums were subsequently bought, the last issue of \$699,000 matured and was paid August 1, 1894. The state was free from debt.

In the decade 1840-1850 the rapid increase in population, largely by immigration, compelled the state to give more attention to the dependent and defective classes. Previously the whole of the public burden for such classes had been thrown upon the towns and the out-relief system had been generally followed. When in a few instances workhouses had been established, as in Providence, tramps, imbeciles, insane, and petty criminals were promiscuously cared for in one institution. In 1845 the state began to aid the towns in such matters by paying the board of the deaf, dumb and blind and soon afterwards the insane also. A school commissioner to care for the general school system of the state was appointed about the same time. The care of the insane was costly, and the state board of charities and corrections was organized in 1868-69, primarily to care for the insane poor by means of a state asylum. To its duties was also added the care of the dissolute and drunkards, and a workhouse was built; then a place for the poor who had no legal place of settlement or whose board might be paid by the towns where they belonged, was also built; the three institutions are collectively known as the state farm. Until recent years the accounts of these institutions, as well as those of the state prison and county jails, built in 1874-75, were kept separately from those of the state treasurer. In the schedules herewith presented the income and expenditures of all of them are classed as items of state accounts and listed under their proper heads. The addition of a state normal school in 1854, and very much enlarged in the seventies, completes the list of costly new functions which the state has undertaken during the past half century.

With the past few years, however, a number of new departments have added to the state functions in the protection of persons and property. These are a health department, commissioners of railroads, of insurance, of banking, of factory inspection, of shell fisheries having charge of the state oyster beds, of inland fisheries for stocking the lakes and streams with spawn, of dams and reservoirs, of weights and measures, of commercial fertilizers and feeding stuffs, and the state board

of agriculture, which is almost wholly occupied in inspecting and destroying diseased cattle. It will be observed that the greatest increases have been in the court and educational system and in the care of the needy and defective classes. The following tables of income and expenditure of the state in the years indicated will enable the reader to compare the various items since 1850, which was the time when state expenditures in Rhode Island began to increase rapidly:

Total income, 1800 . . . . \$6,000.      Population . . . . . 69,100  
 " " 1825 . . . . 25,150.      " . . . . . 90,100

## INCOME SCHEDULE.

SOURCES OF INCOME.	1850	1875	1900
<b>Taxation, totals</b> .....	<b>\$65,340</b>	<b>\$678,120</b>	<b>\$1,324,000</b>
General property tax .....	17,080	402,420	644,120
Savings banks .....	30,300	112,020	351,970
Insurance companies .....	3,160	56,800	157,610
Building and loan associations.....			400
Auctioneers .....	1,280	1,810	1,000
Incorporation .....		5,750	14,140
Corporation .....			80,070
Liquor licenses .....			109,670
Billiard and pool table and entertain- ments .....	1,200	3,070	6,500
Peddlers .....	6,070	8,700	2,480
Fertilizers .....			2,000
Civil commissions .....	210	1,650	3,300
<b>Fines, fees and penalties, totals</b> .....	<b>10,460</b>	<b>39,520</b>	<b>51,540</b>
of courts .....	6,210	84,000	44,570
of jails and prisons .....	4,250	4,620	6,970
<b>Payments for services and goods, totals</b> .....	<b>4,270</b>	<b>21,990</b>	<b>57,870</b>
Prisons, labor and products.....	2,850	14,940	26,700
" board .....	920	7,050	4,020
Reformatories, labor and products .....			830
" board .....			180
Almshouses, labor and products.....			2,800
" board .....			8,150
Asylum, board for insane .....			18,940
Schools, tuition and board .....			7,710
Turnpike tolls .....	1,000		
Interest on deposits .....	2	17,040	2,690
<b>Income from funds and real estate, totals</b> .....	<b>3,820</b>	<b>27,700</b>	<b>30,920</b>
Dividends on school funds .....	3,835	22,090	8,710
Rents on oyster lots .....	85	5,270	20,970
Rents, miscellaneous .....	400	840	1,240
Grants from U. S. for soldiers .....			12,180
Miscellaneous .....	510	2,320	4,000
<b>Total</b> .....	<b>84,402</b>	<b>786,690</b>	<b>1,482,200</b>
<b>Population</b> .....	<b>147,500</b>	<b>258,200</b>	<b>428,500</b>

\*This item includes a small income from liquor licenses. In 1875 prohibition was in force, but in 1874 the state income from liquor licenses was about \$70,000.

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Total expenditure, 1800.....\$ 5,800  
 " " 1825..... 18,300

EXPENDITURE SCHEDULE.

OBJECTS OF EXPENDITURE.	1850	1875	1900
General government .....	\$ 9,310	\$36,920	\$ 87,500
Executive department .....	1,000	1,530	5,000
Financial " .....	500	4,100	11,000
Legislative " .....	7,810	31,290	59,920
Elections .....			10,200
Protection of person and property .....	36,000	210,100	558,220
Military department .....	300	23,830	61,100
State constabulary .....		10,550	
Court system .....	24,500	96,570	251,750
Jails and prisons .....	11,110	20,470	65,300
Workhouses .....		20,310	44,000
Reformatories .....		20,050	62,740
Miscellaneous commissions .....		15,420	73,190
Well being and convenience .....			12,210
Roads and beachways .....			10,020
Harbor commissioners .....			2,190
Needy and dependent classes .....	100	53,580	204,810
Soldiers and sailors .....			40,700
Indians .....	100	300	1,000
Alms-houses .....		19,370	54,440
Asylums (insane) .....		29,910	99,250
Hospitals .....		4,000	2,500
Gifts to charitable associations .....			830
Education .....	34,900	120,710	345,690
Schools .....	34,900	114,840	300,550
Libraries .....		1,880	13,700
Monuments and documents .....		4,000	8,100
Celebrations .....			5,010
Statistical department .....			12,880
Gifts to agricultural societies .....			5,000
Interest .....	760	160,530	82,300
Sinking funds .....			32,000
Unclassified .....	3,240	7,460	16,220
Miscellaneous .....	7,700	5,860	16,450
Total maintenance .....	92,010	595,170	1,355,400
Construction account .....			163,660
State house .....			155,240
Miscellaneous .....			8,420

<sup>1</sup>The following items make the sum total: Commissioner of insurance, \$1,980; commissioners of inland fisheries, \$1,200; commissioners of shell fisheries, \$1,200; commissioner of railroads, \$630; state board of health, \$350.

<sup>2</sup>The sum total was made up as follows: Commissioner of insurance, \$3,020; commissioner of railroads, \$3,480; factory inspectors, \$4,350; inspection of commercial fertilizers and feeding stuffs, \$3,890; state board of agriculture, \$23,450; commissioners of shell fisheries, \$4,210; commissioners of inland fisheries, \$4,760; commissioner of banks, \$740; commissioners of dams and reservoirs, \$1,170; scaling of weights and measures, \$1,660; donations to societies for prevention of cruelty to children and to animals, \$3,500; and helath department, \$13,960.

<sup>3</sup>Including \$3,660 invested for the permanent school fund.

<sup>4</sup>A state police force for executing the prohibitory law.

The expenditures for the various departments, including those of local bodies, can be given only in a few instances. The court system of the state includes the cost of the whole department except local police courts and probate courts. The local cost of these will not much exceed \$15,000. The total local and state cost for judicial purposes is about \$265,000 annually. The poor expenditures of the towns are about \$95,000; those of the state nearly \$205,000 more—a total of \$300,000; from which should be deducted about \$15,000 paid by the towns to the state and others for board of insane, leaving a net expense to the state for its poor of \$285,000 annually. The local and state expenditures for educational purposes in 1850, for maintenance were \$96,900; for buildings, \$19,000; in 1875 they were \$503,000 for maintenance and \$274,000 buildings. In 1900 they were \$1,515,000 (including \$57,500 for reform schools) for maintenance and \$218,500 for buildings and works of reference.

The payment of the bonded debt of the state in 1893 and 1894 relieved the treasury of expenditures for sinking funds and interest of \$126,350. Some time before this the anticipations of such an event had led to various plans for using the surplus funds of the state for more extensive public improvements. The prosperity of 1892 gave impetus to such ideas and the following special expenditures have been made during the ten years 1891-1900: The state home and school, \$80,000; the World's Fair, \$55,000; the state institution for the deaf, \$69,000; the soldier's home, \$97,000; revisions of the laws and constitution, \$30,000; state census 1895, \$59,000; jails, \$30,000; court houses, \$110,000; bridges, \$46,000; special highways, \$112,000; beachways, \$56,000; the agricultural school, \$120,000; the normal school, \$421,000; the new camp ground, \$50,000; armories, \$150,000; state prison, \$65,000; the state asylum for insane, \$67,000; and the state almshouse and workhouse, \$53,000. In all about \$1,700,000 have been devoted to these purposes without incurring any permanent debt. In the year 1895, however, the expenditures overran the total income by \$90,000. In order to avoid this form of indebtedness in the future the treasurer was given authority to anticipate the taxes, which are levied under a general law and due and payable without special enactments. The taxes are payable by the towns and cities on June and December 15th. The state treasurer draws an order on the town treasurer for such sums as he desires to anticipate, not exceeding the amount properly due at the next time of payment. This order, when properly countersigned, is discounted at the bank and is called a tax assignment order. In this way the treasurer has for a few months in each year anticipated the payment of taxes. In 1896 the amount thus anticipated was \$642,000 of the total tax of \$646,000. The amount anticipated has decreased each year until in 1900 it was but \$300,000 of the total tax. The discount account during the four years has been \$25,600. The

state, however, had scarcely paid its permanent debt in 1894 when the project of a new state house was sanctioned. Bonds were first issued in the same year and other issues have been made since that time. The present debt for state house purposes is \$2,300,000, less sinking funds of \$338,000. The cost to the state in the form of interest and sinking funds is \$108,500 annually. On January 1, 1901, the amount expended for the state house was about \$2,250,000, and a further issue of \$700,000 has been authorized. The state also has a Spanish war debt of \$180,000. This will be repaid by the United States.

The character of local expenditures may be gleaned from the fact that of the thirty-six towns in the state only five have city charters. The rights to levy taxes and to incur indebtedness for the various municipal departments, have been from time to time conferred upon the cities and towns, and somewhat liberal grants were made to the city of Providence beginning in 1866. The city began, soon after, the construction of a system of water works and sewers, and since that time has engaged in extensive and expensive undertakings. Toward the latter seventies the disposition to incur indebtedness was indulged so freely in Providence that in 1878 the so-called debt limitation act was passed. Under it no towns, without special statutory authority, can incur a debt in excess of three per cent. of the taxable property of the town. The increase of debt throughout the state, due to the growing municipal functions imposed by increasing population, is illustrated by the following table:

The total local indebtedness in 1870 was \$3,035,000, that of Providence alone being \$2,266,000, against which were sinking funds of \$1,070,000.

	YEAR 1880.		YEAR 1900.	
	DEBT.	SINKING FUNDS.	DEBT.	SINKING FUNDS.
Providence .....	\$10,475,000	\$1,102,000	\$16,906,000	\$2,610,000
Pawtucket .....	1,100,000	165,000	4,623,000	372,000
Woonsocket .....	240,000	10,000	2,934,000	139,000
Newport .....	152,000	36,000	912,000	130,000
All other towns....	640,000	23,000	3,473,000	216,000
Totals .....	\$12,607,000	\$1,336,000	\$27,948,000	\$3,467,000

#### PART IV—CHARTERED BANKING—1791-1900.

[Chartered banks in Rhode Island have had a peculiarly close association with the industry of the state. Their history cannot be understood apart from their appropriate setting in the local economic development. This chapter will therefore be divided into four sections beginning respectively with the years 1791, 1809, 1840 and 1865. The first period was characterized by banking free from state supervision



and by industry confined to commerce and agriculture. The second was a period of banking restricted by state supervision and industry almost wholly devoted to manufacturing. The third period was marked by some degree of inflation incident to gold discoveries and the civil war and consequent further restrictions in banking and by industry reorganized by the use of steam power and carried on by incorporated companies instead of co-partnerships. The fourth period has been marked by the importance of deposits and trust companies in banking and a reorganization of industries due to better methods of credit and improved mechanical devices.]

*First Period.—1791—1809.*

Rhode Island was not among the first states to undertake the role of a banker, but it drank deeper and longer than they of the cup of inflation, repudiation and dishonor. At the close of the Revolution, it was said that "punctuality in business engagements was observed nowhere outside of Philadelphia",<sup>1</sup> and Rhode Island customs and traditions had been such that the statement was particularly applicable to it. The economic condition of the people did not warrant the hope of success in a private banking enterprise. The state was impoverished by the war, the soil had been exhausted by the demands made upon it and many of the inhabitants were emigrating to the more fertile lands of the west. Trade was dull, the limited territory which was tributary to the towns offered by no means a hopeful prospect to those who remained. The two factors of encouragement were world-wide commerce of the merchants (the fitting of the first ship for the East India trade occurred in 1787), and the beginnings of the cotton industry in 1790. At this time there were only four banks in the states—one each in Boston, New York, Philadelphia and Baltimore. Providence was far behind any one of these cities in wealth or population or prospects.

The first attempt to start a bank in the state was made in March, 1784. The project had been discussed in the public press and the advantages of such an institution had been ingeniously advertised by the promoters. The Bank of America in Philadelphia was cited as an illustration of the opportunities for investment which banking offered. The stock of that bank was in great demand and a semi-annual dividend of eight per cent. had been paid on it in January. The proposed bank was to be called the Bank of Rhode Island and Providence Plantations. Its capital was fixed at \$150,000, and the par value of the shares was \$300. Ex-Deputy Governor Jabez Bowen, John Jenckes and John Brown were to receive subscriptions, but despite the commanding influence of such men, the plans failed. Only \$30,000 was subscribed at a meeting held at the state house. The meeting ad-

<sup>1</sup>Gallatin's Works, iii, 870.

journed to assemble in a few days at "Mr. Rice's tavern". Of that assemblage there is no record, save that many of those who had not subscribed before, and among them Moses Brown, were invited to attend. Economic conditions were not ripe for the enterprise. There was very little capital available for it, and it probably did not comport with the business acumen of the Brown brothers to attempt to build a bank on stock notes, as subsequently became common. The plan for a bank lay dormant for seven years.

In June, 1791, it was revived, this time apparently by the firm of Brown & Francis, of which John Brown was a partner. Brown was in Philadelphia at the time and he had been urged to get a branch of the United States bank, then forming, established in Providence, but he found such a scheme impracticable. He advised his brother that



GREENVILLE TAVERN, SMITHFIELD.

The Greenville Bank was formerly located in this building.  
Built by Resolved Waterman in 1720.

the establishment of a local bank would be the most effective method of inducing the United States bank officials to think the town entitled to a branch. He believed the time a fitting one for the enterprise, although the town was small and the field limited, "but", he wrote, "by our exertions, and favoring a good and substantial foundation for the commercial, manufacturing and mechanical rising generation, it may in time become no inconsiderable capital, but without a spring to promote our young men in business here they must and will continue to go to such places as will aid them with the means of business; and in short all our wealth, I mean the wealth as fast as acquired, in this state must be transferred to other states, who by their banks promote all the valuable arts of mankind".<sup>1</sup> This paragraph was typical of the lives

<sup>1</sup>Moses Brown Papers, August, Sept. and Oct., 1791.

of John and Moses Brown. Their zeal for all kinds of local improvements seemed almost untiring. For nearly four months they were maturing the details of their plan and comparing it with the charters and regulations of the then existing banks of this country and those of the Bank of England. They favored a small bank and limited capital of only \$100,000, but finally decided to increase the latter in order to enlist subscribers from outside the state; while to encourage those of limited means a disproportionately large vote was proposed for the small stockholder and the voting power of any individual or corporation was limited. It was also thought advisable to pattern as nearly as possible after the United States Bank. As a further inducement to subscribers, it was stated that "the institution is pleasing to the secretary of the treasury of the United States and that, therefore, every reasonable encouragement from him may be expected".<sup>1</sup> The stock was limited to \$250,000—625 shares of \$400 each. Of this sum \$50,000 was for a time reserved for the United States and \$20,000 for the state. Neither, however, subscribed. Other investors were ready. Thirteen hundred and twenty-four shares, or nearly three times the stock allotted to private parties, were at once subscribed. Capitalists and corporations from the state and the neighboring states and from Boston and New York sent in their offers. Only \$180,000 of stock was allowed, and the subscriptions of non-residents were reduced the most. The charter of the Providence Bank was granted by the general assembly October 3, 1791.

As this charter was the model of bank charters for many years, it deserves careful consideration. The preamble contains the following: "Taught by the experience of Europe and America that well regulated banks are highly useful to society, by promoting punctuality in the performance of contracts, increasing the medium of trade, facilitating the payment of taxes, preventing the exportation of specie, furnishing for it a safe deposit, and by discount rendering easy and expeditious the anticipation of funds on lawful interest, advancing at the same time the interest of the proprietors", etc. The incorporators were empowered "to have, purchase, receive, possess, enjoy and retain, lands, rents, tenements, hereditaments, goods, chattels and effects of what kind or nature soever; and to sell and dispose of the same, to sue and be sued, plea and implead."

Practically no limitations were put upon its corporate powers, except that within the corporation itself the directors were to do nothing contrary to the regulations of the stockholders.

No specific clause conferred the right to issue bank notes, although it was implied in the clauses providing for an official examination of the notes issued and redeemed and in the clause providing a penalty for counterfeiting notes. The issue of bank notes seems to have been

<sup>1</sup>Providence Gazette, Oct., 1791.

considered, here as elsewhere, a common law right. The stock was to be paid for in installments covering a period of nine months—two-fifths in silver or gold and three-fifths in funded stock of the United States. The voting power of the stockholders did not correspond to the number of shares held. The holder of one or two shares had one vote, two additional shares were required for every additional vote for holdings between two and ten shares; four additional shares for holdings between ten and thirty; six additional shares for holdings between thirty and sixty; eight additional shares for holdings between sixty and one hundred, and ten additional shares for holdings above one hundred shares. Thus the holder of 100 shares had only twenty votes; the holder of 200 shares had thirty votes, which was the maximum number allowed to any one.

