Organization of Debt into Currency And Other Papers

Charles Holt Carroll

Edited With An Introduction By

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Introduction

Little is known of Charles Holt Carroll (1799-1890), the author of the thirty-six essays reprinted in this book. In the list of contributors in *Hunt's Merchants' Magazine,* where many of these essays appeared, Carroll is described as "A Merchant of Massachusetts." There are, of course, such scattered bits of information in business directories and newspapers as may be found for many nineteenth-century businessmen, but even when these are combined with the remarks he drops about himself in his essays, only a shadowy figure of a man emerges. One would like to know more about this merchant who wrote so vigorously on the currency question.

Carroll seems to have had no close associates. Possibly he was regarded as eccentric. In any event no one troubled to write his biography, and the members of his family did not bother to preserve his personal papers. Despite his claim to having discovered no less than three new truths as to the effects of paper money in an essay written in 1859, those around him evidently did not think he would achieve renown. It now appears that Carroll might have made broader claims, for in the aggregate his writings contain an abundance of interesting ideas.

Although Carroll insists upon a fresh approach to the currency problem, he is emphatic that his findings are based on accepted economic doctrine. He pauses frequently to praise the developing science of political economy, whose laws he insists are universally valid. He appears to have been a moderately careful student of Smith and Mill, and he was strongly, if not violently, anti-interventionist and antiprotectionist. On currency matters he was not a slavish follower of classical thought. Rather, he pursued his own path, rejecting, for example, Smith's dictum that an economy is realized by substituting paper money for the precious metals. He also quarrels with Mill's view that all forms of credit have the same effect. Yet in fundamental matters, such as the nature and source of value, Carroll adheres to orthodox teaching. Carroll's outright rejection of the ideas of Henry C. Carey is indicative of his basic approach.

There were, to be sure, other antibank and hard-money men in the middle of the nineteenth century, but, unlike some, Carroll was not content simply to repeat the slogans of the antibank faction of the Jacksonian era. He undertook to provide a reasoned argument for opposing banks, using the doctrines of the political economists; and while others had attempted to supply such a rationale, Carroll was possibly the most able.[1] His analysis of a fractional-reserve banking system contains penetrating insights; and although the economic scene has changed, much of what he has to say is still pertinent. Our money continues to be that same debt currency that Carroll abhorred. Even if one is not prepared to agree with all of his analysis or to accept any of his policy conclusions, one must admire the work of this nineteenth-century businessman who was unafraid of new ideas. The freshness of his views and the vigor of his style make these essays a pleasure to read.

An obituary in the *Boston Evening Transcript* of February 25, 1890, states that Charles Holt Carroll was born in Maryland in 1800 and belonged to the same family as Charles Carroll of Carrollton, signer of the Declaration of Independence. The *Newton Journal* of February 28, 1890, repeats this claim. In fact, however, Carroll was born October 25, 1799, in Charlestown, Massachusetts, of sturdy New England stock which can be traced back to the early 1600's.[2] It is uncertain who fastened to Carroll this American substitute for aristocratic lineage. There is no doubt that he did live in Maryland as a young man.

Possibly he went to Baltimore as a youth, but there is no direct evidence of his presence there until 1829. A number of young men named Charles Carroll attended St. Mary's College in Baltimore during the years when Carroll would have been of student age. It could hardly have been he who signed "Charles H. Carroll" in the *Degree Book of St. Mary's College,* July 2, 1813. That would mean that he earned the degree of A.B. when but thirteen years old. But when Carroll remarks in one of his many diatribes against the Bank of England that it was founded by the Protestants as part of the effort to displace the Stuarts, he may be revealing that he learned his history from a Roman Catholic teacher, as he certainly would have if he had been of the Maryland Carrolls. This, however, belies the Protestant background of his parents. Nor does it harmonize with the fact that Carroll's funeral was conducted by a Unitarian clergyman. In any event, Carroll's style of writing suggests that he had been trained under firm-handed schoolmasters. His thought is clear, his ideas are well organized, and his language is forceful. There are frequent classical allusions in his essays, but there is little of the excessively flowery style of the period. Although his eldest son attended Harvard, there is no record that he himself did.

Carroll, of course, may have been self-educated. If so, this might account for his frequently expressed scorn for closeted scholars. He says that only men who have had practical experience are qualified to speak on the question of the currency. One cannot be sure what meaning attaches to the aspersions he casts on scholarly deduction. While he does insist on first-hand knowledge of currency matters, he does not deny himself acquaintance with the writings of the political economists. At every opportunity he bolsters his views by appealing to their authority, although he does not hesitate to challenge them on doctrinal points.

