XVII.—LANGDON CHEVES AND THE UNITED STATES BANK.

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LANGDON CHEVES AND THE UNITED STATES BANK: A STUDY FROM NEGLECTED SOURCES.

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Among American public men few were better known in their time than Landgon Cheves, judge of the South Carolina supreme court, member of Congress, Speaker of the House, and president of the United States Bank; and in regard to few have we scantier knowledge to-day. A modest and retiring man, one who early gave up the responsibilities of a great position to retire to the obscurity of private life, it does not seem to have occurred to him that posterity might be interested in his career. Fortunately, a mass of family correspondence has been preserved, which throws light upon his most important public service—the presidency of the bank. This material I have supplemented from certain printed, yet little known, sources, especially Cheves's Exposition to the Stockholders at the time of his resignation, published in Niles's Register, October 12, 1822; his letter to the Charleston Mercury of August 18, 1837, entitled "The Bank of the United States;" and files of the Baltimore Patriot and of the National Intelligencer for the years 1819 to 1823.

The history of Langdon Cheves, before his election as president of the bank, in 1819, appears in no published work, but from the family papers and tradition it is known that he was born in 1776, in what is now Abbeville County, S. C. His father, Alexander Cheves, was a poor Scotch Indian trader, a loyalist in sympathies, who, losing whatever means he possessed during the Revolution, was forced to move to the low country, where he set up business in Charleston. Here Langdon was brought when 10 years old, and soon after his father apprenticed him as office boy to a shipping merchant. By his own unaided exertions the lad obtained an education, studied law, and at 21 was admitted to the Charleston bar. Within ten years he rose to the head of his profession in the State, and in 1808 was appointed attorney-general. He was three times elected to the South Carolina legislature, and in 1811 was sent to Congress by the young Republican party. In Washington he formed one of the famous "War Mess," composed of William Lowndes, Henry Clay, John C. Calhoun, and himself. During the first two years of the war he served as chairman of the Committee on Ways and Means, and the Naval Committee. He was then elected Speaker of the House, to succeed Henry Clay. This office he held till the close of the Thirteenth Congress. In 1814 he retired from Congress, and, refusing the position of Secretary of the Treasury to succeed Albert Gallatin, he returned to South Carolina and resumed the practice of law. In 1816 he was appointed one of the associate judges of the State, and this position he held till March of 1819. In January of that year he had been elected one of the directors of the United States Bank, and a few days later Mr. Jones, president of the bank, resigned his office.

Public opinion immediately pointed out Mr. Cheves as his successor. He was the avowed choice of the Administration, and possessed the entire confidence of the mercantile stockholders, whose interests he had materially served on one occasion while in Congress. The position was one for which Mr. Cheves had little inclination; it was well known that the affairs of the bank were deeply involved, though the real dangers of the situation were by no means appreciated in the South. But aside from this, he had also been informed at the same time by Mr. Middleton, Senator from South Carolina, that a vacancy was about to occur on the United States Supreme Bench to which President Monroe proposed to appoint Mr. Cheves. This office would have been, for several reasons, the more congenial of the two to him,[1] but after some hesitation he finally yielded to the urgent solicitations of his friends and consented to accept the position of president of the Bank of the United States. The election took place March 6, 1819.

When Mr. Cheves reached Philadelphia he found the affairs of the bank in a lamentable condition. The institution had been for two years in operation, having started in January, 1817, with an untrameled active capital of twenty-eight millions. During the first year it had carried on an extensive

[1] MS. Letter from Cheves.