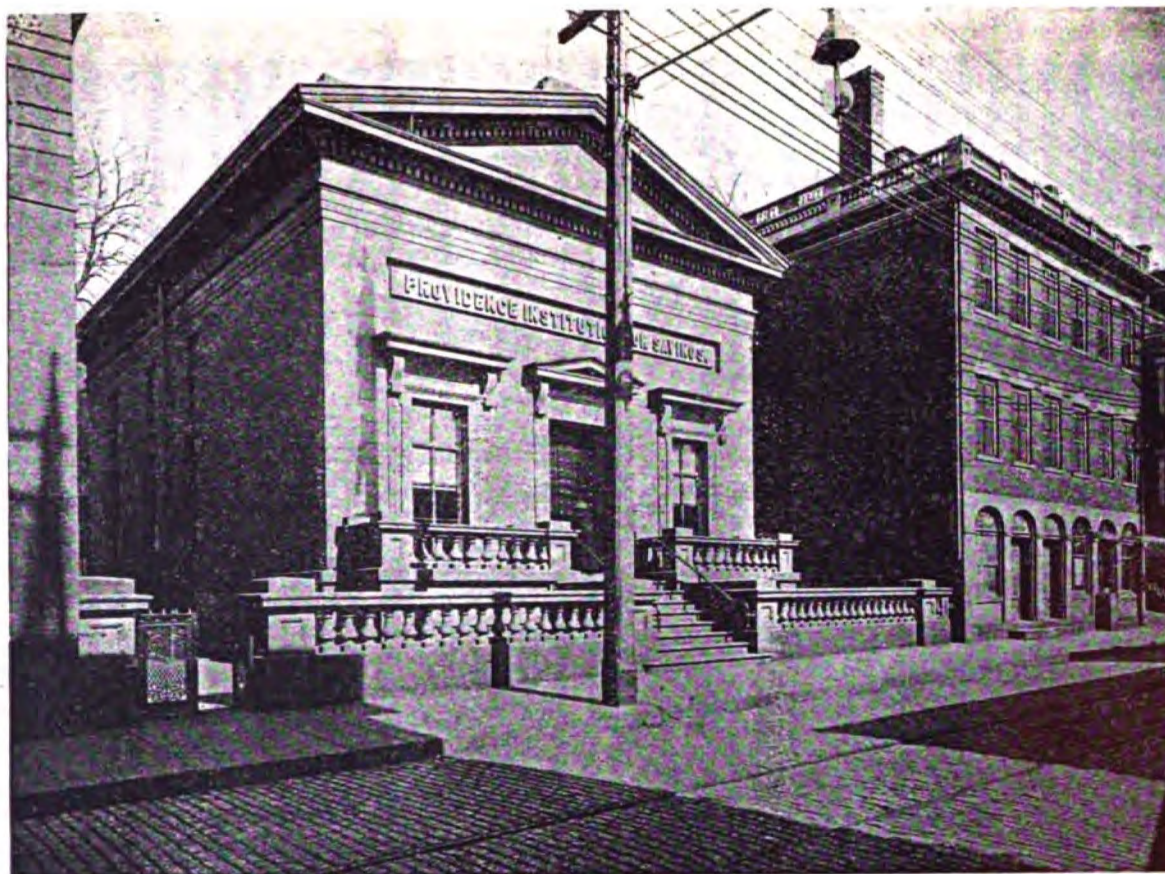
The directors had entire charge of the business of the bank "for the interest and benefit of the proprietors", and they were to declare dividends at least once in six months. They were to receive no "pecuniary advantage" for their services unless the profits exceeded six per cent. net.

The bank was required to receive all sums of money for safe keeping, and to pay them out on order of the owner without charge. The liability of the stockholder was limited to the amount of the stock held.

The so-called "bank process" was granted to the bank. Under it when an obligation to the bank fell due, the president or three directors gave legal notice to the debtor, and on making oath before the clerk of the court, the latter was required to enter judgment against the defendant and issue execution without the usual intervening legal process of trial; but—and the modifications are important—the debtor was allowed ten days' grace before execution issued, and if upon receipt of legal notice he denied the legality of the debt or any part of it, he was accorded all the privileges of regular trial. The full force of this provision appears when taken in connection with the rule of the Providence Bank that discounts should be offered for thirty days only.

The bank process was peculiar to Rhode Island. It gave to the banks a speedy remedy against debtors not granted to other creditors. It did not provide an equally summary remedy against the bank in case it should default.<sup>1</sup>

<sup>1</sup>The provisions of the bank process must not be confused with the provisions of the present bankruptcy act, under which all legal procedure looking toward judgment obtained by one creditor is voided. The provisions for insolvency were those of the common law. The act of insolvency then in force was that of 1756. Assignment did not void previous legal procedure begun by an individual creditor. Hence the bank process did not confer upon the banks any extraordinary exclusive powers as compared with other creditors. It simply accelerated legal procedure and avoided delay in case of an acknowledged debt.



**PROVIDENCE INSTITUTION FOR SAVINGS.**

**(BEFORE RENOVATION.) THE FIRST SAVINGS BANK ESTABLISHED IN THE STATE. NEAR THIS SPOT WAS THE GARRISON HOUSE OF WILLIAM FIELD DURING THE KING PHILIP'S WAR.**

In the second bank charter granted by the general assembly, that of the Bank of Rhode Island of Newport in 1795, "the process" contained no clause providing ten days of grace before judgment was granted. This more summary power was conferred on all subsequently chartered banks until 1818, and in 1807 the charter of the Providence Bank was amended to the same effect.

This law has been the subject of much criticism. It has, however, an historical setting and some economic relations, without an understanding of which it has seemed strange to some and exceedingly unjust to others. Its setting and relations were as follows: The spirit which prompted the founding of the Providence Bank was voiced in the letter of John Brown to his brother, Moses, already quoted. It was not an institution for private aggrandizement, although the interests of "the proprietors" was always guarded—and properly so; its stock was not monopolized by a few, but was distributed in small lots among all the members of the community. Twenty years after it was founded its stockholders exceeded 140 in number. The largest individual stockholder, Thomas L. Halsey, had only 69 shares. Nicholas Brown and Thomas P. Ives held 65 shares each. Welcome Arnold, 58 shares, and besides these there were no large individual holdings. A very great number held from one to five shares, and the list contained the names of "ten charitable societies and fifty-one widows, orphans and fatherless children". At practically the same time that this condition prevailed in the Providence Bank other banks were organized with \$200,000 of capital, owned by only four stockholders and represented largely by speculative promises to pay in the form of stock notes. Thus from the point of view of the investor the incorporators of the Providence Bank were to a predominant degree the trustees of the interests of the community. But their trusteeship had a much broader scope than this—a scope arising from the then prevalent notions of the functions of banking.

In the face of their bitter experience the leading men in Rhode Island had not entirely escaped from the "currency" heresies of the period. Even so acute a mind as Hamilton's stumbled on this point. The preamble of the bank announced one of the objects to be the increase of "the medium of trade". It was implicitly believed that in every community there is a demand for a certain amount of representative money medium, which will pass from hand to hand at par with coin, and will not be presented for redemption if the credit of the issuers is good. Said a writer in the Providence Gazette in 1784, "Nothing is necessary to make this representative of money supply the place of specie but the credit of that office or company who delivers it; which credit consists in its always being ready to turn it into specie whenever required". "It is not necessary that the bank should

always have a fund sufficient to discharge all its notes at one time, it being enough if it is capable of answering any demand and paying all notes as soon as presented". The writer calculated that notes equal in amount to twice the capital might safely be issued, "though this depends much upon the nature of the business the notes are to be employed in".<sup>1</sup> This was a clear statement of the prevailing thought. It was the currency principle in contrast with the banking principle. It maintained that in connection with the demand of the community for representative money, a certain amount of paper may be issued by a banking corporation, that the amount is not limited by the quick assets of the bank in the form of specie, nor even by its contingent assets in the form of capital; but that somehow and somewhere in the corporate personality of a bank is an intangible something called credit, upon which a currency medium may safely be based. When a few years later the excessive issues of paper notes by the banks in one or two instances destroyed their convertibility, the legislators sought the remedy, not in a reduction of the amount of notes issued nor in an increase of the specie reserve of the banks, but in an increase of the intangible credit basis of the notes represented by increased liability of both directors and other stockholders. Later note issues were limited to a certain proportion of the paid-up capital, but no laws of the state ever fixed the amount of the bills issuable by the amount of quick assets or specie on hand. Something of the same thought had been expressed in the general public condemnation of those who had at earlier times presented bills of credit to their issuers for redemption in specie. We now know that these ideas arose partly from custom and tradition and partly from a real scarcity of money media, but their fundamental fault lay in mistaking a want of capital for a want of money media. What they needed most was circulating capital. They thought they wanted a means of making goods circulate more readily, that thus consumer and producer would be brought closer together; that trade and commerce would be stimulated and, if prices rose somewhat, such a rise would indicate simply a normally increased demand for both products and labor—which demand had not before been normal because of the absence of money media. They did not know that, aided by the forces of nature, capital or wealth can only increase by the action of mind and muscle upon matter. The effective demand for goods comes from a supply of other goods and cannot be created by such money media as are mere counters in a game that in its last analysis is simple barter. Plentifulness of money media was believed to be equivalent to increased activity of it, and to a greater ease in getting it. The same thought has constantly reappeared in our monetary history from that day to this. Their idea, therefore, that

<sup>1</sup>Gazette, 2-20, 1784.

there is a demand in the community for representative money media beyond the ability of existing capital to supply, when aided by discount banking, was erroneous, as was also the notion that such a necessary excess of money media could be supplied by an intangible and then little understood factor called credit.

But if there was a fundamental error in their thinking there was also a fundamental truth in it. There is a demand for a representative money media in every community, but it can be adequately supplied by the processes of discount banking and by the conversion of wealth into the money forms of capital. The difference between a circulating medium based on the banking principle, and a circulating medium based on the currency principle, lies not simply in the fact that the one is based on existing capital, while the other is based on intangible credit, but in the fact that the circulation of the former currency is constantly ebbing and flowing and may at times be all redeemed and entirely disappear, while the latter is a permanently circulating fund, which is not expected to be redeemed.

The Providence Bank then, in 1791, was to supply a circulating medium to a community believing in the currency principle. Some of the circulation was to be convertible and was to be converted from time to time. Some of it was to be convertible but was not to be converted. The determination of the amount that would not be redeemed was the unknown factor in the problem, and it was the dangerous factor. If the promoters of the bank were to furnish a medium that would always be maintained at par with coin, such factors must be eliminated as far as possible. If the bank was to act as trustee for the interests of the community in furnishing it a medium as good as real money, it was not too much to ask that the community itself should stand sponsor for the integrity of its individual members. The quick assets of the bank would not suffice to redeem all of the issues at one time. The contingent assets must be brought as near as possible to the condition of quick assets. The bank process, by avoiding legal delay on an acknowledged debt, converted all overdue paper into a quick asset, and the principle of a thirty day discount eliminated the delays incident to realizing on long time or accommodation paper. The public demanded that the bank notes should be redeemable in cash on demand, the bank in return asked that the public pay cash on demand to it on its matured notes. Strict punctuality on part of the one could only be maintained by strict punctuality on part of the other. The "bank process" enabled the bank to enforce that punctuality upon others which others demanded of it.

It was therefore a device to insure the convertibility of the large issues which the community demanded. It stamps the originators of it and the founders of the Providence Bank as men capable of adapt-



ing their institution to its peculiar environment. It marks them as resourceful and as remarkable in banking management as they seem to have been in their other enterprises. They discovered that any system of credit is absolutely impossible without the efficient co-operation of a sovereign government. The bank process provided for this co-operation. It was a new device in the then state of finance and it was effectual.

They did not overlook other means toward the same end. The payment of three-fifths of the value of the stock in United States bonds, and the retention of the bonds for many years in the vaults, were also a part of a plan to maintain a reserve in a form that had both earning power and convertibility. In 1800 when, owing to political or other causes, an unusual demand was made on the specie reserve, John Brown, then a member of congress, sent a draft on the United States Treasury for \$13,699 in coin to the bank. He ordered \$10,000 of the United States bonds to be sold and \$20,000 of specie loans to be called in.<sup>1</sup>

It has been assumed that the bank process was unnecessary, but it is the part of wisdom to forefend necessity by providing for it, and it is not improbable that the lack of apparent necessity for the exercise of the process at first was caused by the fact of its existence. It has also been claimed that it was unjust. But conditions were peculiar. The debtor classes had been taught by eighty years of paper money issues that an evasion of debts was to be made easy; that scaling them was the natural order of things. Within two years the state legislature itself had repudiated fourteen-fifteenths of all its obligations by redeeming them at a rate of 15 to 1. The sense of honor and of moral obligation of the community had been dulled, not only by the direct acts of the assembly, but by repeated laws for easing debtors and a general system of judicial procedure that approached closely to a travesty on justice and seriously threatened the inviolability of contract. Many had become accustomed to do as they pleased in financial matters and lawful restraint to them was synonymous with despotism. Those versed in the political and social history of Rhode Island and the attitude of the people toward the federal constitution will easily understand that the state was a hotbed of such as not only opposed a centralized government, but suffering from debt, poverty and generations of laxity in business matters, opposed it because it stood for that very punctuality of payment and inviolability of written agreement which was foreign to their loose ideas of freedom. Some of them had forgotten that Rhode Island commerce had been threatened with ruin by a continuation of depreciated paper issues in 1751 and that only when, at about the close of the Seven Years' War, all money was kept

<sup>1</sup>Moses Brown Papers, Dec. 15, 1800.

at par with silver and money contracts had a tangible value, the state regained some of its former trade and entered upon the few years of its greatest business prosperity during the colonial era. The great majority of the people knew no way of paying one obligation but by creating another. They had used the state issue of paper money in 1786 for that purpose, and they were ready to toss up their caps in praise of an incorporated private bank that would aid them in the same way. They did not know that in any community based on the principle of private property the getting out of debt is just as necessary as getting into it. The Browns and their associates did. The bank process was devised to meet this state of habitual negligence in mercantile matters. It simply compelled such men to be punctually honest. Naturally they did not like it.

In some instances it may have worked hardship, but the misfortune of a single individual was by no means comparable to the hardships which might have been entailed upon the whole community by an irredeemable currency. It is seldom an injustice to require a man to keep his agreement. The injustice at that time lay not in the bank process as in the prevalent notion that the bank as a creator of money was a creator of wealth in which all wanted to participate. Few men knew how to use capital; fewer how to use credit. The system of issues of currency a few years later made the obtaining of credit easy. It was to blame for fostering imprudence, not the bank process for insisting that imprudence should reap its just punishment. There is no evidence that the bank process was abused or that numerous cases of hardship resulted from it. On the contrary, the banks frequently carried accommodation loans by renewal for many years, rather than distress a borrower.

The law also had its political relations. The peculiar individualism of the state which limited legislative action to a narrow field was illustrated in all the bank charters. The result was a remarkable absence of any degree of state control or supervision. The state as such never subscribed for bank stocks (it bought some bank stocks for the permanent school fund), as was the case with other New England states. No reports were required of the banks for many years. No limitations were placed upon their issues of notes and no bank charter was ever granted for a specific term of years. All were unlimited as to time.<sup>1</sup> In every respect the corporations were subject only to individual direction and management. This absence of restrictions was normal to the inherited customs of the people, but it placed a very great degree of responsibility upon the directors of the first few banks. They could not shield themselves by a technical conformity to restrictive

<sup>1</sup>Only one charter was amended so as to give it a limited life of thirty years, that of the Bristol Commercial Bank, June, 1811. The amendment was soon repealed.

law. The bank process, however, enabled them to shift some of their responsibility to the community, to which they were furnishing both a cheap money medium and liberal loans.

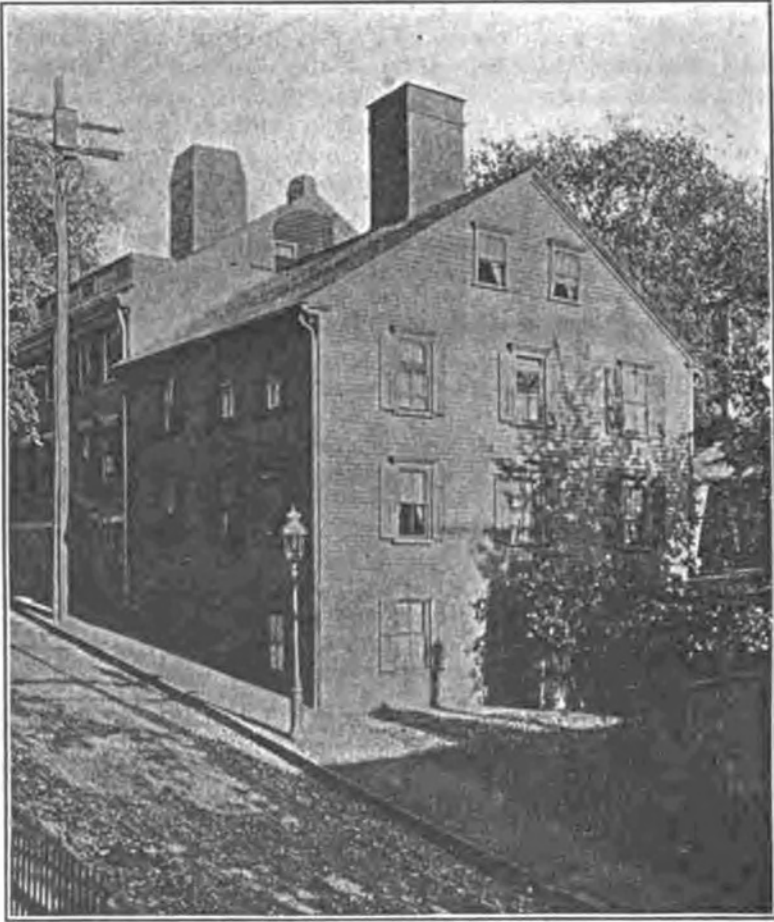
Such was the bank process in its origin. The false notions of currency, the demands of the community that the bank should issue it in liberal quantities, the trusteeship for the community's interest in maintaining it at par—all were parts of a system in which the bank process had a proper and necessary place. About 1810, when banks ceased to be trustees for the business interests of the community, when circulation was no longer issued to meet the needs of the community, but for the sole purpose of speculation and gain of a few stockholders—then the bank process became an anomaly, but some years passed before, in 1818, owing to these facts and to the business distress then prevalent, it was modified.