The meager information about Carroll's life provides slight clue to the source of his ideas. By means of business directories it is possible to trace his career as a merchant.[3] He first appears in 1829 under the listing "Commission Merchants" in Baltimore. Subsequently the listing is "Dealer in Shoes, Hats, and Straw Goods." Beginning in 1840 his name appears jointly with George W. Tinges, who evidently continued the firm's business under his own name when Carroll moved to Boston in 1849. Possibly Carroll's marriage in 1832 to Rebecca White of Cambridge, Massachusetts, has a bearing on the family's moving to Boston, but either family ties or business opportunity could account for the transfer.[4] In any event, Carroll's residence for the next fifteen years was Cambridge, Massachusetts. One may amuse himself by speculating that Carroll may have been inspired to take up the writing of essays by observing the careers of some of his illustrious Cambridge fellow townsmen. While no evidence has been found to suggest that Carroll moved in the same circles as the Cambridge literary figures of the 1850's, Carroll's writing did begin about five years after he had established himself as a merchant in Boston with a residence in Cambridge.

Charles H. Carroll is listed among "Boot, Shoes, and Leather Dealers, Wholesale" in several Boston business directories beginning in 1850. The last entry in the series is for 1860, when the firm becomes Thayer and Carroll, suggesting that a partnership had been formed in anticipation of Carroll's retirement. It is clear that he had retired before he moved to West Newton, Massachusetts, in 1865, and he may have retired as early as 1860. The latter possibility is suggested by the change in the firm's name and by his no longer being described as a merchant in the list of contributors to *Hunt's Merchants' Magazine* after I860.[5] At that time he would have been sixty years old, not an uncommon age for retirement from business. Carroll was undoubtedly engaged in business for at least thirty years. Frequent references in his writings to overseas transactions in hides suggest that his Boston business was the supplying of raw materials to the shoe industry.[6] How successful Carroll was as a businessman can be only a matter of conjecture. We know that he retired from business, but this could be accounted for by business success or by marriage or by inheritance. We know that he built a home when he moved to West Newton. That he was able to live without employment presupposes at least a modest amount of wealth.[7]

There were apparently eight children in the Carroll family. The oldest, a son named for his father, was born in Baltimore in 1832 and graduated from Harvard in 1853. This was the Charles Carroll who was professor at the University of the City of New

York from 1871 to his death in 1889 and who contributed a number of articles and some verse to popular magazines in the seventies and eighties.[8] Another son, Arthur, went into business. We find him listed as a merchant on India Wharf and later as a dealer in mortgages and real estate. One son was killed in the Civil War, and one was an invalid. One of the daughters, Kate, founded the Carroll School, which is still operating in West Newton under that name. Another daughter, Blanche, married into the Howland family, who were paint manufacturers and dealers. Bertha became principal of a girl's school in Boston, and little seems to be known of the fourth daughter, Anna, who went to New York after her marriage to Richard Baring Gould, except that she had already died when her father made a will in 1884. Carroll's wife, Rebecca, outlived him by more than ten years. Carroll's only reference to his family is his frequently repeated complaint of the costliness of the then fashionable crinolines, which he condemned as an absurdity.

No evidence has been found that Carroll was active in community affairs. Following his removal to West Newton, when he might have been expected to devote some of the leisure of retirement to local activities, he seems to have kept to himself. West Newton had an active literary society, The West Newton Athenaeum, which met weekly to discuss and debate the popular issues of the day. Its meetings were reported regularly in the local weekly for the period 1866-1876. Yet, for this ten-year period, only one reference has been found to Carroll's expression of an opinion. This occurred during a debate on the question, "Resolved that the interests of the country require a liberal encouragement of immigration." The reporter says: "Mr. Chas. Carroll. . . . advocated the let-alone policy as the best and contended the government interfered too much in like matters." [9] This sounds characteristic, for Carroll was consistently anti-interventionist in his thinking.

Charles H. Carroll's name is not listed among the subscribers to the Newton Free Library, which was organized about 1870, but his son, Arthur, is later listed among the directors. However, only a few persons in West Newton were among the organizers, and the several miles that separate the two towns were then a greater barrier than would be the case today. No mention of the Carrolls is made in any of the several local histories of West Newton.[10] Carroll's name does not appear in the list of those West Newton residents who in 1869 paid $500 or more in local taxes. His near-by neighbors, according to the local directory, were a male stenographer, a teacher, an editor, and a bookkeeper. The best-known resident of that section of West Newton was probably Horatio King, Postmaster General in the Buchanan administration, but there is no evidence that Carroll and he were associated in any way.

Lack of information that Carroll was a leader or even an active participant in the intellectual life of West Newton makes plausible the assumption that he busied himself with his books and his writing. He must have possessed a modest library, for he cites no less than three dozen authors.[11] In 1871, the local library listed among its 3,100 volumes only four works on political economy: those of Adam Smith, Thomas De Quincey, John Stuart Mill, and Jean Baptiste Say.[12] In one of his papers, Carroll remarks that he has before him twenty years of the *Statistical Abstract of the United Kingdom.* Elsewhere he professes to have examined with care *Hansard's Parliamentary Debates* for materials on the 1844 Bank Act, and he writes as if he were a regular reader of the *London Economist.* There may be some doubt that Carroll read all the writings of all the writers he mentions, but it does seem that he was a diligent student of the political economists of his day, that he was something of a student of history, and that he was well informed on current affairs.

This is about all that can be said about Carroll's life. It helps only slightly in understanding Carroll's ideas. Yet there is some value in knowing that Carroll was neither a political figure nor a banker nor even a college professor.