business and established eighteen branch offices. It had imported large sums of specie and paid its notes and those of the branch offices without reference to the places where they were payable. The bank notes were everywhere received in payment of debts to the United States Government, and drafts were given without limit on the parent bank, and on the Northern offices by the Southern and Western offices, at par or at merely nominal premium. The tide of business brought a flood of notes from the South and West to the Eastern commercial centers, where they were paid and returned, only to be immediately reissued. The South and West were thus stimulated to artificial activity, while the parent bank and Northern offices were drained of their capital. The result was that on July 20, 1818, began a rapid and heavy curtailment of note issues. Between that date and April 1, 1819, the total curtailment amounted to six and a half millions. Yet at the end of that period the offices at Philadelphia, Boston, and New York were in a worse condition than when the remedy was devised, for the Southern and Western offices were not restrained from freely issuing their notes, while their curtailment in many instances resulted merely in a change of debts bearing interest for debts due by local banks on which no interest was paid. And all this time the Northern offices continued to purchase and collect drafts on the South and West, though the great object of the curtailments was to draw funds from those sections.

When the curtailments began the bank was indebted to Baring Bros., and other houses, to the amount of one and a half millions. To meet these obligations, the bank disposed of $2,200,000 of its funded debt, paid off $700,000 of the debt to Baring Bros., and by these complex operations furnished ways and means to the amount of one and a half millions. This transaction, Cheves says, together with the curtailments, reduced the productive capital of the institution by more than eight millions in eight months. All the funded debt which was salable had been disposed of, and by April the proceeds were exhausted. At the close of the day, April 12, the demand liabilities of the bank exceeded the specie in its vaults by more than $100,000. At the same time the bank owed to Baring Bros. $900,000 and had a circulation of $6,000,000 to meet. Meantime the Government revenue was being paid in all the ports in branch paper, while the debentures, which amounted to $1,000,000 every three months, were demanded and paid in specie. The Southern offices were remitting tardily, the Western offices not at all. "All the resources of the bank," exclaims Mr. Cheves, "would not have sustained it in this course and mode of business another month!"

In Philadelphia there was a general expectation that the bank was about to stop payment; yet one part of the danger was as yet absolutely unsuspected. During the last session of Congress the Congressional Bank Committee had discovered that the firm of Buchanan & Smith of Baltimore owed enormous sums to the bank. But when Mr. Cheves came into office he pursued the investigation further, and found that Buchanan, who was also president of the Baltimore branch bank, and his cashier, McCulloch, had appropriated to their private business nearly $3,000,000 of the bank funds, and their unsecured debt amounted to $900,000. For $500,000 of this Mr. Cheves was able to obtain securities. He then removed McCulloch and Buchanan resigned. For some days the excitement in Baltimore was so intense over Mr. Cheves's reputed severity and injustice that his agent, Mr. Colt, narrowly escaped injury at the hands of the mob.[1] Then, however, the facts of the case leaked out and Mr. Cheves was exonerated; but popular distrust was immediately transferred to the bank, and this last blow threatened completely to overwhelm it.

The task of restoring the institution seemed an impossible one, nor were the difficulties attending it overestimated. Mr. Cheves says: "A ship without rudder or sails or mast, on short allowance of provisions and water, on a stormy sea and far from land, will afford a figure by no means too strong to express the hapless condition of the Bank of the United States." And in March Mr. Crawford, Secretary of the Treasury, writing to him of the prospects of restoring a sound currency, says: "The task will be executed with difficulty and loss, if indeed it be practicable. * * * The stoppage of specie payments by the bank and by the State institutions is inevitable. * * * I greatly fear that no efforts which it is in the power of the directors to make will be succesful."[2]

Still stronger are the statements of John Quincy Adams, as recorded in his diary. On April 5 he writes: "The bank is so drained of its specie that it is hardly conceivable that it can

[1] MS. Letter from Colt to Cheves.

[2] MS. Letter from Crawford to Cheves.

go till June without stopping payments. * * * The state of our currency is perilous in the highest degree, and threatens to terminate in a national convulsion." And again, on April 18, writing of a visit of Mr. Cheves to Washington, he says: "Its real cause is the tottering situation of the bank, which will very shortly be reduced to the alternative of calling in all its notes and trading on those of other banks or of stopping payment."