The Providence Bank acted also as a bank of deposit, but rather as a safe deposit vault than according to the modern deposit system. Discounting seems largely to have been done by means of cash payments of bills and coin, or by a check on some other distant bank, rather than by a credit of the proceeds to the account of the borrower.

With these functions and powers the Providence Bank opened its doors for business October 10, 1791, "on the south side of the new paved street commonly known by the name of Governor Hopkins's lane". In two small rooms on the main floor of the building still standing, this noteworthy institution transacted its affairs more than ten years. From the ceiling of the back room project two huge eye bolts, to which were attached the pulleys for raising from and lowering into the cellar underneath, the chests of silver and gold. The only entrance to the cellar-vault was closed at the end of the business day by a trap-door, and there is a tradition that in a chair placed upon it the bank watchman sat from sunset until bank hours in the morning.

Four years after the Providence Bank was organized the Bank of Rhode Island was chartered with \$100,000 capital and authority to increase it to \$500,000. In 1800 the Washington Bank of Westerly, and the Bristol Bank of Bristol, were chartered with \$50,000 and \$80,000 capital respectively, and authorized capital of \$150,000 and \$300,000, and by 1809 the legislature had chartered fourteen banks with capital of \$1,535,000 and authority to increase to \$5,000,000. The state population was at that time 75,000 and the actual banking capital exceeded \$20 per capita.

Banking facilities so ample were of course not wholly an outgrowth of the commercial and agricultural business needs. Here, even more than elsewhere, the political and sectional influences early played an important part in the establishment of banks. Scarcely had the Providence and Newport banks been started when the agricultural



**THE FIRST OFFICE OF THE PROVIDENCE BANK.**

**IN TWO ROOMS ON THE SECOND FLOOR OF THIS HOUSE THE PROVIDENCE BANK WAS ESTABLISHED IN 1791. THE STREET UPON WHICH IT STANDS WAS FOR MANY YEARS SUBSEQUENTLY CALLED "BANK LANE." THE ORIGINAL NAME OF HOPKINS STREET WAS RESTORED AFTER THE BANK WAS MOVED TO SOUTH MAIN STREET.**

interests began to demand banking favors of the general assembly. Said the incorporators of the Washington Bank, in June, 1800, "considering that those banks, which are at present established in this state, are too remote or too confined in their operations to diffuse their benefits so generally to the country as could be wished; considering the embarrassments into which a farmer is frequently drove for the want of means of stocking his farm at those seasons of the year when money is obtained with the greatest difficulty; considering that in a place particularly fitted by nature to encourage the industry and ingenuity of the mechanic by holding out the sure prospect of a suitable return for his enterprise, nothing is wanting but those little assistances from time to time which banks only can give"—now therefore, etc. Two-thirds of the directors of the bank and the president were required to be residents of Washington county.

The preamble of the Rhode Island Union Bank of 1804 assumed that "a bank in which the agricultural and mercantile interests should be united would be productive of the most beneficial advantages to a state like ours, where those interests are so blended and dependent on each other. In the establishment of banks heretofore the interests of the farmer have not been sufficiently consulted and the pledge of his real estate, the best security in his power to give, is not accepted". The charter prohibited the bank from owning ships or vessels or being directly or indirectly concerned in trading and selling goods, except such as came to it by way of pledge.

Rhode Island bank charters did not, as those of some other states, set aside a specific portion of the capital to be loaned on land security, but the assumed antagonism of interest voiced in the preambles just quoted was repeated in ever broadening circles throughout the country for many years. The balance of trade so to speak, between the farming and commercial sections was more adverse to the former in this state than in many others, because of the poverty of the soil. The disadvantageous situation of the farming population, here illustrated in miniature, had its complete analogue a few years later in the relation between New England as the center of manufacturing and the middle west as the center of agriculture. As the farming section of Rhode Island complained of the towns, as commercial centers to which money media gravitated, so later the middle states and the west complained of New England as the point to which specie was always flowing. As population spread westward other states in turn tried the same banking experiments which had earlier failed in the eastern states; those experiments were always, under different forms, attempts to adopt a banking system to the farmers' needs. The attempt to issue circulation in liberal quantities on the mere credit of the issuer, and redeemable on demand in coin, and at the same time to make loans on farming

lands renewable for many years, was to attempt the impossible. The farmer needed loans for a series of years, and such loans being practically permanent investments, were entirely incompatible with the issue of money media convertible on demand. The absence of any effort on part of the early banks to accumulate a surplus aggravated the inherent difficulties of management. It is not surprising, therefore, that the Washington Bank was compelled at times to suspend dividends and replenish its "impaired capital."

The commercial banks, however, here had little superiority over the agricultural banks with regard to the length of time which their paper might run. Despite the thirty day clause in the rules of the Providence Bank, it could not but happen that a very large portion of its discounts and those of the other banks would be renewed again and again. There were long periods intervening between the beginning and the end of the voyages of the vessels belonging in Rhode Island—and its trade was almost wholly on the seas. Thus the discounts of the merchants approached very closely to long-time accommodation paper. The complaints of the farmers at this discrimination against them were, therefore, probably well founded.

Banks formed for the benefit of the agricultural interests, if managed properly, might have accomplished some of the ends for which they were organized. According to their preambles, at least, their object was the best interests of the community. Many banks, however, were chartered without preambles, and the reason for their existence was neither the benefit of the state nor that of the community. Some of them were purely personal institutions, organized partly, at least, as adjuncts to other lines of business or for political reasons.

The business most closely associated with early banking was that of insurance. For many years at first it was largely concerned with marine risks, and as the towns of Providence, Newport, Warren and Bristol were all engaged in the shipping industry, and the voyages were in many cases two years in length and involved valuable cargoes, the business was very profitable, though hazardous. Partly from its hazardous character it was necessary that the insurance companies should have large capitals. Such capital, however, was merely nominal in most cases, and like that of many of the banks organized soon afterward, was represented by stock notes payable in installments at various intervals. The insurance companies seem to have had no offices and the banks acted as their fiscal agents. In case losses necessitated, the stock notes were discounted by the banks, and a bank became a very necessary adjunct to the insurance companies, which had no quick assets, but were liable to be called upon for a large amount of money at any time.

The business relation between the banks and insurance companies was close in other respects also. The marine risks which the insurance companies carried were large and, as is the custom to-day, the premiums were not usually paid by cash, but by notes. These notes were discounted at the banks also, and seem to have been considered a very valuable line of paper. They were long time notes, but not as long as the time of the voyage, and in order to insure the collection, as well as the stock notes of the stockholders, the power of the bank process was granted directly to some of the insurance companies.<sup>1</sup> In other cases, it was provided that where the bank acted merely as a collector for an insurance company, it could enforce the powers of the bank process with regard to such paper.<sup>2</sup> To such uses was the bank process thus early diverted.

In some cases the profits of the insurance companies began to reach considerable sums, and the money was invested largely in bank stocks. In some cases the insurance companies as corporations seem to have given their corporate notes for stock in banks just as individuals did. Thus the relation between them, which usually first arose because the same men were interested in both kinds of corporations, became an interest of mutual corporate ownership and of-profit.

Thus we find the Providence Insurance Company, chartered in 1799,<sup>3</sup> bought stock in the Providence Bank. In 1814 it owned 150 shares and was the largest single stockholder of the bank.<sup>4</sup> The Newport Bank of Newport was incorporated in 1803. By the terms of its charter its president and directors were authorized to organize the Rhode Island Insurance Company, and the latter was to subscribe for one thousand shares of the bank's stock. As the par value of the bank stock was \$60, and the amount of it was \$120,000, this subscription amounted to one-half of the total issue of bank stock. The Washington Insurance Company of Providence was chartered in 1800. It seems to have been a competitive institution to the Providence Insurance Company and to have been managed by a coterie not altogether friendly to the Browns. Thus far the Providence Bank had had the local field alone. Now, in connection with the Washington Insurance Company, a project for a new bank, the Exchange, was brought forward. Brown offered to let the Washington Insurance Company into the Providence Bank on the same terms that the Providence Insurance Company had subscribed, and its promoters were offered the privileges

<sup>1</sup>Warren Insurance Company. Acts and Resolves, Feb., 1802.

<sup>2</sup>Charter of Newport Bank, Oct., 1803.

<sup>3</sup>The charter of the North American Insurance Company of Philadelphia in 1798 was the first charter in the United States.

<sup>4</sup>It is interesting to note in connection with the Providence Insurance Company, of which the Browns were the leading spirits, that soon after its organization it was voted to take no risks on vessels directly or indirectly engaged in the slave trade.

of the existing bank. These offers were refused, and the opposition to the new bank was then vigorously maintained in public by the friends of the old bank. Brown wrote to his brother that he feared the evil results of such a multiplex grant of bank charters. He thought "that all the neighboring states will at once put a prohibition, by general consent or otherwise, against any and all bank paper of our state". A reduction of circulation would follow, and small dividends would result. "Thus", said he, "reduced to small business, there may be found among some of the managers such frauds and inaccuracies as to stamp a curse on the whole banks of the state". His brother, Moses, wrote an argument to show that one bank could safely circulate "as much or more bank paper" than two. This argument John approved, but with regard to the personal feeling, which seems to have been engendered by the incident, he said, "though we ought to be careful to give no just offence in threatening to call in all our moneys due from the gentlemen who promote the new bank, it will of course take place". He had made an agreement with Judge Bourn, the promoter of the Bristol Bank the year before, that it should join forces with the Providence and the other existing banks against any new bank corporations. The arrangement did not avail, however, and the opposition failed to hinder the issue of a charter to the Exchange Bank in February, 1801. Perhaps as the Browns and their friends were federalists, the republican tone of the state government at the time was not favorable to them.

The charter of the Exchange Bank provided for 4,000 shares par value of \$50 each, and the Washington Insurance Company was authorized to subscribe for 1,100 shares. The Bristol Insurance Company was organized in February, 1800; the Bristol Bank, in June of the same year. There was a Warren Insurance Company and a Warren Bank. Within the period 1799-1807 ten insurance companies were organized in the four seaport towns of the state and nine of them engaged in active business. In the same towns there were nine banks and the insurance companies, so far as observed, owned stock in most of them. A similar relation between the Merchants Insurance Company and the Bank of Commerce, both of Providence, illustrated these facts as late as 1851. It is significant that the first restrictive law as to corporations, passed in 1809, was called a law regarding the "process against banks and insurance companies."

In the organization of the Roger Williams Bank, chartered in 1803, politics seemed to have had some part. Previous to that time the United States deposits had been carried in the Providence Bank. In 1803 Jefferson wrote to Secretary Gallatin, "as to the patronage of the republican bank in Providence, I am decidedly in favor of making all the banks republican by sharing deposits amongst them in proportion



to the dispositions they show".<sup>1</sup> The Roger Williams Bank soon began to get the public deposits and continued to hold them until the second United States Bank established a branch in Providence in 1817. The Bristol Bank carried the government deposits in Bristol; the Newport Bank in Newport. These three were the only banks in Rhode Island which purchased United States bonds during the war of 1812. Their political affiliations were thus apparent.

The charters granted to the banks beginning in 1800 contain slight but important modifications when compared with the charter of the Providence Bank, such modifications applying chiefly to the terms of payment for the stock. Not infrequently in the case of country banks the requirement that the stock be partly or in whole paid for in specie was omitted. The number of installments upon which payment might be deferred by the directors was increased; in some cases three out of seven were thus deferred. The payments for the stock of the Exchange Bank of Providence extended from February, 1801, to October, 1802, but by an amendment, adopted in October, 1801, the directors were permitted to extend the payment of any or all subsequent installments. The installments of the Farmer's Exchange Bank of Gloucester were seven in number. A cash deposit of \$1 per share was required with the subscription, and the remaining payments were extended over three years from February, 1804, to March, 1807.

Other modifications in the charters affected the powers of stockholders and directors. No shareholder in the Newport Bank (chartered 1803) could transfer his stock while indebted to the bank, and if a stockholder's obligation was not paid at maturity, the directors were authorized to summarily dispose of enough of his stock to cover the bank's claim. Not long afterward it became customary to insert a clause in all charters pledging stockholder's stock for their debts to the bank. The Rhode Island Union (chartered in 1804) was the first bank in which the voting power of the stockholders was equivalent to the number of shares held, and though in most previous charters it had been provided that stockholders' meetings could be held only annually, unless called at other times by the directors, in the Rhode Island Union such meetings must be called on the request of the holders of 300 shares. In the Narragansett Bank of Wickford, chartered 1805, holders of 200 shares had the power to order a stockholders' meeting. The Smithfield Union Bank charter, 1805, provided that directors must own at least five shares, while in the Rhode Island Central Bank of East Greenwich, directors were required to hold twenty shares. The directors of the Bristol Commercial Bank (chartered 1809), and others chartered at about the same time, could not hold directorships in other banks.

<sup>1</sup>Gallatin's Works 1, 129, July 12, 1803.

These restrictive provisions in the charters tell the story of practices then beginning to be prevalent. It did not follow, however, that because charters contained certain clauses, those clauses were generally obeyed. In banking, as in other lines of business, in the absence of rigid state supervision honesty of management and success as well depend wholly upon the character of the managers. The most unique illustration of the limits to which bank frauds could be carried was that of the Farmer's Exchange Bank of Gloucester.

The origin of these frauds was not wholly local. The profits of banking during the first few years of the century caused the issue of a large crop of charters, especially in Massachusetts, Maine and New Hampshire, between 1800 and 1810. The notes of these banks flowed into Boston as to a clearing house. They quickly fell below par and displaced the issues of the Boston banks in all local transactions between individuals. Money brokers began to deal in them, charging one-fourth per cent. for exchanges. In 1804 the Boston Exchange Office was incorporated and devoted its attention to the business of exchanging money. About the same time the brokers began to send the excessive issues of the country banks home to be redeemed. The less accessible the home bank, the more costly was the process of redemption to the brokers. Hence speculators began to charter banks in the most remote and out-of-the-way places of Maine and New Hampshire. The chief of these swindlers was Andrew Dexter, Jr. He bought up the stock of the Boston Exchange Office and of several cross-road banks. Among them was the Farmer's Exchange Bank of Rhode Island. This was in 1808. In March, 1809, "the funeral of the Farmer's Exchange Bank" was "on its way to the general assembly in East Greenwich".<sup>1</sup>

A committee of investigation had been appointed in February and a report was rendered at the March session of the assembly. The legislative halls were crowded with spectators who listened to a story that surpassed their strangest dreams. The committee stated that from the day of the issue of the charter the directors as a whole had no proper knowledge of the affairs of the bank. Some of the stockholders had no notice of the suspension of payment of the last installment for their stock, and thus paid for their holdings in full in cash. The directors paid no money whatever. They paid their first installment in specie, but soon afterward took an equal amount of notes, for which they gave no receipt. For part of the first five installments they gave personal notes without indorsers, and for the last two installments they gave nothing. They held 103 shares each. Instead of a subscription for 2,000 shares, as required by the charter, the bank started with only 661 shares subscribed. The paid-in capital at the outset was

<sup>1</sup>R. I. American, March, 1809.

\$11,806.61. The installment which the directors withdrew left the bank with an actual cash capital of \$3,081.11. In 1805 the directors voted themselves \$200 each in bills. They took other bills of the bank into the neighboring states and bought corn and other products with them, making no return whatever to the bank. In February, 1808, they voted to divide the whole assets of the bank among themselves, but they did not carry out the plan. In the following month, however, they bought of sundry stockholders 450 shares and paid for them with the assets of the bank, largely by means of notes of the stockholders themselves, which had been given to the bank for money borrowed and were at this time returned to them. The institution was then ripe for Mr. Dexter. During the year the directors sold out to him or to his agents and themselves received pay from the remaining assets of the bank. The amount of their purchase money was \$1,300 each. Dexter paid for the whole bank \$3,784.95. The directors had already by vote turned over to him the plates on which the bills of the bank were printed. He had bills printed and sent to the cashier, who was ordered to sign them at night and return them secretly and as rapidly as possible. The cashier obeyed this order. Dexter had at the same time a bank in Berkshire. The bills of the Farmer's Exchange Bank were paid out over the counters of the Berkshire bank, and those of the Berkshire Bank over the counters of the Farmer's Exchange Bank. As the bills of both banks were redeemable in specie, both banks were thus "specie paying". Dexter had banks all over the country, and among the bills paid out by the Farmer's Exchange Bank were some of the Marietta Bank of Ohio. He borrowed from the bank at various times, in some instances giving notes payable in eight years and in others giving notes of which the following is a copy: "I, Andrew Dexter, Jr., do promise the president, directors and company of the Farmer's Exchange Bank to pay them ——— dollars, two years from date with interest at 2 per cent. per annum, it being, however, understood that said Dexter shall not be called upon to make payment until he thinks proper, he being the principal stockholder and best knowing when it will be proper to pay the same". Dexter borrowed in all \$845,771. The bank, largely through him, had issued \$644,843 of currency, of which about \$580,000 were still outstanding when the committee made its report. The total assets of the bank consisted of \$86.48 in specie. The general assembly had attended the funeral, but there was not even a corpse left to bury. "Such a scene of dishonesty, dissimulation, turpitude and everything that is iniquitous", said the American, "was never, we believe, before exhibited to an astonished public".<sup>1</sup> A letter to Mathew Carey from Boston said, "It is impossible for us to picture the ruin and distress that followed,

<sup>1</sup>March 24, 1809.

the effects of which are still remaining. It is said, and we presume correctly, that in one county of this state there were \$100,000 of the bills of the Farmer's Exchange Bank in circulation at the time it failed, and probably in the state (Mass.) there were \$400,000 or \$500,000, all of which, after being bartered at various discounts, became a total loss to the last holder, which in most cases were the poorer and less informed parts of the community. There is no doubt that thousands of farmers will be ruined, and leave their families in poverty, in consequence of the facility with which they obtained money at the banks by mortgaging their estates".<sup>1</sup> The directors escaped from the state and from punishment. The cashier suffered nothing worse than a few months' imprisonment. It was soon afterwards announced that "the bank is shut, probably never to be opened for a similar business. The sign is taken down, and the keys are in the vicinity".<sup>2</sup>

The case of the Farmer's Exchange Bank was exceptional. A few other instances of gross mismanagement will be noted from time to time, but no note holder or depositor of any other Rhode Island bank ever lost a dollar until after the Rebellion, except during the general suspension of specie payments in 1837-38, and in 1857-58. The whole losses in every case fell on the stockholder, and as in most instances such stock had been fraudulently secured and fraudulently paid for, the result was justice rather than injustice. The Rhode Island banks which were managed and controlled by local interests did not adopt to a great extent the plan elsewhere common of issuing large sums of bills and sending them into other distant states for use by their specially appointed agents. The practice so far as it prevailed was almost wholly confined to banks owned by parties outside the state. Outside banks, however, had agents here. The Detroit Bank had an office of discount and deposit in Providence,<sup>3</sup> and when it became bankrupt some of the bills were in local circulation. About \$200,000 of the notes of the Eagle Bank of Connecticut were in circulation in Rhode Island when it failed. Rhode Island suffered not so much from the depreciation of notes issued by local banks as by the notes of banks outside the state. The sellers of lottery tickets became money changers, and the association of the two lines of business had a large degree of fitness.

