INTRODUCTION

Characteristics of the Period — Relativity of Its Banking Theories and Practices

The theories of banking that prevailed in the United States before 1820 were, in general, wretchedly primitive. Colonial discussions had dealt largely with paper money emitted by the government, or by the land banks that we have learned to associate with the period. Such tracts as considered paper money redeemable in specie referred almost invariably to post notes. Accordingly, what progress was made in the theory of banking had little bearing upon more than the most elementary principles of commercial banking of the modern type.

Not until about 1820 does the knowledge of banking principles in this country seem to have reached a degree of development comparable to that found in the *Wealth of Nations*. Smith's doctrine that the use of paper money effects an economy by releasing metallic money for export was, apparently, scarcely known much before 1810. A decade later, exports of metallic money were still being explained in terms of Smith's vague overflow of the "channels of circulation," in apparent obliviousness of the work, at the beginning of the century, of Boyd and Thornton and later English writers in substituting an explanation in terms of the definite and clear-cut mechanism of rising prices, diminishing exports, and increasing imports.[1] The notion that a certain fixed quantity of currency is necessary to circulate the annual product of each country's industry underlay the views of almost all the writers. Those who, in common with Douglass and others of the preceding

[1] Precursors of Smith, notably Hume and Harris, had explained the distribution of the precious metals in terms of the quantity theory, but Smith had not adopted their ideas. Thornton and the other immediate predecessors of Ricardo had brought the doctrine anew to the general attention. See Hollander, "Development of the Theory of Money from Smith to Ricardo," *Quarterly Journal of Economics*, xxv, 429–470.