But, like many others, Mr. Adams had failed to appreciate the remarkable ability and energy of the new president. Three weeks after the last quoted entry in the diary the bank was safe and sound again, and in a position to aid other solvent but needy concerns.

The remedial measures adopted by Mr. Cheves to bring about this remarkable transformation were comparatively simple and obvious. The prime object, and the one toward which he immediately bent his every energy, was the maintenance of specie payments, and this he perceived depended upon the ability of the bank to sustain the national credit and to restore a sound currency. To this end, therefore, the curtailments of circulation ordered previous to his election were for a short time continued, and the offices in the South and West were forbidden to issue their notes when exchanges were against them. Measures were also taken to collect the balances due to the offices from local banks, and to obtain from the Government time necessary to transfer funds from the offices where the money was collected to those where it was to be disbursed; also, time to transfer funds to meet the notes of offices paid in offices other than those where they were payable in tenor. Moreover, debentures were to be paid in the same money in which the duties on which the debentures were secured had been paid. Lastly, it was determined to obtain a loan in Europe for a sum not exceeding two and a half millions for a period not exceeding two years. Of these measures, two deserve special attention; the one on account of the popular misrepresentations to which it has been subjected, the other because Mr. Cheves considered it the effective cause of the bank's preservation.

At that time it was believed that the curtailments originated in the policy of the new administrator of the bank, and that this course, continued too long, was at the root of many of the financial distresses of the day. In his Financial History Mr.

Bolles has embodied this impression, and says that though Mr. Cheves saved the bank, the price paid was very high. This statement is, however, most emphatically contradicted by Mr. Cheves. He states that after he took his seat at the board not one additional curtailment was ordered, and those already in force were continued only so long as was absolutely necessary. Boston and New York were required to sustain themselves till the scattered bank funds could be collected and supplied to them; Philadelphia continued its curtailments only seventy days after Cheves's election, and at no time did the reductions of the discounts of the parent bank and of the offices north of Philadelphia exceed $400,000, until they were reduced by a lack of demand for money which was general throughout the nation. By the middle of May curtailment of circulation had ceased everywhere except in those offices where there was excess of capital. This excess was found in the offices of the South and West, and there, indeed, the suffering caused by the curtailments was real. As has been seen, those sections had for a year been conducting business on the basis of what was practically an inflated currency, and the rapid restoration of a sound currency basis caused widespread distress. Here, however, the personal popularity of Mr. Cheves stood the bank in good stead, by inspiring confidence in the institution. During the summer of 1819, Robert Hayne of South Carolina, writing from Kentucky to Mr. Cheves, says: "I have found, in general, that the Bank of the United States is unpopular, but the public confidence in yourself is very great, and the prevailing opinion everywhere is that the affairs of the bank will in future be honestly and ably conducted;"[1] while from Virginia W. H. Fitzhugh reports: "Your conduct in the management of the bank has met with the entire approbation of the more respectable part of the community," while he adds that without this influence there would be grave danger of a repetition of the notable opposition of 1798–99.[2] Far, then, from augmenting the evils necessarily resulting from the enforced curtailments, Mr. Cheves's presence in office was of material assistance in moderating them.

The other measure to be particularly noticed is the European loan proposed and defended by Mr. Cheves. This loan was for $2,000,000, payable in July, 1821, when $1,000,000 was

[1] MS. Letter of Hayne to Cheves.
[2] MS. Letter from Fitzhugh to Cheves.

renewed at 5 per cent and the remainder paid off at a profit that defrayed all charges of remittance, even with an adverse rate of exchange. The loan was at the time severely attacked as an unnecessary and oppressive measure. But in his Exposition Mr. Cheves successfully vindicates the necessity of the step. At the time that the loan was projected, the liabilities to Baring Bros. alone exceeded the total amount of specie in the parent bank and all its branches. To meet this charge the bank was obliged to enter into a contract to pay it in England at a given time, with interest, and in executing this contract employed the whole operations of the next business season in foreign exchanges. Other transactions tended still further to divest the country of its metallic basis, and many individuals and banking institutions were desiring a pretext for suspension of payments. To the Bank of the United States such a step would have meant ruin. Its whole salvation depended upon its ability to maintain the credit of the country and to restore the soundness of the currency, for should public confidence for a moment be shaken, a run upon the bank would ensue which must inevitably have ruined it. Moreover, the second installment of the Louisiana stock was to fall due in a few months, and the sum to be paid exceeded the total amount of specie in the cities of Philadelphia and New York. The loan was an absolute necessity.