In 1805 the issue of notes by private parties intended for circulation was forbidden. At the same session at which the report on the Farmer's Exchange Bank was presented the legislature, with that post mortem sagacity which had not infrequently characterized its doings, passed a law defining and regulating the "process against

<sup>1</sup>History of Banking in all the Leading Nations, 1, 38.

<sup>2</sup>American, March, 1809.

<sup>3</sup>Gazette, March, 1809.

banks and insurance companies". Directors were made personally liable for all the debts of the bank after the property of the corporation had been exhausted, and such liability was enforceable by writ of *scire facias*. The amount of debts of a bank on a bond, bill, note or other contract, was limited to the capital stock plus the deposits.<sup>1</sup> Under this provision the circulation could not exceed the amount of the capital stock plus the deposits. No bank was to issue a bill or note for a less sum than \$50, payable out of the state, and no individual was allowed to pass a bill under \$5, issued by a bank outside the state. Returns were required of the banks of their condition on some one of the ten days preceding October 3rd, of each year.

These returns made on a day selected by the banks themselves, and fixed within certain limits for a year in advance, were of course no criterion of the banks' condition, but the system was continued, with some modification of details, until 1836, when returns were to be made on a day set by the bank commissioners.

In October, 1809, thirteen of the banks made their first official report, and although they were on dress parade, some light is thrown on their methods. The full statistics will be found in the table accompanying this chapter. The statement that with \$434,800 bills in circulation, they had in their vaults \$410,800 in specie, \$79,000 of the bills of other banks and \$88,200 deposited in other banks, thus showing cash assets of \$143,000 in excess of their circulation, evidenced the misleading character of the statement at once. It would indicate that banks which were founded on circulation principle and with the avowed purpose of making profits from such issues, had abandoned their chief reason for existence, had in their vaults more circulating medium than they had issued, and were making their dividends solely from the loan of their capital and deposits. Four of the banks had more specie on hand than the amount of their notes issued. The Providence Bank, for instance, with circulation of \$64,800, had \$111,100 specie in its vault, \$82,800 deposits and \$438,400 of discounts. The Washington Bank had \$36,400 bills out and only \$6,600 in specie. It had \$113 of deposits and \$69,000 of discounts. These two banks are typical of the difference between the town and country institutions, and the statement of the latter was probably much more nearly the average condition of the banks with regard to specie and circulation. The proportion of one of specie to six of circulation was not at the time considered excessive. The Rhode Island Union Bank of Newport returned among its liabilities \$630 sent to Philadelphia to be put in circulation. The \$88,200 of deposits in other banks, reported at the same time, coupled with the thought expressed in the law of March

<sup>1</sup>The term debts here being used, as indeed was the case usually until 1850, to apply only to obligations due to the public in the form of deposits, circulation and small amounts sometimes borrowed from other banks or individuals.

prohibiting the issue of notes of small denominations payable elsewhere, would indicate that it was not alone in this practice.

SECOND PERIOD—1809-1840.

The year 1809 marks the end of the period when the establishment of banks can be said to have been the result of a desire on part of their incorporators to promote the interests of the community.<sup>1</sup> Bank charters were thereafter liberally granted for personal gain and were tossed back and forth through the two branches of the legislature on the plan of give and take. The second period of banking, lasting from 1809 to 1840, was marked by a gradual increase of supervision by the state, and various restrictive laws as to loans and issues of circulation and, by spasmodic and for brief periods, effective attempts to stop the wholesale issue of charters. Events of national importance had their effect in the local field. The affairs of the United States banks, the war of 1812, the embargo act, the tariff laws, the beginning of the Suffolk system of note redemption—all materially modified the character and extent of local banking.

It has been customary in writing banking history to treat New England as a whole and compare it with the western states, thus emphasizing only points of difference in the amount of circulation and methods of redemption. In such a treatment, however, much of the economic relation of certain important phases of banking in New England has failed to receive due consideration. A more complete separation of the New England states into groups will illustrate statistically fundamental points of difference. For this purpose the three northern states form one group; the three southern states form another group. A comparison of these two groups shows that in the southern tier of states, during the whole of the period from about 1810 to 1865, the circulation function of banking based on the circulation principle had given way to the circulation function based upon the banking principle. This condition manifests itself in the fact that in these states the amount of the capital stock in banks, and not the amount of their circulating notes, was the most distinguishing characteristic. It will be seen from the subjoined statistics that the proportion of their circulating notes to their capital stock was very small, when compared with the three northern states; and should a comparison be made with the western states, the characteristic would even be more marked. It followed, of course, that the function of banking in discounting by means of capital, rather than by means of note issues, was also their distinguishing feature.

The following figures have been selected because of their availability and not for any peculiarity due to a difference in dates. They

<sup>1</sup>Bank charters were inserted in the Digest of General Laws in 1798. In Connecticut they were incorporated in the General Laws as late as 1821.

are typical of the whole period covered. The figures are given in millions and thousands only, 000 being omitted.

	Capital.	Circulation.	Discounts.	Deposits.	Percentage of Circulation to Capital.
Maine . . . . . 1820	\$1,600,	\$1,400,	\$	\$	88
New Hampshire . . . . . 1831	2,000,	1,100,	2,900,	270,	55
Vermont . . . . . 1834	920,	1,460,	1,900,	180,	159
Average . . . . .					88
Massachusetts . . . . . 1820	10,600,	2,600,	13,500,	3,200,	25
Rhode Island . . . . . 1821	3,200,	675,	3,100,	460,	21
Connecticut . . . . . 1834	6,800,	2,400,	8,300,	1,200,	35
Average . . . . .					32
1855.					
Maine . . . . .	7,300,	5,100,	12,700,	2,500,	70
New Hampshire . . . . .	4,400,	3,600,	8,000,	950,	82
Vermont . . . . .	3,600,	3,700,	6,700,	800,	103
Average . . . . .					80
Massachusetts . . . . .	58,600,	23,100,	99,500,	21,900,	39
Rhode Island . . . . .	18,700,	5,400,	26,400,	2,900,	29
Connecticut . . . . .	17,100,	6,800,	23,700,	3,400,	40
Average . . . . .					37

The facts here shown with regard to the three southern New England States are more particularly true of Rhode Island than the other two states, its percentage of circulation to capital having been four per cent. less than that of Massachusetts in 1821 and ten per cent. less in 1855. To the extent of its superiority in these respects is it true that Rhode Island banking was based more on real capital than any other state in the Union. The facts are the more remarkable, because the restrictive laws relating to circulation, while different in point of time of enactment in the New England states, were very similar in their provision; because the Suffolk system of redemptions prevailed throughout all alike, and because precisely the same methods of paying for capital stock by means of stock notes were adopted everywhere. It is further true as regard the laws limiting the amount of a bank's indebtedness and its circulation, that they had little effect, because in none of these six states were the limits set by statute approached by the banks (except of course in a few cases of noteworthy mismanagement). From this fact we may also conclude that here the development of banking was to a large degree a normal adaptation of banks to the business needs of their respective communities. And finally, if we accept the fact that inflation was the most common characteristic of all banking at this time, it remains to be explained why the inflation

of Rhode Island and its two neighboring states to a nearly equal degree, expressed itself in the form of capital stock rather than in the form of note issues. This explanation will be found in local economic conditions, of which banking was but a part, and partly in the methods adopted among the banks themselves for restricting currency issues. We shall treat of the latter topic first.

In 1809, when the western state banks were suspending specie payments, the "bank thermometer" of Rhode Island announced that the bills of all state banks were redeemable in specie except the Smithfield Union, which paid with checks at thirty days' sight on Boston, "with interest in advance". The circulation of the banks was not large in comparison with other states and when, owing to the expiration of its charter in 1811, the bills of the first United States Bank were withdrawn, local circulation was issued to take its place.<sup>1</sup> The issues increased from \$460,000 in 1811 to \$770,000 in 1813. Circulation was increased in other states in even greater proportion. There was a great redundancy of bills in Boston. They depreciated from one per cent. to five per cent. The Boston money changers reaped a harvest. The exchanges of bills reached \$100,000 a day, and the annual cost to note holders was estimated at \$120,000 in that city alone. The condition paved the way for the action of the New England Bank of Boston, which advertised to receive bills at a discount equal to the cost of sending them home for redemption. The Rhode Island banks were accessible, and under the influence of the redemption system, their issue decreased from \$770,000 to \$549,000 in one year. Thus, when in consequence of excessive issues, all the banks outside of New England suspended in August, 1814, the local banks had already reduced their circulation to such a point that not only was there no thought of suspension, but the circulation was increased \$30,000, and this, although at the same time the specie holdings of the banks had decreased \$80,000. The New England Bank system, which had reduced rates of discount on bills to about one per cent. from 1814 to 1818, was the cause of the inauguration of the Suffolk Bank System of redemptions in 1819. The Suffolk Bank offered to redeem the bills of any bank, charging therefor the same price which it paid, provided the bank would keep a permanent deposit of \$5,000 with it. The deposit of \$5,000 was not required of the banks of Providence and Newport, which already had accounts with the Suffolk, provided they would keep all their deposits with it and have money enough to redeem their bills at all times. The Merchants Bank of Providence became the satellite of the Suffolk and handled its Rhode Island business. It made arrangements with most of the state banks to redeem for them

<sup>1</sup>It was estimated that \$24,000,000 of the \$50,000,000 circulation in the country was of the United States bank notes.



the bills of all other banks except those located in the same town. For this purpose it issued much of its circulation in the form of large bills from \$100 to \$1,000 and had an understanding, though not an agreement, with its associated banks that such bills, when received by the latter in course of their business, would be retained by them and would not be presented for redemption in specie, but only in payment for their own notes, which the Merchants had received from out of town banks for redemption. The Suffolk Bank soon improved upon its original system and agreed to receive at par from its allied banks all the bills of other banks in good standing, modifying at the same time the \$5,000 deposit to suit the condition of each bank. The system was received with bitter denunciation by many of the country banks, as it compelled them to keep a larger specie reserve and at the same time reduced their circulation and the profits from it. The association of banks was derided as the "Holy Alliance". Some Rhode Island banks refused to join. They were the Cranston, Kent, Village, and the Fall River Union Banks. As the first three of these banks had, in 1819, a combined capital of \$46,600, a circulation of \$50,800, the reason for their opposition and that of many like them in other states was manifest. A few of the banks had been not only making high profits out of excessive issues of circulation, but they had also reaped large gains by buying their own bills, through their agents, at a discount. Their most serious grievance, therefore, was that their paper was raised to par by the redemption system and they were deprived of their profits on its depreciation.

The sub-system established by the Merchants Bank simplified the redemption of all bank bills by Rhode Island banks, but it had other additional merits over the Suffolk system. It covered a compact and easily accessible territory. Its refusal to receive from any bank the bills of other banks in the same town, left to each bank the care for its own circulation by frequent redemptions of the bills of its immediate local competitors, while it cared for the redemptions of the banks by groups in each town. Like the earliest government in Rhode Island, it provided for complete local autonomy of the banks while it managed their intertown relations. This development of the system was peculiar to Rhode Island. Within state limits it facilitated and accelerated redemptions to a degree nowhere else possible. Toward the close of the era of state banks, when nearly one hundred banks were issuing circulation varying from \$3,500,000 to \$5,300,000, the average local life of a bill did not exceed a fortnight.<sup>1</sup> The rapidity of circulation and redemption rendered great inflation impossible. An ardent admirer of the Boston plan says that, starting almost without outside support,

<sup>1</sup>The author is indebted for this fact, as well as for many others of the greatest value relating to local banking, to George C. Noyes, Esq., for many years associated with the Globe Bank of Providence.

“assisted by no law, progressing tentatively as each necessity prompted the invention of new means to meet it”, the Suffolk Bank evolved a system, “under which, to an extent never approached in its efficiency by any plan elsewhere created by law, the bank note currency of New England was made elastic, safe and ideally convenient and inexpensive in use”.<sup>1</sup> While such a statement may not be received without some limitations, it is nevertheless true that the system received its most perfect exemplification in Rhode Island. The bank process had been invented by the projectors of the Providence Bank to compel improvident individuals to be honest with the bank. The Suffolk system compelled the banks to be honest with each other.

The successful operation of the system in the southern New England states as compared with their northern states was largely due to concentration of the banking institutions in localities reached by easy means of communication, and the very contrast between it and the northern sections in the amount of circulation which they kept out in proportion to their capital, though all were subject to the same general system, would indicate that without important modifications the Suffolk plan could not have been projected upon the whole United States. But within its sphere, however, it was an efficient mechanism, and because of it as a purely self-centered expedient and not because of restrictive laws, it was almost impossible for the banks of southern New England to keep in circulation excessive issues of bills, and therefore from causes operating within the banks themselves, the issue of currency on the circulation principle was impracticable. With a few such exceptions as have been noted of country banks, and they were not types of any importance, the banks of Rhode Island never issued circulation exceeding one-third and on the average not to exceed one-fifth of their nominal capital stock. Recalling the large profits of the business by means of which real capital was quickly accumulated, it is probable that at no time did the note issues exceed one-half the actual capital stock and at no time approached a condition where it could be said to have been issued on the simple credit of the issuer. In fact, the theory that the amount of circulation safely issuable is governed by the demand of the community, regardless of the assets of the issuer, though avowed by the community in 1791, was never put in practice by John Brown or any of his successors in legitimate banking in the state.

While, therefore, the value of the Suffolk system as a check to swindlers may be acknowledged, the real reason for the small issues of circulation in Rhode Island and the large issues of capital stock must be found in the character of the business which the banks performed. It has been noted that long time loans on land or accommodation loans

<sup>1</sup>Whitney. The Suffolk Bank.

are incompatible with the issue of circulation. It has also been observed that the commercial enterprises of the merchants and the long periods occupied by their sea ventures made their notes very similar to accommodation paper and that much of the paper discounted during the first fifteen years of chartered banking was of that nature. The men, therefore, who projected these banks had much more to gain by securing a large line of permanent or renewable discounts than by the issue of large amounts of bills, the redemption of which at any time might necessitate the paying of their loans. The actual payment by specie and bonds for the stock of the Providence Bank and others at first formed gave the directors the real capital with which to make such loans.

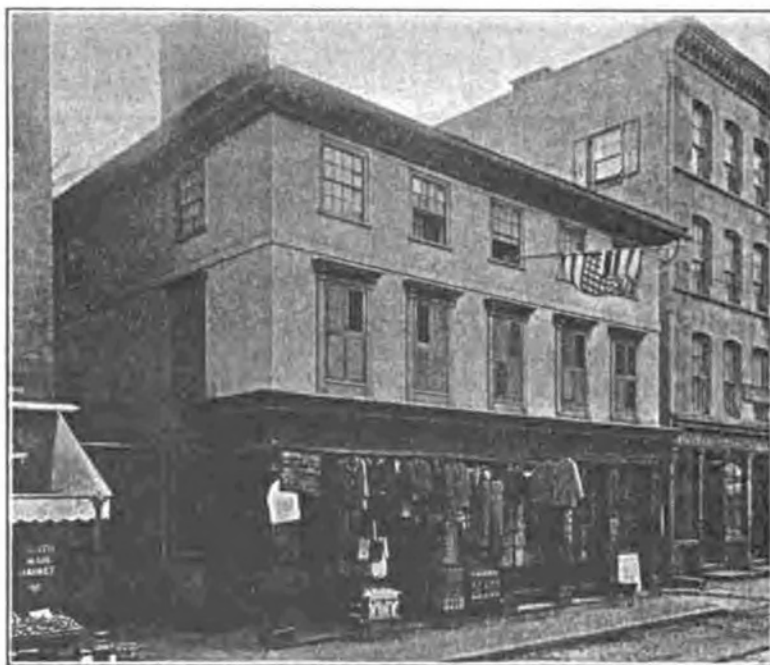
The embargo of 1807, the war of 1812, and the tariff act of 1816 laid the foundation of New England manufactures, and they succeeded to the commerce which had been ruined by the embargo. While the consumption of cotton was 10,000 bales in 1810, it was 90,000 bales in 1815. In 1816 the value of cotton goods manufactured within a circle of thirty miles surrounding Providence was \$3,500,000; about one-fourth of the total consumption of cotton, or 25,000 bales, found a market here. New England, and especially Rhode Island, was manufacturing for the whole country. Specie flowed here and the west was drained. In New York exchange on Boston was uniformly at a premium. In 1813 it was one-half per cent., and by January, 1815, it had reached 23 per cent. It fell in 1816 to one and one-half per cent.<sup>1</sup> When the Southern Bank of Baltimore, followed by the banks of Philadelphia and New York, suspended in 1814, they were debtors to the manufacturers of Providence and the territory immediately surrounding it to the extent of \$1,000,000. Owing to the depreciation of their bills and their refusal to pay interest on their obligations, on which payment was deferred, the manufacturers of New England were compelled to accept a loss of from 10 per cent. to 15 per cent. on the moneys due them,<sup>2</sup> and although for the time being the loss hampered local industry, the enormous profits of from \$1 to \$8 a yard on woolen goods and almost proportional profits on cotton soon recouped the losses.

