James Buchanan

December 8, 1857

Fellow-Citizens of the Senate and House of Representatives:

In obedience to the command of the Constitution, it has now become my duty "to give to Congress information of the state of the Union and recommend to their consideration such measures" as I judge to be "necessary and expedient."

But first and above all, our thanks are due to Almighty God for the numerous benefits which He has bestowed upon this people, and our united prayers ought to ascend to Him that He would continue to bless our great Republic in time to come as He has blessed it in time past. Since the adjournment of the last Congress our constituents have enjoyed an unusual degree of health. The earth has yielded her fruits abundantly and has bountifully rewarded the toil of the husbandman. Our great staples have commanded high prices, and up till within a brief period our manufacturing, mineral, and mechanical occupations have largely partaken of the general prosperity. We have possessed all the elements of material wealth in rich abundance, and yet, notwithstanding all these advantages, our country in its monetary interests is at the present moment in a deplorable condition. In the midst of unsurpassed plenty in all the productions of agriculture and in all the elements of national wealth, we find our manufactures suspended, our public works retarded, our private enterprises of different kinds abandoned, and thousands of useful laborers thrown out of employment and reduced to want. The revenue of the Government, which is chiefly derived from duties on imports from abroad, has been greatly reduced, whilst the appropriations made by Congress at its last session for the current fiscal year are very large in amount.

Under these circumstances a loan may be required before the close of your present session; but this, although deeply to be regretted, would prove to be only a slight misfortune when compared with the suffering and distress prevailing among the people. With this the Government can not fail deeply to sympathize, though it may be without the power to extend relief.

It is our duty to inquire what has produced such unfortunate results and whether their recurrence can be prevented. In all former revulsions the blame might have been fairly attributed to a variety of cooperating causes, but not so upon the present occasion. It is apparent that our existing misfortunes have proceeded solely from our extravagant and vicious system of paper currency and bank credits, exciting the people to wild speculations and gambling in stocks. These revulsions must continue to recur at successive intervals so long as the amount of the paper currency and bank loans and discounts of the country shall be left to the discretion of 1,400 irresponsible banking institutions, which from the very law of their nature will consult the interest of their stockholders rather than the public welfare.

The framers of the Constitution, when they gave to Congress the power "to coin money and to regulate the value thereof" and prohibited the States from coining money, emitting bills of credit, or making anything but gold and silver coin a tender in payment of debts, supposed they had protected the people against the evils of an excessive and irredeemable paper currency. They are not responsible for the existing anomaly that a Government endowed with the sovereign attribute of coining money and regulating the value thereof should have no power to prevent others from driving this coin out of the country and filling up the channels of circulation with paper which does not represent gold and silver.

It is one of the highest and most responsible duties of Government to insure to the people a sound circulating medium, the amount of which ought to be adapted with the utmost possible wisdom and skill to the wants of internal trade and foreign exchanges. If this be either greatly above or greatly below the proper standard, the marketable value of every man's property is increased or diminished in the same proportion, and injustice to individuals as well as incalculable evils to the community are the consequence.

Unfortunately, under the construction of the Federal Constitution which has now prevailed too long to be changed this important and delicate duty has been dissevered from the coining power and virtually transferred to more than 1,400 State banks acting independently of each other and regulating their paper issues almost exclusively by a regard to the present interest of their stockholders. Exercising the sovereign power of providing a paper currency instead of coin for the country, the first duty which these banks owe to the public is to keep in their vaults a sufficient amount of gold and silver to insure the convertibility of their notes into coin at all times and under all circumstances. No bank ought ever to be chartered without such restrictions on its business as to secure this result. All other restrictions are comparatively vain. This is the only true touchstone, the only efficient regulator of a paper currency--the only one which can guard the public against overissues and bank suspensions. As a collateral and eventual security, it is doubtless wise, and in all cases ought to be required, that banks shall hold an amount of United States or State securities equal to their notes in circulation and pledged for their redemption. This, however, furnishes no adequate security against overissue. On the contrary, it may be perverted to inflate the currency. Indeed, it is possible by this means to convert all the debts of the United States and State Governments into bank notes, without reference to the specie required to redeem them. However valuable these securities may be in themselves, they can not be converted into gold and silver at the moment of pressure, as our experience teaches, in sufficient time to prevent bank suspensions and the depreciation of bank notes. In England, which is to a considerable extent a paper-money country, though vastly behind our own in this respect, it was deemed advisable, anterior to the act of Parliament of 1844, which wisely separated the issue of notes from the banking department, for the Bank of England always to keep on hand gold and silver equal to one-third of its combined circulation and deposits. If this proportion was no more than sufficient to secure the convertibility of its notes with the whole of Great Britain and to some extent the continent of Europe as a field for its circulation, rendering it almost impossible that a sudden and immediate run to a dangerous amount should be made upon it, the same proportion would certainly be insufficient under our banking system. Each of our 1,400 banks has but a limited circumference for its circulation, and in the course of a very few days the depositors and note holders might demand from such a bank a sufficient amount in specie to compel it to suspend, even although it had coin in its vaults equal to one-third of its immediate liabilities. And yet I am not aware, with the exception of the banks of Louisiana, that any State bank throughout the Union has been required by its charter to keep this or any other proportion of gold and silver compared with the amount of its combined circulation and deposits. What has been the consequence? In a recent report made by the Treasury Department on the condition of the banks throughout the different States, according to returns dated nearest to January, 1857, the aggregate amount of actual specie in their vaults is $58,349,838, of their circulation $214,778,822, and of their deposits $230,351,352. Thus it appears that these banks in the aggregate have considerably less than one dollar in seven of gold and silver compared with their circulation and deposits. It was palpable, therefore, that the very first pressure must drive them to suspension and deprive the people of a convertible currency, with all its disastrous consequences. It is truly wonderful that they should have so long continued to preserve their credit when a demand for the payment of one-seventh of their immediate liabilities would have driven them into insolvency. And this is the condition of the banks, notwithstanding that four hundred millions of gold from California have flowed in upon us within the last eight years, and the tide still continues to flow. Indeed, such has been the extravagance of bank credits that the banks now hold a considerably less amount of specie, either in proportion to their capital or to their circulation and deposits combined, than they did before the discovery of gold in California. Whilst in the year 1848 their specie in proportion to their capital was more than equal to one dollar for four and a half, in 1857 it does not amount to one dollar for every six dollars and thirty-three cents of their capital. In the year 1848 the specie was equal within a very small fraction to one dollar in five of their circulation and deposits; in 1857 it is not equal to one dollar in seven and a half of their circulation and deposits.