The results of the step fully justified Mr. Cheves's expectations. He says of it that not only was it a circumstance of the utmost importance in the management of the bank, but also a measure on which turned, to a great extent, the preservation of a sound currency, an event which he holds to be more important than any other in the history of the country since the late peace.

One other question of policy for which Mr. Cheves was most bitterly attacked was that of declaring no dividends. For two years the clamors of the stockholders were firmly resisted, and not till July, 1821, was a dividend of $1\frac{1}{2}$ per cent granted. This was followed by one of 2 per cent in January, 1822; $2\frac{1}{4}$ per cent in July, 1822; and $2\frac{1}{2}$ per cent in January, 1823. These dividends, however, were much smaller than had been hoped for, and Mr. Cheves's friends felt seriously alarmed at the consequent growing hostility to his administration. They feared that when once he had placed the affairs of the bank in a prosperous condition a new régime would be introduced, and a successor would reap the benefits and popular results of his labors. Nicholas Biddle and other directors thought Cheves too conservative and cautious, and were recognized as being opposed to his policy. There is a family tradition to the effect that a prophetic friend said to him once in a tone of anxious warning, "Take care, Cheves; you are only stuffing a saddle for old Nick to ride on."

When the facts of the Exposition were published in 1822, however, the real value of his conservatism was realized, for it then became known that an accumulation of three and one-half millions had been made to repair past losses of the bank, and that the capital again stood whole and untrammeled. The sole purposes for which the bank needed funds were to pay the outstanding English loan of $1,000,000 and to furnish some additional capital to the parent bank and the office at New York.

With affairs in this condition, there could be no longer any doubt that the safety of the institution was secure and its outlook for the future highly promising. Mr. Cheves's immediate task of establishing a sound specie basis and maintaining the national credit was triumphantly accomplished, and there was no further inducement to him longer to retain an office which had from the first proved highly distasteful to him. Accordingly, on the 1st of July, 1822, he wrote to the stockholders announcing his intention to resign at the end of the year. "It was my desire," he says, "to have done so very soon after I entered upon the duties of the office; but I owed it to you and to the country * * * to hold the station * * * until the bank should be placed in a state in which a change could be made in safety and without alarm. There is, in my opinion, no longer anything in the situation of it which can make a change difficult or injurious * * * and therefore no duty on my part to forbear the gratification of a wish I have long anxiously indulged."

The announcement of this determination was received with the deepest regret throughout the country, and from every side Mr. Cheves received expressions of public confidence and concern. "Your friends believe," wrote Mr. Hayne, "that since the war you have done more for the country than any individual in it."[1] And great anxiety was expressed as to the

[1] MS Letter from Hayne to Cheves.

probable effect of the resignation upon the bank credit. Mr. Cheves, however, felt the fullest assurance of the safety in which he left the institution, and adhered to his resolution of retiring in December. He asked for a committee of investigation, which examined the affairs of the bank, and on October 1 published their report. "The circumstances of the bank," they declare, "fully realize the anticipations of the stockholders * * * in regard to the president, who, by his talents, disinterestedness, and assiduity has placed its affairs in an attitude so safe and prosperous as that the burthen of duty devolving upon his successor will be comparatively light."

The saddle had indeed been well stuffed for Nicholas Biddle, who in December was elected as his successor. The prosperity of the bank was assured, its credit firm and easy, the task of those who followed after the man who justly has been called the Hercules of the United States Bank.