For a community thus industrially situated fictitious circulation had no advantage. Real capital was necessary, and though it was rapidly being created, the manufacturers took advantage of every opportunity to borrow in other markets. The banks in southern Massachusetts and eastern Connecticut were heavy loaners to Providence merchants. When in 1816 the project of a United States bank was again broached as a regulator of the currency, and the circulation banks throughout

<sup>1</sup>United States Treasury Report, 1818.

<sup>2</sup>R. I. Hist. Society Mss. "Banks."

the country were opposing it, Providence manufacturers and bankers requested that a branch might be established here.<sup>1</sup> The first signatures to the request were those of the Browns and their associates. A branch was desired for the facilities which it would offer for discount. It was established in 1817 and Phillip Allen, then closely associated with the interests of the Browns, was selected as its president. In September, 1819, it had local discounts amounting to \$374,000, but



OFFICE OF THE SECOND UNITED STATES BANK

The Providence branch of the Second United States Bank was in this building, at number 28 and subsequently at number 26 South Main St. This was the favorite business street and in 1840 the American, the Globe, the Blackstone Canal and the Mechanics Banks were located in this and the adjoining building.

although it had in its vaults \$225,000 of its own notes, the amount of them which it had succeeded in getting into circulation was only \$38,300.<sup>2</sup>

The length of time required for these loans is scarcely now comprehensible. This process is thus quaintly but clearly described by an active participator in it. The "merchandise being sold on credit of

<sup>1</sup>Moses Brown Papers, Oct., 1816.

<sup>2</sup>United States Treasury Report, 1819.

from four to six months, chiefly the latter, the notes which the consignees receive for it, when sold, must be discounted at the banks to meet the drafts of the shippers, payable at sight, or at very short dates. And these notes again, such of them as are given for the raw materials for manufacturers, when they fall due, are taken up by further discounts of the drafts of the manufacturers on their distant agents, payable some months still later than the notes were. It is this great length of time between the advances made by the banks, for which specie is required in all periods of pressure, and the return of the money to them, that limits the aid they can afford in the transaction of business to less than one-half of what they might give if the notes and drafts discounted by them were payable in sixty days".<sup>1</sup> The nature and character of its industry was such that Rhode Island like a sponge sucked up available banking capital from everywhere, and such were the rates of discount, reaching in times of stress as high as 24 per cent. and 36 per cent. and normally averaging 12 per cent., which the manufacturers could afford to pay, that the profits on banking soon turned stock notes into real capital. Just as the banks were the necessary adjuncts of the insurance companies in the earlier years, so they were from this time forward necessary attendants of the growing manufacturing industries of the state. If the large profits then received, the nature of the exchanges and discounts and the character of the local industrial organization are considered, it will be seen that, though nominal banking capital seemed to savor of inflation, banking in fact did not absorb more than its due proportion of the increase in real capital. In the absence of any deposit banking, in the present use of the term, and because of the unfitness of circulation banking, banking on capital stock was the only means by which industry could secure its necessary discount accommodation. On the other hand the very prosperity of that industry kept the balance of trade in favor of New England and drew to Rhode Island banks, until 1850, an abundant stock of coin, which at no time fell below 40 per cent. of their circulation, and was usually much above that proportion.<sup>2</sup>

<sup>1</sup>Report on Banking Capital, 1826.

<sup>2</sup>It has been assumed that a large amount of capital from outside the state was invested in bank stock in Rhode Island because of its peculiarly liberal banking laws. There are now few available evidences of such investments. In so far as the practice is known to have prevailed it was almost wholly confined to a few of the "circulation" banks of the country towns, the control of which was sought for fraudulent purposes. The stock of the commercial and profitable banks was jealously guarded, for the obvious reason stated in the text; that they were the fiscal agents of the industrial corporations and were largely owned by the men whose enterprises they aided. The capital of Rhode Island banks, at least until 1850, was created by their earnings.

Nevertheless the liberality of Rhode Island banking laws was notorious. Connecticut bank charters were always subject to amendment or revocation; they usually contained clauses reserving to the state and charitable institutions the right to subscribe to bank stocks. The state distributed among its

The success of the banks led to their rapid increase from thirteen in 1809, with a capital of \$1,535,000 and discounts of \$2,000,000, to forty-four in 1826, with a capital of \$5,570,800 and discounts of \$6,217,800. So many charters were applied for in the latter year and the attendant circumstances were so suspicious that a committee was appointed to report on the question of the increase of banking capital in the state. A brief account of the laws and charter provisions to 1826 will aid in understanding their report.

The charter of the Union Bank, dated 1814, was the first to increase the stockholders' liability beyond the amount of his investment. By its terms stockholders were personally liable if the directors violated the bank process act of 1809. At the February session of the legislature in 1818 the bank process act was amended in several particulars, but while the committee was considering the nature of the changes necessary, charters for ten banks were granted, each containing the original form of the bank process power against its debtors. Two of the banks, the Merchants and Eagle, were to be located in Providence, but most of this batch of charters were granted to country towns and to incorporators who had no other purpose in view than to dispose of them for a good price, because they conveyed valuable privileges. At the October session of the same year two charters were issued whose history illustrates this fact. The New England Pacific Bank of Smithfield was not legally organized, and in 1820, some years after irregularities of its incorporators had voided the charter, it was sold to innocent parties outside the state. The sum paid for it was said to be \$1,000. The legislature passed amendments to its charter in 1826, and the bank as the Pacific had a subsequent honorable career. The Burrillville Bank was chartered at the same time. New York parties, in collusion with one of its directors, attempted and nearly succeeded in getting control of it for "circulation" purposes, but the scheme was

banks a large portion of its receipts from the United States in payment of its revolutionary debts, and thus also acquired direct interest in its banks, and they were subject to rigid inspection in consequence in 1803. It taxed them on their capital and charged a large bonus on incorporation. Massachusetts also began a system of strict state supervision in 1803. Its banks were prohibited from engaging in commerce and trade. The charters reserved to the state the right to tax them and to increase their taxes. These taxes early (*viz.*: 1814) were one-half per cent. on the capital stock and a large bonus. Their circulation was limited at about the same time to 50 per cent. of their capital, and a little later the loans to directors were limited to 30 per cent. of the capital, while in 1809 a penalty of two per cent. was imposed on banks for failure to redeem bills on demand in specie. The charters were always terminable usually in twenty or thirty years. The charters of Rhode Island were perpetual. Until 1837 circulation could equal the capital. Taxes of one-twentieth per cent., first imposed in 1822, were increased to one-fourth per cent. in 1836 and one-third per cent. in 1855, but did not at any time exceed that sum. The Rhode Island banks had the bank process power, but a very similar power was enjoyed by the Vermont banks under a law of 1809.

discovered and stopped in 1827. It was a typical country bank, showing in 1826 capital \$31,400, circulation \$27,800.

The amendments of 1818 to the bank process of 1809 affected mainly the debtors of banks. The power of summary judgment and execution, which had been granted to all banks by the terms of their charters, was repealed and the collection of the debts due them was confined to the regular legal processes, with the exception that while in the ordinary procedure a creditor had recourse first to the person of debtor, then to his personal estate, and lastly to his real estate, banks were given power to at once attach the property of the debtor. This act had a suggestive history. It was passed at a time when the state was in the midst of an industrial depression, more severe than had been before experienced since the Revolution, and when, therefore, the summary execution of the original bank process power could have caused great injustice. These years were prolific in the discussion and passage of acts for the relief of insolvent debtors. The amendments to the bank process power may therefore have been partly the result of peculiar economic conditions. Moreover by this time there was a general sentiment among the stronger banks that the power was unnecessary and they were not unwilling to dispense with it.

In 1819 the Dartmouth College case was interpreted as endowing a charter of incorporation with the character of contract. The inviolability of this constitutional right became the basis of court decisions relating to banks for many years. The original bank process power was a charter right, and the statute of 1818 repealing it was, therefore, of doubtful legality. This statute contained two clauses relating to this subject. One provided a new form of the bank process, and another repealed all then existing bank process powers. In the revision of the laws in 1822 there was a general act of repeal, and the bank process power, as defined in the law of 1818, was re-enacted, to continue in force until January 1, 1823. It was expressly provided that all charters theretofore granted should remain in full force. The revival of the original bank process power in 1823, therefore, seems to have been a concession to the then prevailing notion of the constitutional rights of contract, rather than the result of any effort to re-introduce this provision into actual practice. No charter subsequent to 1818 contained the original bank process power. In 1826, as we shall see, it was generally regretted that such a power had ever been granted to the banks. In 1836 another law was passed, repealing all special forms of process against the debtors of banks, and the lack of constitutionality of such a statute was tacitly ignored in the universal desire to repeal the obnoxious charter right. We may, therefore, conclude that its continuance in nominal force from 1823 to 1836 was the result of the then strong sentiment in favor of upholding every vestige of constitu-

tional right, just as the ready acquiescence in its repeal in 1836 was made possible by the decadence of that sentiment under the Jacksonian democracy. The practical repeal of the bank process power dates in 1818, when the strong and commercial banks in the large towns, both by their own industrial association and because of the results of the currency inflation throughout the west, had already become convinced that the issue of a large circulation on the credit of the issuer or on assets of a contingent character, was not within the scope of their functions. The power which had been evoked for the purpose of protecting circulation of that character had, therefore, lost its chief reason for existence.

In June, 1820, banks were prohibited from issuing circulation in excess of the paid up capital.

No further legislation of importance relating to banking was enacted until after the report on banking capital in 1826.

The numerous petitions for bank charters during the few years preceding 1826 and culminating in that year—fourteen charters having been granted by Massachusetts, eighteen having been petitioned for and refused in Rhode Island, an increase in the capital of six having been also refused—were believed to be the result of world-wide phenomena. The central fact of these phenomena was a disproportionate conversion of circulating capital into fixed capital. Subsequent to the Napoleonic wars large amounts of capital were attracted to many enterprises in South America and Mexico by the increased production of silver. Within the United States the surplus of dormant and circulating capital, which had ceased to find an outlet in manufacturing enterprises after the depression of 1818-1819, had created a field for itself in fostering large public improvements and speculative projects, an illustration of which in Rhode Island was the Blackstone Canal from Providence to Worcester, begun in 1823, the stock of which was subscribed three times over. To add to these economic facts, owing to an overvaluation of silver as compared with gold, the latter had disappeared from circulation in 1817, and in 1823 the scarcity of money metals led to the act of congress declaring many foreign coins receivable for public lands. The currency of the United States Bank, from which so much had been expected, had not been received with eagerness by the public. Everywhere there were evidences of a change in the form of capital and a consequent relative absence of real money. Indeed, these were the beginnings of the movement which was temporarily checked by restrictive laws relating to banking, and which, fanned into flame by the caprice of Jackson in 1832, culminated in 1837. As usual, the lack of circulating capital and the high rates of discount were mistaken for a lack of banking capital and of circulating money media. The forty-four existing banks of Rhode Island had



authorized capitals amounting to \$10,350,000. The additions to this sum requested May, 1826, by new banks and increases to the capital of old banks would have raised the total authorized capital to \$16,600,000. A committee, of which Benjamin Hazard was chairman, to which the petitions were referred by the legislature, rendered a report in June. The document is the ablest contribution to the theory and practice of banking in the state now extant. It appeared that most of the charters were asked for by those who lived in the agricultural sections of the state, where loans, if made, must be permanent and could not, therefore, be a safe security for circulation. Mr. Hazard's chief objection to the issue of more charters was the fact that the subscriptions for the stock, being paid for wholly by stock notes, would add nothing whatever to the real capital of the state. The extent to which this habit had been carried by this time was remarkable. The charters usually provided that the capital should be "paid in" specie, but while these clauses were followed in the letter they were evaded in spirit. The specie paid in one day, and usually borrowed from some existing bank for the purpose, was withdrawn the next day and the notes of the stockholders substituted. At the payment of each successive installment the process was repeated. Such notes were called stock notes, because by general law and by terms of the charters the stock of a stockholder was liable for his obligations to the bank. Said Mr. Hazard: "The notes given for the stock and the stock pledged for the notes, cancel and annul each other; or rather, they are both nullities from the beginning. If ten individuals were to form themselves into a company for the purpose of getting up a bank with a capital of 50,000 dollars, and each member should give his note, and nothing else, to his company for his share of the stock, it is evident enough that here would not be one cent of real capital; and that if such a company should proceed to loan out its bills on interest, and put them into circulation, it would be guilty of a gross fraud upon the public. But this is precisely the case with banks, so far as their capitals are made up of stock notes. Yet they report the whole, real as well as fictitious, as so much capital 'actually paid in'. Is it not palpable that all the discounts and loans made by a bank, beyond the amount of its real funds kept on hand to answer for the paper it thus issues, are loans of mere paper, not representing any real capital, the bank receiving the indorsed notes of individuals, on interest, for its own notes without interest?" "It is said that the public loses nothing by this gain to a bank, since the paper passes and serves as money. The same might be said if a bank loaned its paper without any capital at all; the same might be said, if oak leaves, instead of paper, were used as a currency. That by far too great a portion of the capitals of the banks already granted consists of nothing better than such notes,

is to be inferred from their reports, by which it appears that nearly a million and a half of dollars is due to them from their stockholders. It is thus that the law pledging their stock for the debts due from stockholders to their banks is grossly abused". A comparison between the Providence Bank, organized on a specie basis when banks were trustees of the community's interests, the Bristol Bank, organized when stock notes were not very common, and the Mount Hope Bank, organized when stock notes were the whole capital, will illustrate the development of this custom. The figures are from the report of 1821:

	Date of Charter	Capital	Loans to		
			Directors	Stockholders	All others
Providence Bank	1791	\$422,000	\$10,300	\$40,400	\$349,300
Bristol Bank....	1800	120,000	57,400	32,700	46,000
Mt. Hope.....	1818	75,000	72,200		9,800

The Bristol banks, thus precariously organized on paper, had an unhappy and inglorious experience when, in 1826, the tax on the "paid up" capital of all banks was increased from 5 to 12 1-2 cents per \$100. Five of them, the Eagle, the Freeman's, the Union, the Commercial and the Bristol, petitioned for relief from taxes on the ground that their capital had been "impaired" by "losses". The first three noted had been chartered in 1817 and 1818. The Eagle, chartered with \$200,000 capital, had commenced business with \$100,000, and in 1826 reduced it to \$50,000.<sup>1</sup>

Another objection to the increase of capital was the political influence which it might wield. "Some of the banks," said Hazard, "already deny and threaten to resist, the authority of the legislature to regulate or tax them. They consider themselves as so many privileged and unaccountable corporations. And if we reflect upon the powers which have been granted to them, the amount of debts due them, the number and description of their debtors, and the influence they derive from that source, and especially, if we consider the numbers interested in those corporations throughout the state, and even in this general assembly—we shall not feel disposed to make light of their pretensions". The effects of such political influences had already been felt in the liberal provisions of the charters and the absence of effective legislative control. Mr. Hazard claimed that the clauses of the laws relating to the issues of circulation and the amount of loans had no real restraining force. A bank could first loan its whole capital; it could issue notes for as much more and loan them; it could further make loans for the amount of its deposits; if discounts were left on deposit

<sup>1</sup>American, June, 1826. Reference to the table at the end of the chapter will show the increase in obligations of directors and stockholders and the amounts loaned on bank stock immediately after a large number of charters had been issued.

it could make loans with them. The fact here criticised may be put more briefly in the statement that the laws provided for no reserves whatever. As to the indiscriminate extension of such powers he said: "The early banks were instituted by capitalists. Since that time those who have sought after banks have generally been those who themselves were in want of capital". "It is probable that out of a multitude of bank managers there will be some unfit for such a trust."

It was reasoned by the advocates of the charters that the granting of them would stimulate business and thus increase capital. Hazard replied, "The doctrine that a definite amount of money is required for the purpose of business applies to the amount in value, not in quantity"; that capital could only increase in natural ways; that the amount of specie in the community was determined by the business of the community in its relation to other communities, and not at all by the banking capital; that to increase the banking capital would simply divide the existing real money (specie) among a greater number of banks, unless the excessive issues of bills made redemptions impossible, reduced the state to a paper standard and drove all real money from its borders.

But the evils which had resulted from the scramble for the flesh pots of fictitious banking fell hardest upon the members of the community who thus apparently had the means of easy borrowing brought to their doorsteps and under the speculative frenzy of the day fell victims to their seeming benefactors. This fact was due both to the inflation theory of banking and to the abuse of the bank process power. It was regretted by all, even by the banks themselves, that the power was ever originated. Its severe pressure upon individuals was the least of its ills. Mr. Hazard, with a leaning toward rhetorical effect rather than conservative statement, thus describes its effects. It drew, said he, "into the banks all the property of insolvent debtors, to the exclusion, nearly, of all individual creditors". It led "banks to extend their loans to many" whose ruin was "the inevitable consequence". Between 1816 and 1826 the debts due to the banks had increased from \$2,500,000 to \$6,970,000. "We cannot tell what portion of the ratable property is owned by stockholders, or members of the banking companies; but we know that nearly all the wealthy men in the State are large stockholders; and if we were to deduct, from the general estimate, their portions of the ratable property in the state, and from the amount of debts due to the banks, such part as is due from stockholders, the result would present us with a frightful account of the situation of those who own the residue of the ratable property and owe the rest of the debts to the banks".

This able argument had only a temporary effect. In 1827 the legislative mill began to grind again, and though the product was only one

charter in that year, by 1837 twenty-two charters had been granted for capital of \$2,625,000, and authority to increase to \$6,850,000. Since 1791 the state had chartered sixty-eight banks with initial capital of \$4,610,000, and authorized capital of \$11,400,000. Six had ceased business, leaving sixty-two, with nominal paid up capital of \$9,837,200.

