

The Committee on Finance, to whom was referred a contract for a loan of One Million of dollars, made the 30th day of October AD 1839, between Richard M. Young & John Reynolds, Agents on behalf of the State of Illinois, of the one part, and Messrs. John Wright, on behalf of himself & his copartners, under the firm of Wright & Co, bankers, Henrietta street, Covent Garden, London, beg leave to report:

That they ^{have} given to this subject the careful consideration which its importance demands, and now respectfully present to the House the results of their examination -

The chief stipulations of the contract are as follows:

1. Mr. Young has delivered to Messrs. Wright & Co, bonds to the amount of One million of dollars: the principal of which is payable in London, in the year 1870, and the interest thereon is payable annually, ~~on the~~ also in London, at the rate of six per cent per annum.

2. Messrs. Young & Reynolds agree, to procure, or endeavor to procure, the State of Illinois, to issue, in lieu of the bonds already deposited with Messrs. Wright & Co, one million of state bonds, to be substituted for the old bonds by Messrs. Wright & Co, "if & when they shall think proper so to do: - upon which said new bonds, the interest shall be payable semi-annually, on the first days of January & July in each year, at the banking house of Messrs. Wright & Co in London -

3. Messrs. Wright & Co are authorized to sell or negotiate the said bonds, already deposited with them, at a rate not less than Ninety One Dollars, payable in London, for every Hundred Dollars' ~~xxx~~ of bonds: - if more than 91 per cent can be obtained for the bonds, the surplus, to the extent of 4 per cent, is to be returned by Messrs. Wright & Co, as

a commission on the sale: and, if more than 95 per cent can be had for the bonds, the excess is to be equally divided between the State of Illinois and Messrs Wright & Co.

4. The interest upon said bonds is to be remitted, so as to be received by Messrs Wright & Co, at least fifteen days before the day or days when said interest becomes due: and Messrs Wright & Co are to retain One per cent, as a commission, upon all the interest to be received and paid over by them.

The Act of the General Assembly, under which the said agents proceeded, authorised them to negotiate a loan for a sum not exceeding Four Millions of dollars, and for a term not exceeding Fifty years, and at a rate of interest not exceeding Six per cent per annum, payable yearly; the payment of interest & reimbursement of principal to be made at such place, within or without the United States, and in such currency, as might be agreed on. And it was further declared by the said act, that no bonds should be sold, for less than their par value.

The principal point, to which the attention of the Committee was directed, is, whether the contract is in accordance with that provision of the Law, requiring the bonds to be sold for not less than their par value.

A difficulty sometimes occurs, in questions of this sort, from not ascertaining with precision the meaning of the term "par." Mr. Gallatin, in that part of his essay on the Currency & Banking System of the United States, which treats of exchange, has the following passage:

"Being obliged to refer to the rate of exchange, it must be recollected, that what is universally meant by par, is the promise to pay, in another place, a quantity of pure silver or gold, equal in weight to the quantity of pure silver or gold, contained in the coins, with which the

"drawn of the bill of exchange is paid."

This definition is correct in the case to which Mr. Gallatin has applied it - to wit - where a bill of exchange, drawn upon and payable in one place, is sold in another. But, perhaps, a more complete and full explanation of the term "par", is presented in the following propositions:

1. Where a security is sold in the same place, where it is made payable - or in other words, where the money is to be received and repaid, at the same place and in the same currency - there no exchange enters into the calculation, but the nominal par is the true par. One hundred dollars must be received, for every hundred dollars to be repaid, in order to constitute a par sale.

2. Where a security is sold & the money received for it in one place, and the security is made payable in a different place, where the money received, either by difference of currency, or by the price of exchange, is worth more or less, than it is worth at the place where received - here the nominal par is not the true par: and the true par will either exceed, or fall short of, the nominal par, according to the comparative value of the currency in the two places, or the rate of exchange between them.

The case of the contract, referred to your committee, falls within the first of these propositions. The bonds are made payable, principal and interest, in London: they are authorized to be sold in London: and, according to the rule laid down above, in order to make a sale of these bonds at par, One hundred dollars should be paid in London, for every hundred dollars' ~~rate~~ of the bonds sold, which are made payable in that place. And, inasmuch as only Ninety One dollars are to be received, in case of the action of Messrs. Wright & Co under the contract, for every One Hundred Dollars' ~~rate~~ of bonds, it follows that the sale is Nine per cent below par.

Another view of the case may be taken. It was, obviously, the intention of the Legislature, as it is the fair construction of the law, to authorize the borrowing of a sum not exceeding Four millions of dollars: to bind the state for the repayment of the amount borrowed, dollar for dollar; and to bind the state, for the payment of six per cent interest, annually, upon the actual amount of money borrowed.

Now, the state is made to borrow and receive in London Ninety One Dollars — she is bound, in 1870, to repay in London, not Ninety One dollars, but One Hundred — and, in the mean time, she is bound to pay six per cent interest, not upon Ninety One dollars, but upon One Hundred. She is bound, therefore, to ~~repay~~ pay, upon a final settlement, Nine dollars in every hundred, more than she receives, of the principal sum: and, in the interval, she pays six per cent interest, annually, upon Nine dollars in every hundred, which she never received.

Your committee herewith submit, as part of their report, ~~annexed exhibit A~~, a calculation of the amount that will be lost by a sale under this contract: from which it appears, that the excess of principal to be paid on and above what is received, by the state — the interest upon that excess — ~~the exchange upon~~ the commission of One per cent to Messrs Wright & Co, for receiving & paying over the interest — and the exchange upon these sums — taken together, will result in a total loss to the state of \$294,300:00, on and above the principal and interest, which the state will receive, and have the use of, under this contract.