The excessive capital stock of Rhode Island finds some explanation in the abuses just noted. The truth is that the banks here, as in Massachusetts and elsewhere, had no such an amount of capital permanently paid in as the reports would indicate. The Second Bank of the United States, with an assumed capital of \$35,000,000, was known to have started in business with not over \$5,000,000 in real money. The stock jobbing countenanced by it was universal at the time. Between 1800 and 1860 it is doubtful if more than one-third, and perhaps not one-fifth, of the nominal capital of the banks in Rhode Island was paid for in any other way than by stock notes. Such real working capital as the banks had was composed of deposits and specie and other accumulated earnings. The last item alone, owing to the enormous earnings and small losses, would account for nearly the whole of the existing bank capital at any given period.

During all this period the total amount of specie held by the banks in the state had at no time exceeded \$660,000, and had not averaged above \$350,000. This amount of metallic stock had done duty, if we may credit the reports, in paying the specie installments of bank capital of over \$21,000,000.

The close association of the manufacturing and banking interests subjected banks to severe strains at times, but their limited demand liabilities in the form of circulation and deposits were elements of strength, especially as the deposits were largely made up of discounts, and in so far were a part of the banks' contingent assets. The crisis of 1829 was marked by the failure of some of the state's leading manufacturers; among them were the Wilkinsons of Pawtucket, whose family and business associations with the Slaters had been instrumental in bringing the cotton industry to its then condition of perfection and acknowledged supremacy. The Farmers and Mechanics Bank of Pawtucket was involved in the disaster. An examination of it in October, 1829, showed that, with capital of \$200,000, deposits of \$14,700, and circulation of \$16,900, it had loaned \$326,500. Its total quick assets consisted of \$1,800, deposited in other banks, \$186 of overdrafts, and \$22.03 in cash. In order to make loans to carry its customers it had borrowed \$93,556 from banks, and when its credit was exhausted, had placed in the hands of a third party for negotiation for its benefit \$4,000 cashier's checks. It had furthered the interests of its customers by endorsing and negotiating \$45,000 of their paper. Driven to extremes, its cashier had endorsed \$22,000 of the Wilkin-

sons' paper "under circumstances which, he did not conceive, rendered the bank liable". It thus had liabilities of \$399,400 and assets above noted, plus its loans and discounts; and of these the examiners reported "that nearly every one of its debtors had failed and put their property in the hands of assignees".<sup>1</sup> Enough was saved from the wreck to pay its creditors, except the stockholders, and in 1835 it was reorganized. From its ashes, with its name appropriately changed to the Phenix Bank of Providence, rose an institution which still maintains a prosperous existence.<sup>2</sup>

The banks did not altogether escape the inflation tendencies of the early 30's, as is shown by the rapid increase in their circulation from \$929,500 in 1830 to \$1,864,100 in 1837. Pending the final decision by the supreme court of the United States as to the constitutionality of the issue of circulating notes by banks incorporated by the states, the charter of the Globe Bank, issued in 1833, was the first to contain a specific grant of the power to issue "bills of credit".<sup>3</sup> And although the United States court decided that the note issues of state banks were not bills of credit, local charters continued to class them as such and to confer the power to issue them.

Despite this apparent association of the banks with the inflation movement, the real origin of many of them can be traced to the corporate influences of the times. The Blackstone Canal was not a financial success. In 1831 the Blackstone Canal Bank was chartered and authorized to invest \$150,000 of its funds in the stock of the canal company. The New York and Stonington Railroad was chartered in 1832, and the Globe Bank, despite its hitherto unique clause as to bills of credit, was chartered in the next year, partly as its fiscal agent. Its large issues of circulating notes, which exceeded those of any other bank at the time, reaching, in 1835, \$97,953, are explained by the pay roll needs of that and other corporations.

The business disturbances which arose in connection with Jackson's controversy with the United States Bank were keenly felt in Rhode Island, because the success of its industries was so dependent on extensive credit. In the latter part of 1833 Secretary Taney made an agreement with the Arcade Bank of Providence to receive all the United

<sup>1</sup>Report, Oct., 1829.

<sup>2</sup>It is not a little singular that the Albion Company and the Valley Falls Company, both of which were involved in the failure of the Wilkinsons and of the Farmers and Mechanics Bank in 1829, were, in 1900, under the control of Jonathan and James H. Chace, the former of whom was also president of the Phenix Bank.

<sup>3</sup>The case of *Briscoe vs. Bank of Commonwealth of Kentucky*, first tried in 1832, was decided by Jackson's packed supreme court in January, 1837. The note issues of banks were declared not to be bills of credit within the meaning of the constitution of United States. 11 Peters, 257.

States deposits. It was to accept at par all the notes of neighboring banks which were specie paying, transfer the deposits to any other part of the country on demand and without charge, and "perform all of the services rendered by the United States Bank". Whenever the treasurer requested, or whenever its deposits exceeded 50 per cent. of its paid up capital, without his request, it was to furnish collateral security suitable to him, to cover such excess deposit.<sup>1</sup> This business was profitable, for the accumulating receipts of the government left large balances in the banks. In November, 1836, the Arcade Bank, with \$400,000 capital and only \$32,000 general deposits, had \$269,000 of the United States funds, and the Rhode Island Union Bank of Newport had \$150,000 of like deposits, although its individual deposits were only \$16,000. The banks in Rhode Island did not, as was elsewhere the case, use these deposits as a basis of circulation.

The United States Bank, in October, 1833, had a nominal local capital of \$800,000 and local loans and discounts of \$591,700. When Jackson began to remove the United States deposits from it, the bank began as a counter stroke a sharp contraction of its loans. In January, 1836, they had been reduced to \$2,200, but the Providence Bank had stepped into the breach and bought \$474,000 of them.<sup>2</sup> This interesting period of about two years is rich in protests sent by the leaders in local politics and industry to congress. A memorial from Providence, early in 1834, with 1,143 signatures, recited that "within a short period of four months we have rapidly passed from a state of measurable comfort and security to one of general distress. A panic pervades every portion of the country. Present distrust and a foreboding of the future unnerve and discourage our most enterprising citizens". They complained of a stagnation of business in all forms and a universal decline in value of all descriptions of property.

One month previous money had been abundant at 6 per cent., but increased pressure had driven in the circulation of banks and withdrawn their accustomed deposits, and they had taken from them their means of granting accommodation by discounts of notes and bills of exchange. Hence "the rate of interest has advanced to 9, 12, and 18 per cent. It is now difficult, nay, almost impossible, to negotiate domestic exchange or to obtain money on the best mercantile paper". Providence county men, 3,500 in number, protested against the "experiments" which had been made with the currency. There were also some documents endorsing Jackson. Nearly 8,900 signatures of men

<sup>1</sup>Similar arrangements were subsequently made with the Bristol Bank of Bristol and the Newport Bank of Newport. When by act of June 23, 1836, the deposits in United States depositories were limited to three-fourths of their capital, the Rhode Island Union of Newport was added to the list.

<sup>2</sup>Report, 1836.

condemning the President's action were forwarded to congress, while his supporters mustered fewer than 1,800.<sup>1</sup>

How much of the complaint was real and how much was political may be gleaned by comparing the statements of stringency and contraction, caused by Jackson's attitude, with the facts that in Rhode Island, from October, 1833, to October, 1835, banking capital increased over \$1,300,000, circulation increased \$380,000, deposits increased \$240,000, specie reserves increased \$163,000, and loans increased about \$1,900,000. The local contraction of the United States Bank was more than offset by the local expansion of state banks.

When by the suspension of specie payments in 1837 the banks ceased *de facto* to be United States depositories, the Rhode Island Union paid to the government \$38,586.39—the whole of its public deposits; the Arcade paid \$93,999.58—all but \$10 of its public deposits.<sup>2</sup> In June, 1836, was passed the act by which about \$30,000,000 of the United States surplus was distributed among the states. The portion of Rhode Island was \$386,611, and it was at first loaned to the banks by the state at five per cent. interest. It was distributed among forty-nine of the strongest institutions, seemingly according to the amount of their paid up capital.

The receipt by the state of this money was particularly agreeable, because it was largely the proceeds of sales of public lands. Her representative, David Howell, had argued strongly during the debates on the grant of an impost to the continental congress, that the Revolutionary debts should be paid for by the sales of the western lands. Thus after over fifty years it almost seemed that his claim had been acquiesced in. The state, therefore, in January, 1837, directed its senators to favor expunging the resolution of the United States senate condemning Jackson's action with regard to the public revenues; but the assembly took occasion to say that in so directing its senators it was "desirous of maintaining and reasserting the right to instruct the senators of this state in the senate of the United States".

In 1836, as the result of an investigation into the methods of banking, with special reference to the rates of interest, was passed a remarkable supervisory and restrictive law. The stringent recommendations of the committee of 1826 had failed of passage. Meanwhile, however, in one or two charters some important clauses had been inserted. The charter of the Farmer's and Manufacturer's Bank of 1827, besides providing for a stockholder's liability similar to that of the Union Bank, was by its terms subject to "all general acts applying to banks and to any acts in amendment of or repeal thereof, or in any way affecting the same". The charter of the High Street Bank con-

<sup>1</sup>Executive Docs. U. S. 1833-34.

<sup>2</sup>Executive Documents United States, 1837-1838 *passim*.

tained the same provision. These clauses were the result of a contest over the right of the state to tax the banks, a right which was confirmed to it by the United States Supreme Court.<sup>1</sup> The charter of the West Greenwich Farmers Bank (1833) was the first to provide the unlimited personal liability of stockholders. Nearly all subsequent charters contained this provision, as well as the specific clause subjecting them to such taxes as the state might impose.

The committee of investigation in 1836 then had found itself supported by a strong undercurrent of sentiment unfavorable to banks, because of their resistance to taxes, and a legislature disposed to insist on curtailing their special privileges and immunities. The notion was still current that the chief function of banks was local accommodations. Capital was not then mobile, as it now is, and the practice of the Mt. Vernon Bank of Foster and the Smithfield Lime Rock Bank in loaning a very large portion of their assets to Providence was thought to be an injustice to the respective towns in which they were situated; while the practice of the Newport Exchange Bank in loaning one-half its funds in New York subjected it to severe censure. The legal rate of interest had been fixed at 6 per cent. during the Revolutionary period. It had been openly violated by all since the period of the second war with Great Britain and even before, a practice the prevention of which had been one of the objects of the establishment of the first banks,<sup>2</sup> and now became an object of public thought. Besides the wild speculative tendencies of the period and the desire to get rich easily by borrowing money at low rates on western prairie lands at house lot valuations, the Jacksonian democracy, which had perhaps as little common business sense as any wave of political sentiment that has possessed the country, expressed itself here in an outcry against usury. It is significant that two of the members of the committee on banking in 1836 were S. Y. Atwell and T. W. Dorr, the one a follower in, the other a leader of, the forces against the privileges of capitalism and property in Rhode Island. It was characteristic, both of them and of the period, that they should fail to distinguish between that proper degree of supervision of banking, which would protect the interests of the innocent from fraud, and that supervision which unwarrantably interferes with the conscious and voluntary relations between banks and individuals and in which they alone are affected. With regard to the question of usury, which was the chief subject of the investigation, the committee acknowledged that no word of complaint had been made to them, either by the banks or their customers, nor had they sought any corrective legislation. Indeed, higher rates of interest and exchange had been willingly offered than the banks had

<sup>1</sup>Providence Bank vs. Billings & Pitman, 4 Peters, 515.

<sup>2</sup>The charter of the Providence Bank contained the following: "By discount rendering easy and expeditious the anticipation of funds on legal interest".



charged. The significance of these facts seems to have been entirely unnoticed. As might have been expected, the report in some respects lacked judicial moderation. The commercial banking interest had hitherto been inactive in politics.<sup>1</sup> It possessed about one-sixth of the entire wealth of the state. It soon became an active participant in political doings. Its power will be noted in the less stringent laws which soon were enacted.

The report first indicated the unreliable nature of bank returns which were made on a fixed day in each year. In preparation for their return the banks had annually curtailed their loans, thus causing a forced stringency in the local money market. The official return of October, 1835, and the statement collated by the committee at visits unexpected to the banks, showed as follows:

	Official Return.	At Visitation.
Deposits .....	\$1,472,600	\$1,812,600
Due banks and others.....	179,800	586,700
Circulation .....	1,160,800	1,294,300
	-----	-----
Total demand liabilities.....	\$2,813,200	\$3,693,600
Increase .....		880,400
Specie .....	486,600	197,500
Bank notes.....	319,900	322,200
Due from banks.....	180,100	219,200
	-----	-----
Total quick assets.....	986,600	738,900
Decrease .....	\$ 247,700	
Total difference.....		\$1,128,100

The proportion of quick assets to demand liabilities had declined from over one-third at the time of the official returns to one-fifth at the time of the unexpected visitation.

The devices which had been adopted by the banks to get more than the legal rates of interest had been almost universal, among Providence banks the single exception being the Manufacturers Bank. They sometimes favored their own customers, but usually the rates varied with "the avarice of the lender" and "the necessity of the borrower". The custom had its undoubted origin in the cost of collection of drafts, which, in this manufacturing center, constituted a large portion of the discounts. Rates of exchange on them were normally one-fourth per

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 'It is not clear that they took any part in the contest in 1831 between James Fenner and Lemuel H. Arnold for the governorship. The latter, the candidate of the Jacksonian democracy, was charged by his opponents with intending to abolish the bank tax and impose all taxes on land. To a voting clientage composed of freeholders who had not paid any taxes since 1824 such a proposition was a veritable bombshell. Arnold denied the charge, and a spirited correspondence was indulged in between the rival candidates. Arnold was successful in the election.

cent. on Boston and New York, rising to two per cent. on the west and south. The banks charged from one to two per cent. on four months' acceptances on New York in addition to the rate of interest. The total rate of interest, therefore, varied from nine to twelve per cent.

In discounting notes the most ingenious methods were adopted. Discounting was done in various ways. The borrower sometimes dated his note back thirty days and discount was calculated from the date of the note; at times he would agree to leave the proceeds on deposit for thirty days; sometimes he was paid by a check drawn on some other town and exchange was charged on the check; sometimes he received the proceeds of his discount in current money at par, and when he passed it back over the counter for deposit it was received at one-quarter per cent. to one-half per cent. discount. Perhaps the most common device was to make a note payable at some other bank. It then became a draft and exchange was charged on it. When by the law enacted at this time exchange was declared illegal on notes payable in the same town, a bank in the suburbs was selected and notes were made payable there. The Elmwood Bank of Cranston was used in this way for a decade before the Rebellion. It was the daily custom of the cashier of this bank to come down town and remain in the office of the notary for an hour each afternoon, in order that notes payable at his bank "out of town" could be presented conveniently.

The law passed in June, 1836, provided that no bank should begin business until fifty per cent. of its capital had been actually paid in and such payment certified to by the bank commissioners. Its whole capital must be paid in within one year.

The capital stock of a bank could not be reduced by division without permission of the general assembly; if it became impaired to the extent of one-fourth part, the deficiency must be made good within one year.

Interest above six per cent. was forbidden, and exchange above one-fourth per cent. for New England and New York city, and increasing to two per cent. in places south of South Carolina and west of Ohio, was also prohibited.

No bank could be moved and no branch established.

Violations of any of the above provisions worked forfeiture of the charter, and a violation of the interest laws was also punishable with a fine of \$500 for each offense.

No one could be a director unless he was a citizen and resident of the state.

No bank could be chartered with less than \$50,000 capital and every bank must be incorporated by its actual stockholders. The subscriptions to the stock were to be supervised by the bank commissioners, they giving preference to the residents of the town where the bank was located.

Every director, president and cashier was required to take oath to observe the interest laws under penalty of \$1,000.

The bank process act was repealed and all debts were recoverable by the usual legal methods.

Banks were required to return a detailed account of their condition on request of the bank commissioners, and if they delayed for thirty days their charter was forfeited.

Three commissioners were to be elected by the general assembly, who had power to summon officers under oath, and to visit and examine banks, and in general they were clothed with the "visitatorial power of the general assembly" to ascertain the state and condition of banks. If "in their opinion" any bank had forfeited its charter or was "so managing its concerns that the public are in danger of being defrauded thereby", they could complain to the supreme court, and the latter must forthwith issue citation to the bank officers to show cause why injunction should not issue against them.

In the same year, although the tax on the increase of capital, which had been fixed at two and one-half per cent. in 1831 was reduced to two per cent. and the bonus imposed in 1831 was removed, the annual tax on capital stock was increased from twelve and one-half cents to twenty-five cents per \$100.

Many officers of the banks failed to take the oath required in regard to bank interest, and in October the state treasurer was authorized to enforce the penalty. In January, 1837, directors were prohibited from serving on more than one board, and one-third of the stockholders were authorized to call a stockholders' meeting.

The members of the investigating committee of 1836 were elected bank commissioners and zealously entered upon their duties. They reported to the legislature in January, 1837, the results of their inquiries. It appeared that directors had already begun to evade the law by borrowing money of their banks and loaning it at higher than the lawful rates of interest. The directors of the Merchants Bank were the most conspicuous offenders against the spirit of the law. In discussing the proportion of the loans made to directors and others, they said that it was originally intended that the public should have the benefit of banking institutions. "How much of the blame that belongs to an almost uniform departure from the original design of banks in this respect is justly attributable to those who govern them, and how much to circumstances that the directors cannot well control, it is difficult to decide."

A director could rarely obtain accommodations elsewhere than at his own bank, and must, therefore, depend on it. "If his wants are large, there will be little left for others outside the board". "And so in many instances banks have become to a considerable extent mere

engines to supply the directors with money". At two of the banks visited one-half of the discounts, and at another three-fifths of the discounts, were for the accommodation of the directors and co-partnerships of which they were members.

Such abuses could not be reached by law and nothing was done in regard to them, but from this time we can trace, side by side with the relations of banks to corporations, the development of the bank as a personal machine.

In June of the same year bank officers were required to allow stockholders access to the account books on penalty of \$50 (this did not apply to individual accounts), and at the same time the consent of three directors was required on all discounts.

The commissioners found many unsound institutions. They caught the Scituate Bank in the very act of fraud.<sup>1</sup> They entered a complaint against a number of other banks and had begun legal proceedings against the Rhode Island Central Bank of East Greenwich. But in October, 1837, another bank act was passed. It was partly the result of the zealous activity of the commissioners in performing the duties of espionage which had been imposed upon them.

It provided that discounts should be limited to the amount of capital stock paid in plus the deposits, plus the amounts due from banks bearing interest (*i. e.*, borrowing of other banks and individuals), plus an amount determined by a percentage on their capital stock graduated according to its amount from 80 per cent. for banks having \$50,000 capital to 30 per cent. for banks having over \$400,000 capital.

At the same time the amount of circulation was restricted to certain percentages of the amount of capital as follows:

Capital of	\$50,000		75 per cent. in bills
" over	50,000 and under	\$120,00,	65 " " " "
	120,000 and under	200,000,	40 " " " "
	200,000 and under	300,000,	30 " " " "
	300,000 and under	400,000,	25 " " " "
	400,000 and under	500,000,	20 " " " "

Bill holders were given priority of claim on all the assets of the bank.

The most important clause of the act related to the method of interpretation which the bank commissioners should adopt when deciding

<sup>1</sup>It had reported in October, 1835, capital, \$15,660; due from directors, \$13,100; circulation, \$334; bills of other banks \$425, and specie \$10. The commissioners discovered in 1836 that it had been sold to out-of-state parties who had given stock notes to the bank for \$49,361, while it held stock notes of residents for only \$2,047. Its property had been secretly removed. New plates had been prepared and \$43,000 of bills had been printed, of which \$36,328 were found in the bank. After liquidation the name of the bank was changed to the Hamilton and it maintained a precarious existence until 1851.

as to whether the acts of a bank endangered public interests, and so brought it within the scope of summary injunction. With reference to the clauses as to circulation and discounts, it was provided that no bank conforming to them "should be declared to be conducting its business in such a way that the public was likely to be defrauded thereby".<sup>1</sup>

The commissioners, in May, 1838, explained that they had withdrawn their suit against the R. I. Central Bank as, under the above act, violations of the usury laws were no longer an actionable offense. A point upon which they did not lay stress was that, while in the exercise of their functions, they had included the stockholders among those whose interests they were to serve; the law practically excluded stockholders, the depositors and banks and individuals of whom money had been borrowed.<sup>2</sup>

Whether the activity of Mr. Dorr and the ill-favor with which his opinions soon came to be viewed was the cause or not, he did not long remain a member of the commission, and in the midst of the conservative reaction of 1842, in June, the bank commissioners act was repealed. Semi-annual returns of banks were ordered to be made to the general assembly. In January, 1843, the secretary of state was authorized to designate the day on which returns should be made.

Rhode Island banks suffered but little comparatively speaking during the depression of 1837. When, owing to the fall in the price of cotton, the southern banks suspended specie payments, the manufacturers sustained heavy losses, but their high profits for the few previous years enabled them to tide over the period. With the advice and consent of the bank commissioners, the banks suspended on May 11—the day after the suspension in New York. Steps were at once taken to protect their bill holders. The banks went into the open market and bought gold, so that while on the day of suspension they had only \$268,800 of specie, one month later they had \$350,000. It seems at first to have been their policy not to increase their loans, and during this first month of suspension less than \$10,000 was added to their outstanding lines. In

"Unless a case of direct and intentional fraud should be suspected or unless the bank should have loaned its money to persons suspected of being insolvent to such an amount as to prevent it paying its liabilities in full, or should sell its specie or otherwise dispose of it than for the redemption of its bills at par."

<sup>1</sup>Anent the East Greenwich bank it may be noted that while in April, 1839, it reported capital of \$136,600, profits, \$9,900, and an otherwise sound condition; in October of the same year it was found to have sustained losses destroying its surplus and impairing its capital to the extent of over \$54,000. The assembly allowed it to continue and in 1854 it disappeared entirely.

May the general assembly authorized them to issue post notes, running for one year, to the extent of one-fourth their capital, and it was hoped that this would relieve the demands on them. In June, however, the legislature required them to pay five per cent. on the deposits of their own bills, while the bank commissioners advised that they receive their own bills from each other, paying interest on their debit balances. Their deposits on interest increased from \$320,700 to \$496,200 during the first month and in a few months increased \$300,000 more. In a brief period their obligations to banks also increased \$213,000. They found it impossible to retain their specie, and they adopted a policy of leniency with their debtors. They began to increase both loans and circulation. By October they had added over \$400,000 to their circulation and over \$875,000 to their loans and discounts. At the same time they fell heavily in debt to the Suffolk Bank and sent over \$100,000 in gold to Boston. The tide then turned and within six months they had nearly doubled their specie, had decreased their loans by about \$600,000, and although they had increased their circulation \$330,000, they were in as good a position as other banks to resume. Resumption took place in August, 1838. The rate of interest on their bills deposited with them in excess of \$1,000 by one depositor was reduced to three per cent. by the general assembly in October, 1837, and it thus became possible for them to make profit on such issues. A rapid increase of over fifty per cent. in circulation occurred within the first year following suspension. It is interesting to note that their deposits on interest between May, 1837, and May, 1838, increased \$770,000, almost the same as the amount of increase in circulation, which was \$755,000. The weekly reports, which the commissioners required during the period of suspension, were printed in the public press. In January, 1841, Rhode Island joined other states in a memorial against the sub-treasury system and in favor of the establishment of a national bank.<sup>1</sup>

Two new features in banking marked the early years of this period. One was the beginnings of the accumulation of a surplus account by the banks about 1815, all earnings having been previously paid out in dividends. Another was the establishment of the first savings institution, chartered as the Savings Bank of Newport in June, 1819.

Its object was "to provide a safe and profitable mode of enabling industrious persons of all descriptions to invest such parts of their earnings or property as they can conveniently spare". Deposits as low as \$1 were received, but interest was allowed only on deposits of \$5 and above. Dividends were to be paid semi-annually at the rate of five per cent., but no interest was to be allowed on sums drawn between dividend periods. All surplus earnings were to be divided every three

<sup>1</sup>January session, 1841, pp. 66-67.

years pro rata among all depositors of over one year's standing. Money could be drawn only after a notice of one week or on specified quarterly days in January, April, July and October. No deposits were received from corporate bodies, and none over \$100 from an individual at any one time, excepting seamen's wages. The directors could pay off in whole or in part the deposit of any individual which amounted to \$1,000. The total deposits could not exceed \$200,000.

In October of the same year a charter was granted to the Providence Institution for Savings. It was very similar in its provisions to that of the Newport Bank, but the earnings were to be divided semi-annually at a rate to be determined by its directors. Its limit of deposits was \$300,000. The restrictions as to the amount of deposits have been removed, and in 1879, pending resumption, savings banks were allowed to require ninety days notice for the withdrawal of deposits. The statistical tables at the end of the chapter indicate the importance and number of savings banks.

#### THIRD PERIOD—1840-1865.

The period 1840-1865 contained no new phases of banking. There was a continuation and development of previous methods. Between June, 1836, and May, 1850, only two banks were incorporated and the charter of one of them was repealed before it went into operation.<sup>1</sup> Meanwhile both the amount of capital and the amount of circulation increased somewhat, while the loans and discounts increased in about the same degree. The noteworthy feature was the constantly decreasing amounts of specie held in proportion to the circulation, showing that with the increasing banking capital the real assets of the banks, together with a better understanding of credits, specie had ceased to play an important part as a basis of circulation and had become merely a reserve for it or rather a part of it. The amount loaned on stock notes as well as overdue paper will be seen in the tables as far as they were reported.

The new form of report required in 1843 set forth the largest amount due from any one borrower. The Providence Bank led in the list with \$72,175 loaned to one person. The Washington Bank, which had been started in the interests of the farmers, had loaned \$25,226 to one individual. The repeal of the bank commission act left banks to organize themselves. The charter of the People's Bank (1846), therefore, provided that the stockholders should not be allowed to dispose of their stock until the whole amount of it had been paid in. In 1849 bank returns were required only annually, and though the

<sup>1</sup>The North Kingston Exchange. It was discovered that the bank with only \$50,000 capital, and that not paid in, had already to issue \$42,200 bills and the cashier had signed \$26,800 more, making \$69,000 in all.

amount of bills under \$5 was to be reported, many failed to comply with the provision.

In the year 1850 there was renewed activity in bank charters, and by the end of 1856 forty-seven had been granted by the legislature. Four of them did not become operative. The capitals of these banks varied from \$50,000 to \$500,000. The charter of the Bank of Commerce (1851) was the first to set its maximum capital at \$1,000,000. Seventeen of them, with capital of \$3,050,000, were to be located in Providence.

The period was everywhere one of marked industrial development, but in Rhode Island its particular feature was an extraordinary corporate activity. The population of the state increased over seventy per cent. between 1840 and 1860, and much of the increase consisted of a foreign element, unaccustomed to our institutions and to banking. Most of such got their livelihood in the factories, and large amounts of circulation were issued for the pay roll purposes. In 1854 of the circulation of \$5,000,000, about \$1,500,000 was of denominations under \$5. Very few of the banks speculated in note issues by sending notes out of the state. The worst offenders in this way were the Arcade, the Bank of the Republic, and the Mt. Vernon of Providence, the Commercial of East Greenwich, and the Farmers of Wickford. But while the increased circulation herein found its partial explanation, the discounts, which increased from \$14,300,000 in 1850 to \$28,700,000 in 1856, illustrated the local corporate needs. The relation of the banks and the newly forming corporations was in some respects even more marked than at any other period. A limited co-partnership act had been passed in 1837, and the first general corporation act of the state bears date of 1847. Seventeen insurance companies secured charters within a decade immediately following the corporation act. From this time date the Hartford, Providence and Fishkill Railroad Company, the Providence and Worcester Railroad Company, the Providence, Warren and Bristol Railroad Company, and the Providence and Springfield Railroad Railway Company (first incorporated as Woonasquatucket Railroad Co.). In manufacturing, steam power was supplanting water and the mills all over the state were enlarging. Many of them were changing from private companies to corporations.

Many of the banks were organized for the distinct purpose of taking over corporate obligations. Some banks themselves became stockholders or incorporators of other corporations. The Blackstone Canal, the American and the Phenix banks were among the corporators of the What Cheer Company. The association of the Merchants Insurance Company and the Bank of Commerce has already been noted. The Spragues, the Knights, the Smiths, the largest manufacturers of the state, had controlling interests in a number of the banks. Such a



movement had its excesses, and these were exemplified in the charter of the Atlantic and Mediterranean Banking and Navigation Company of Block Island, with capital of \$2,000,000. It was to engage in banking, build and own ships and undertake a world-wide commerce. It did not get beyond the stage of incorporation.

The movement was also attended with numerous banking laws. The first bank chartered in 1850, that of the State Bank, provided for organization by three commissioners appointed by the governor. The stock was to be apportioned "as near as may be to the amount subscribed by each person who shall in their opinion have the ability and disposition to make a bona fide investment". Most subsequent charters had a like provision. In June, 1853, the issue of fractional bills was prohibited. Beginning in 1854 acts of incorporation were held for consideration until the session following their presentation. Meanwhile in 1849 the tax on banks had been increased from twenty-five to thirty cents per \$100 of capital stock, and reserved profits. In 1855 the rate was raised to thirty-three cents.

The first act of the January session of the legislature in 1857 revived the bank commissioners act of 1836 with slight modifications. Like its prototype, the new act left the whole question of safe banking to the discretion of the commissioners. On the request of three officers, stockholders or creditors, making a statement under oath of their interest, they were to examine a bank.

By an act of February, 1858, the reports of banks were to be made to the state auditor and the law still maintains. The bank commissioners in January, 1858, reported that they had enjoined the Tiverton Bank, the Fall River Bank, the Farmers Bank of Wickford, the Bank of South County of Wakefield, the Hopkinton Bank of Westerly, and the R. I. Central Bank of East Greenwich. The first two had gotten into the hands of outside owners, the capital was made of bogus notes and other securities equally unsatisfactory. The Farmers Bank had bills in circulation much in excess of their recorded amount and the bills of both banks seemed likely to be a total loss. The banks of South County and Hopkinton, in an endeavor to make large dividends, had speculated in weak western land securities, and were then totally unable to redeem their largely inflated circulation, though the commissioners hoped to do so in the course of time. The aggregate capital of these banks was \$886,311.86, their circulation was \$553,500, their specie holdings were \$9,150.

These conditions were partly due to the suspension of specie payments by most of the banks of Rhode Island on September 28, 1857. The banks already weak added heavily to their circulation. The Hopkinton Bank, with a capital of \$50,000, had issued \$49,223 in bills, the R. I. Central, with \$496,000 capital, had \$386,700 outstanding, and

specie of only \$7.86. The banks of Providence, thirty-nine in number, had capital \$14,489,000, circulation \$2,595,900, and specie \$211,500. The country banks, fifty-nine in number, had capital \$6,367,700, circulation \$2,748,700, and specie \$118,200. This was in May, 1857.

The banks were thus unprepared for the heavy demands made on them during the summer. The press had been for months warning them of their excessive issue of bills. The bond deposit system of New York maintained its bills in high standing while the mismanagement of the banks above mentioned discredited all Rhode Island bills. The state as a whole thus got the reputation of these institutions, which scattered "among people of other states a circulation which our own people will not take". The New York Herald asserted that Rhode Island was "up to its eyes" in railroad securities, taken for circulation to be distributed in the western states. Reckoning the loans on such securities at the par value of the collateral, however, it appeared that Rhode Island banks held \$651,000 of them. The real amount, allowing for the margin, was probably about \$400,000—a comparatively small sum when compared with the total loans of \$29,000,000.

On September 21st the bankers met and recommended a slight increase in loans. The situation was becoming tense. Two weeks had passed without the sale of a single yard of print cloth. Said the Journal on September 28th, "There never before were two such weeks as closed upon the business of Providence last Saturday. Money continues at unmitigated rates, although the demand slackens under the impossibility of obtaining discounts. There is hardly any cotton in the market. The manufacturers are working down their stocks with no disposition to renew them under present circumstances. It is impossible longer to raise money to pay labor and a dreary winter is before us". On December 24th there were 502,291 spindles and 9,661 hands idle in the state. Of the 216,824 spindles and 4,070 hands at work most of them were on from one-half to three-quarters time. Many attributed the severe suffering in Rhode Island to the inferiority of corporate management as compared with personal management. The difference was that between agency and ownership, and doubtless in the then newness of the former system, there was much truth in such assertions.

There had been much opposition to suspending, and when on September 28th a meeting was called for the purpose, six of the Providence banks were absent. They were the Merchants, the Providence, the Bank of Commerce, the Union, the What Cheer and the Lime Rock. Most of them were among the strongest of the local institutions. Thirty-three banks met and of those present twenty-one voted for suspension. The other banks were forced to follow soon afterwards.

Providence was a creditor city in the south and west, but the suspension in Baltimore and Philadelphia reduced its available resources, while it owed New York about as much as New York owed it. New York contracted its loans at the rate of \$4,000,000 a week. The failures thus caused involved Providence merchants, and Providence banks extended accommodations as far as possible to New York houses, when they could not get loans at home. Despite the large sums due from the south and west, these discounts turned exchange against Providence. On September 30th rates as high as twenty-four per cent. were offered by borrowers and refused. On October 7th it was estimated that Providence banks had \$8,500,000 due to them and maturing from time to time at specie paying points, and a net circulation in the hands of the public of \$1,100,000. It was thought, therefore, that their bills would not fall below one per cent. discount, but the suspension of the New York banks on October 15th ended the hope. Local banks contracted their loans \$1,500,000 in less than two months, and by December the reduction exceeded \$3,000,000.

Precisely the same expedients were attempted in 1857 as had been adopted in 1837, but the lack of harmony among the banks made it impossible to enforce them. Between the time of suspension of the Providence and the New York banks many of the former which had deposits in New York sold specie checks on such deposits at a good premium.

When the worst of the crisis was over the causes for it were sought, and among those peculiar to local banks that most condemned was the long period of credit. Print cloths were sold on eighteen months' credit. Eight, ten and twelve months' discounts were common, and those under four months were rare. A tacit approval of a six months' period for credits as a maximum was for a time observed. Others found the cause in the association of banks of discounts with banks issuing bills. A meeting at the Providence Board of Trade advocated state issues of bills, to be loaned to the banks on deposit of two-thirds public securities and one-third bullion.<sup>1</sup>

In January, 1858, Rhode Island banks resumed specie payment. At a session of the legislature in the same month some new banking laws were passed. The whole amount of debts that a bank might owe exclusive of deposits was restricted to sixty-five per cent. of its capital. Circulation was also limited to sixty-five per cent. of the capital stock. Neither of these restrictions affected the then solvent banks.

In 1860 the only cloud on the horizon was that of secession. Prosperity had quickly returned, but was almost as quickly dissipated by the outbreak of the war. During the first year of conflict Providence banks took \$460,000 of government obligations. In December, 1861,

<sup>1</sup>Providence Journal, Sept. to Dec., 1857, *passim*.

they followed the New York banks and suspended specie payment. The enabling act, passed March 7th, 1865, prescribed the process of transfer of the state banks from the state system into the national bank system. The act provided for the redemption of their circulation by periods of six months, and they paid a tax of one-half per cent. on all that remained outstanding until the amount was reduced to \$8,000 for each bank, when the tax was to cease. Soon afterward a tax of ten per cent. was imposed by national law on all state bank issues after July 1, 1866. In November of 1865, only fourteen of the eighty-six state banks remained. In January, 1867, the local taxes on the capital stock of state banks were repealed. In 1872 the liability of stockholders was limited to double the par value of the stock held. The state since 1791 had issued 117 charters for new banks with an authorized capital of \$34,750,000.

#### FOURTH PERIOD—1865-1900.

This period has certain distinguishing marks through which it stands in sharp contrast to all previous periods. Its two most marked features are the rise and decadence of the national banking system, in so far as it had for its aim banking by means of circulation based on government securities, and the rise and success of the state trust company system, the business of which has been confined almost wholly to banking by means of deposits. A third feature common to both of these systems, but much more clearly marked in the latter than in the former, is the relatively slight importance which capital stock plays in the one and is destined to play in the other, and the correspondingly increased importance which surplus funds must play in both. As in the former period, the origin of these phenomena is to be found both in the nature of banking itself and in the adaptation of it to its changing economic environment. The perspective of these facts perhaps is too short for final conclusions to be reached, and our discussion too limited to permit of a detailed presentation of all the elements which have contributed to the results. The most salient points group themselves naturally around the three topics of circulation, deposits and capital, and are especially concerned with the local industrial conditions which have affected the shifting of the basis of the banking business from capital to deposits.

The amount of circulation of the eighty-six state banks in 1864 was about \$7,000,000. This circulation was supplanted by that issued by the national banks. The latter, because of restrictions upon its issue, had less earning power than an equal amount of state bank currency, but the state currency was limited to sixty-five per cent. of the capital stock of the banks, while the national currency was limited to ninety per cent. of the amount of United States bonds deposited as a basis for it. The national currency had an additional merit in that its

redemption was not a first charge upon the general assets of the banks, but was assumed by the government. The lesser degree of profitability which it offered was thus offset by a possible larger issue of it and an absence of liability for its redemption. The demand liabilities of the banks were thus greatly reduced. Under the combined influence of the suspension of specie payments in 1861, the resulting weakness of the Suffolk System of redemptions and the rapid depreciation of all paper currency, Rhode Island banks became so far inflationists as to more than double their circulation issues between 1861 and 1864. The additional emphasis given to inflation by the character of the national bank currency just noted, found here as elsewhere a ready response. The national banks by 1870 had issued over \$12,000,000 of bank notes.

The issue of these notes had an effect upon the amount of available local capital the reverse of that which had resulted from all previous large issues of circulation, because under the national banking system they were offset by the amount of local capital necessarily loaned to the government in the purchase of government bonds. Inasmuch as the bonds were usually at a premium and only ninety per cent. of their par value could be issued in the form of notes, there was even less capital left for local purposes with circulation than without it.<sup>1</sup> Because of this fact local banking funds in 1870 were about \$8,000,000 less than they had been in 1864. The effect of this contraction in a community, the business of which was so dependent on credit, was marked. It would have been more severe had not local needs been partly supplied by the state banks, the newly organized trust companies and savings banks.

When a few years later national bank currency became unprofitable and was gradually retired, the national banks which had large investments in government bonds were compelled to retain the bonds at a low rate of interest, or in selling them to re-introduce into the local field an equal amount of banking capital, the uses for which had already been supplanted by rapidly increasing bank deposits. Such national banking capital therefore appeared to be redundant. And it seemed the more redundant because by 1890 the national banks, with \$20,000,000 of capital, on which they must earn dividends, was compared with the trust companies, with about \$2,000,000 of capital, had less than fifty per cent. more of deposits than the latter.

That portion of bank deposits which consists of small amounts of

<sup>1</sup>In 1864 the loanable banking fund had consisted approximately of \$21,200,000 banking capital, \$1,500,000 surplus, \$6,900,000 circulation and \$6,600,000 deposits—total \$36,200,000. In 1870 it consisted of \$20,800,000 national banking capital, less \$18,700,000 invested in government bonds, or \$6,600,000 net capital, \$8,800,000 surplus, \$12,400,000 circulation, and \$6,100,000 deposits—total \$28,400,000. The difference in favor of the state bank system with an equal amount of capital was about \$8,000,000.



**THE HAMILTON BUILDING**

**FORMERLY OCCUPYING THE SITE OF THE INDUSTRIAL TRUST COMPANY BUILDING, PROVIDENCE. THE HAMILTON BUILDING WAS BUILT IN 1816 AND DEMOLISHED IN 1883.**

**FROM A PHOTOGRAPH IN THE POSSESSION OF THE RHODE ISLAND HISTORICAL SOCIETY.**

idle capital or of savings played no important part in Rhode Island banking until after 1850. As late as 1860 such deposits were largely confined to savings banks. At the close of the war they began for the first time to constitute an important portion of the assets of banks of discount and demand deposits.

The trust companies entered the local field at this point in the development of banking. They combine the functions of saving banks with the functions of banks of discounts and demand deposits. They have had in Rhode Island a development paralleled by that in no other state. They were free from the taxes on deposits and capital which were imposed upon the national banks. Their beginning was opportune, because it coincided with the period of reconstruction. Being at first very shrewdly managed, they escaped the serious losses incident to the panic of 1873. The first charter granted was that of the Rhode Island Hospital Trust Company in May, 1867. Incidentally we may note that this was the first state charter upon which was imposed, in lieu of a tax, the obligation to devote a certain portion of its profits to charitable purposes. The company was required to pay one-third of its net income over six per cent. to the Rhode Island Hospital as long as the legislature should grant no similar charter to parties other than its incorporators. It was a bank without the power of issuing circulation. It was authorized to "receive and hold money upon optional terms", "at interest agreed upon", and to invest such money in such ways as the directors deemed "prudent."

It was required to deposit with the state treasurer bonds of the New England states, New York or the United States to the value of twenty per cent. of its capital. This deposit exempted the company from all liability for its acts as executor, administrator, guardian, assignee or receiver, in all of which capacities it was authorized to act. It also exempted individuals acting in such capacities from liability on all deposits left with the trust company. In 1870 the company had \$2,000,000 of deposits; in ten years its deposits exceeded \$6,000,000. Soon afterward competition began; in 1900 there were ten active trust companies in the state, although the business was practically confined to six of them.<sup>1</sup> Their capitals amounted to \$4,107,600; their surplus to \$3,400,000; their deposits to \$40,200,000. In July, 1901, their deposits amounted to \$45,300,000.

The state banks had paid interest on certain portions of their deposits. The trust companies began at once to pay interest on both time and demand deposits. At the same time the national banks were paying a tax of one and one-half per cent. on deposits and continued to do so until 1883. The small banking capital of the trust companies, their liberal charter powers and the facilities which they could offer to

<sup>1</sup>The Newport Trust Company was organized in 1902.

depositors, drew to them a rapidly growing deposit account. The national banks refused to pay interest on demand deposits until they were compelled to do so by their rapidly increasing assets. Indeed, in order to furnish accommodations to their customers, they were frequently obliged to borrow from the trust companies, at good rates of interest, the very funds which the latter had attracted from them. Within the ten years from 1890 to 1900 the deposits in the national banks of the state increased from \$16,700,000 to \$17,500,000, about five per cent. Within the same period the deposits in trust companies increased from \$12,000,000 to over \$40,000,000, about 330 per cent. Savings banks deposits have increased about 250 per cent. since 1870.

This enormous total of small sums of idle capital in the form of deposits has within the past thirty years taken the place in the field of banking, which for seventy years previous to 1865 was occupied almost wholly by banking capital in the form of capital stock. Within the last thirty years circulation banking has ceased also to be important. The rise of deposit banking, therefore, is clearly the chief cause of the redundancy of national banking capital in Rhode Island, but it is not the only cause. The economic revolution which has been accomplished in the same period has to a peculiar degree emphasized and accelerated that redundancy.

The industrial supremacy which Rhode Island retained until 1870 was dissipated by the panic of 1873, and in the reorganization of industry which has since occurred, the proportion of circulating capital to fixed capital has decreased, and thus the demand for credit in the form of discounts has not increased at the same rate as general business. The period of contraction which began soon after the war expressed itself in constantly falling prices. It found Rhode Island as well as other states doing business on a line of credits inflated to correspond with war prices and an expectation of a continuance of war profits. Declining profits were met by increased borrowings to carry the load of accumulating products. Rates of money advanced rapidly and the crisis was reached in 1873. The failure of Jay Cooke & Co. in September was followed by a period of suspense and uncertainty, during which the character of manufacturing paper, based upon the inflated values above noted and carried from year to year, was keenly scrutinized. Rates of interest in the local market rapidly advanced from ten to twenty per cent. In the latter part of October Rhode Island was shocked to its industrial center by the suspension of the A. & W. Sprague Manufacturing Company of Providence, and Hoyt, Sprague & Company of New York.<sup>1</sup> The assets of the Spragues

<sup>1</sup>Various other concerns dependent upon Sprague capital or interests were involved in this suspension.



were appraised at \$19,495,000; the liabilities at \$11,475,000.<sup>1</sup> The business interests of the Spragues were widely extended. The estate as a whole was put into insolvency, and though some portions of it were solvent the severe contraction of business during the next few years entailed enormous losses upon the creditors.

The Cranston Savings Bank, to which the Spragues owed \$1,130,000, closed its doors. The Franklin Savings Bank of Providence, to which they owed \$750,000, went down in the ruins. The Sprague obligations to the Globe National, the Second National and the First National Banks were nearly three-quarters of a million dollars each. The Globe reduced its capital from \$600,000 to \$300,000. The Second reduced its capital from \$500,000 to \$300,000. The First reduced its capital from \$600,000 to \$500,000, and all of them assessed their stockholders in order to partly recoup their losses. For more than twelve years the property was the subject of litigation in the courts and during that time idle mills were sold at prices about one-sixth of their appraised value as going concerns.

The enormous sums involved in this failure astounded the whole country. It had no parallel in the industrial history of the United States. It gave Rhode Island a blow from which her industry has never recovered. The subsequent failures which can be traced to this as their primary cause extended over a period of more than twenty years. The unfortunate craze for speculation in land soon after the war began to reap its reward during the years preceding "Resumption". It resulted in further losses to the banks. The City Savings Bank suspended payment for a time. The Rhode Island Savings Bank and the Union Savings Bank went into liquidation. The Pawtucket Institute for Savings, the Franklin Savings Bank of Pawtucket and the Providence County Savings Bank were practically reorganized. The Grocers and Producers Bank failed. The State Bank reduced its capital. The Northern and the Union Banks reduced their capital and later went into liquidation.<sup>2</sup> Scarcely a bank in the state escaped serious loss. The whole period was one of noteworthy industrial depression. The demand for capital became less active, and although the banks had suffered so severely they were compelled to seek a field for the investment of even their reduced resources outside the state. Litigation and liquidation entailed losses upon them in addition to those which they at first suffered, and from which they have not yet recovered. Between 1889 and 1898 eight failures have occurred in Rhode Island involving liabilities of \$10,000,000. A reconstruction and reorganization of the state's banking system has been the slow but sure attendant of these events.

<sup>1</sup>Journal, Nov. 3rd, 1878.

<sup>2</sup>R. I. Bank Reports.

Thus while deposits were supplanting banking capital as a means of discount, while the conditions incident to retiring national bank circulation were slightly increasing the amount of national banking capital available for the local field, and while its earnings were being reduced by the competition of the trust companies, the industrial convulsions of 1873, which had destroyed some of it, was accompanied and followed by a marked contraction of the field that remained for its use. From a series of cumulative events a large amount of local national banking capital had ceased to have any reason for existence. During a series of years, beginning about 1880, the average return to the stockholders in the form of dividend was less than three per cent. About 1890, Marsden J. Perry, of Providence, recognizing this condition of affairs, began to advocate a system of consolidation and liquidation of national banks. Others have aided in the movement. From 1890 to 1901 inclusive twenty national banks have retired from business. The total capital stock has been reduced from about \$20,000,000 to \$13,000,000. Local banking has been revolutionized.<sup>1</sup>

At the beginning of this chapter we saw a community, imbued with inflationist ideas, trying to solve the problem of furnishing a currency both elastic and convertible, adequate to the purposes of discount and circulation and based partly upon nothing and partly upon contingent assets. We saw that John Brown and his associates partly solved the problem by the harsh bank process power and the expedient of short time notes, which converted a large portion of the contingent assets of the banks into quick assets. At the same time we saw that the nature of the industrial organization and the business relations of the banks themselves combined to quickly dissipate the thought of a fiat medium from the minds of business men. Currency problems were then confined to the state.

At the close of the century we find the problem transferred to the national field, and although some progress has been made we are still far from knowing how to furnish a currency elastic, safe and adapted to the diverse needs of the country.

We have seen the chief reason for the existence of the national banking system gradually disappear, because bonds which the banks first purchased have been taken by private capitalists, and because the rising prices of them and falling rates of interest have combined to

<sup>1</sup>As to the inter-bank facilities, it may be noted that the clearing system which had centered around the Merchants National Bank and the National Bank of North America was simplified by the establishment of a clearing house on July 1st, 1888. The Union Trust Company began a system of branch banks in 1891. At present the Industrial Trust Co. has five branches and the Manufacturers Trust Co. has one.

render national bank circulation unprofitable. The recent modification of the laws affecting it have as yet scarcely passed beyond the stage of experiment.

We saw discount banking based by force of circumstances almost wholly upon banking capital. After having done its part, both to the state and national bank system we find that capital disappearing because of changed economic conditions. In its place we see an intricate system of credits granted by means of deposits.

We saw at the outset that circulation was a dangerous means of discounting, because it was a demand liability based on a non-demand asset. We see to-day precisely the same danger existing in the large use of deposits as a means of discounting because they are a demand liability dependent on non-demand assets. The danger at first was avoided by an artificial method of converting slow into quick assets. Whether or not the present danger will be avoided depends upon the proportion of the banks' investments which can properly be classed as quick assets. But it must not be forgotten that the large accumulation of wealth during the century has become the basis of countless securities of a standard value in an almost worldwide market. These are instantly convertible. Hence while we may compare the demand currency of 1800 and the demand deposits of 1900 as possessing similar elements of danger, no comparison is possible between the means then and now available for providing against such dangers.

*Howard Kemble Stokes*

**STATE AND OTHER BANK STATISTICS.**  
The figures are thousand of dollars only, 000 being omitted.

Year	No. of Banks	Capital	Surplus	Circulation	Deposits on interest	Deposits not on interest	Due to Banks	Other Liabilities	Loans and Discounts	Specie	Bills	Due from Banks	Stocks and Real Estate	Other Stocks	Real Estate and other Property	Dividends	Loaned on its own Stock	Overdue paper
Oct. 1809	18	\$1,500	....	\$ 435	....	\$ 488	....	....	\$2,087	\$410	\$ 79	\$ 88	....	....	....	....	....	....
1810	13	....	....	542	....	456	....	....	2,266	894	148	41	....	....	....	....	....	....
1811	18	....	....	460	....	464	....	....	2,380	848	*102	20	....	....	....	....	....	....
1812	18	....	....	541	....	645	....	....	2,868	476	*126	95	....	....	....	....	....	....
1818	18	....	....	770	....	1,092	....	....	2,487	531	245	*829	....	....	....	....	....	....
1814	14	....	....	549	....	686	....	....	2,386	442	70	166	....	....	....	....	....	....
1815	16	....	....	576	....	821	....	....	2,556	358	89	49	46	....	....	....	....	....
1816	16	....	....	547	....	288	....	....	2,547	251	115	20	200	....	....	....	....	....
1817	17	....	....	684	....	586	....	....	2,635	834	259	98	264	....	....	....	....	....
1818	27	....	....	597	....	574	....	....	2,905	898	171	55	334	....	....	....	....	....
May 1819	30	2,968	\$ 12	690	....	424	\$ 1	....	8,064	871	150	45	478	....	....	....	....	....
1820	33	8,157	15	601	....	499	7	....	8,387	826	132	55	480	....	....	....	....	....
1821	33	8,241	16	675	....	466	8	....	8,647	855	217	98	400	....	....	....	....	....
1822	33	8,662	21	645	....	449	5	....	4,076	846	159	76	333	....	....	....	....	....
1823	37	8,962	65	593	....	412	4	....	4,331	288	136	73	336	....	....	....	....	....
1824	42	4,444	79	726	....	608	10	....	5,060	841	200	115	299	....	....	....	....	....
1825	43	5,292	116	1,021	....	770	65	....	7,258	432	196	165	819	....	....	....	....	....
1826	48	5,571	115	718	....	665	149	....	6,218	876	145	117	224	....	....	....	....	....
1827	44	5,621	119	824	....	850	168	....	5,918	449	165	186	379	....	....	1,500	....	....
1828	45	6,051	151	913	....	1,015	189	....	7,474	844	166	142	347	....	....	....	....	....
Oct. 1829	47	6,098	173	675	....	809	109	....	6,910	842	122	261	350	....	....	....	....	....
1830	46	6,065	146	929	....	846	118	....	7,022	866	188	329	337	....	....	....	....	....
1831	50	6,732	180	1,342	....	1,291	112	....	8,247	426	258	323	534	....	....	....	....	....
1832	49	7,118	198	1,208	....	1,159	157	....	8,551	835	230	250	329	....	....	....	....	....
1833	51	7,439	232	1,264	....	1,453	129	....	9,192	404	274	264	491	....	....	....	....	....
1834	58	8,041	270	1,251	....	2,273	154	....	9,608	467	261	263	303	....	....	....	....	....
1835	61	8,751	319	1,644	....	1,697	189	....	11,085	566	380	290	339	....	....	....	....	....
May 1837	61	9,849	432	1,440	\$ 321	1,374	665	....	12,627	233	....	330	373	....	....	....	....	....



TRUST COMPANIES.

Year	No. of Banks	Capital	Surplus	Deposits	Due Banks	Other Liabilities	Loans	Cash	Stocks owned
1870	1	\$ 500	\$ 5	\$1,984	---	---	\$2,288	\$ 80	---
1880	1	800	83	6,410	---	---	6,243	768	\$ 237
1890	6	2,164	563	12,073	---	---	18,618	848	839
1900	11	4,108	3,879	40,456	2,622	992	47,155	2,718	1,588

<sup>1</sup>Including 1 in liquidation with capital of \$382,000.

NATIONAL BANKS.

Year	No. of Banks	Capital	Surplus	Circulation	Deposits	Loans
1870	62	\$20,365	\$3,267	\$12,378	\$6,076	\$22,867
1890	59	30,214	6,282	3,098	16,798	36,664
1900	42	14,876	5,006	5,185	17,547	28,744
1901	80	13,251	---	---	---	---

SAVINGS BANKS.

Year	No. of Banks	Deposits
1850	7	\$1,495
1860	21	9,164
1870	26	30,708
1880	39	44,756
1890	38	63,719
1900	84	74,847