A search of the periodicals of Carroll's day yielded the thirty-six essays reprinted in this book. It did not yield the paper Carroll refers to in "The Currency and the Tariff," published in August, 1855. Both L. W. Mints and H. E. Miller describe Carroll as having contributed numerous papers to *Hunt's Merchants' Magazine* and to *Bankers' Magazine* in the period 1856-1860, although in fact Carroll's writing began at least in 1855 and continued until 1879.[13] It is quite possible that other writings of Carroll remain to be discovered.[14]

The accessibility of the appraisals of Carroll's early writings by Mints and Miller makes unnecessary a detailed review of the essays written before the Civil War. The resume of his writings that follows is intended only to direct attention to some of the more interesting of Carroll's ideas.

In the first paper that has been found, "Currency and the Tariff," Carroll sets forth the theme on which he dwelt for almost twenty-five years, namely, that a currency created out of bank debt contains, as he put it, "a fatal principle." His minor theme, that protectionism is an intolerable burden on productive activity, also appears in the first essay. This, too, recurs in later essays. His tendency to repeat himself leads one critic to treat him harshly, but Carroll himself warned his readers that he was given to saying over and over again what he regarded as important.[15] While reading these essays one after another emphasizes their sameness, it must be remembered that they appeared over a period of twenty-five years. Moreover, Carroll's approach was that of a would-be reformer of social institutions and not that of the writer of a treatise.

What he had to say is still of interest despite changes in the economic environment. In emphasizing the significance of bank deposits, he was well in advance of his contemporaries. Although he was not the first to perceive that bank demand deposits are money, he made clearer than almost anyone else the fact that these deposits arise from the making of bank loans. In observing that bank notes usually come into use through the withdrawal of previously created deposits, Carroll seems to have anticipated the modern view that monetary control should be directed at deposits rather than at bank notes. Indeed, Carroll makes this point explicitly. Carroll is most eloquent in describing the process of deflation and in pointing out its potentialities for destroying the fabric of business. He shows with vigor and clarity how universal ruin may threaten an economic system where the circulating medium consists of bank debts resting on short-term business indebtedness to banks. It is here that Carroll shows that he fully understood the working of the financial mechanism upon which we still depend.

Although almost all writers of the day laid the blame for panics on the banking system, few saw with Carroll that monetary expansion and contraction were the basic cause. John Stuart Mill's influence was very great, and Mill espoused the Banking School view that the banks were essentially passive. Only a person of Carroll's independence of mind would dare to question Mill's doctrine that it was the use of credit for so-called "speculative purposes" that brought on collapse and panic. Carroll emphatically denied that limiting bank lending to "legitimate" uses would prevent crises. His position was that market forces would serve to allocate capital appropriately among alternative uses provided that the linkage between money-lending and money-creating were severed. He opposed the regulation of bank lending or, for that matter, any sort of lending. Carroll was thus one of the few nineteenth-century economic spokesmen who wrote meaningfully on competition in banking.

Down to the time of the Civil War, Carroll was hopeful that improvement in monetary affairs could be achieved by persuading the State legislatures to abandon the chartering of banks. He makes abundantly clear his doubts that the States actually possess this power despite the Supreme Court's having ruled that State bank notes are not bills of credit and thus do not fall under the Constitutional ban on state issue of money.

In this early phase of Carroll's thinking he placed great emphasis on the voluntary establishment of what he called "bullion banking," meaning banking with adherence to the 100% principle. He argues that a trial of this system would prove so successful that note-issuing, fractional-reserve banks would disappear. He attempted to show by arithmetical examples that a bank that maintained 100% reserves would not be unprofitable. Savings banks, he thought, demonstrate that the power to issue debt claims that circulate is not indispensable to a moneylending institution. He had great hopes for the Bullion Bank of New York, the organization of which was publicly announced in 1859, but which apparently never began operations.[16] During the Civil War, Carroll abandoned his faith in voluntary action. He urged the suppression of fractional-reserve banking by punitive Federal taxation. In matters of money he did not fear coercive action by political authority, although in other areas he was vigorously anti-interventionist in his economic philosophy.

Carroll's views on monetary reform underwent modification in consequence of the financial changes wrought by the Civil War. His basic tenets, opposition to bank-debt currency and to protectionism, remained unaltered, but in presenting in 1863 an outline of an ideal monetary system, he developed some novel ideas. He said that only full-bodied coins and fully backed coin certificates should be permitted to circulate. Bank-debt currency should be eliminated entirely. For the accommodation of persons having small payments to make at a distance, Carroll suggested that the postmasters be authorized to sell drafts on the subtreasuries. Postal money orders were in fact introduced about a year after this article appeared, but Carroll had been talking about such drafts since 1858. The most interesting feature of his drastic reform plan was the proposal to eliminate the dollar as the monetary unit. He wanted to replace it with the troy ounce. Carroll reasoned that this change was required to destroy the illusion that it is possible to create dollars out of paper and give them value by some legerdemain. To him the only money that genuinely possessed value was specie. That alone had productive effort embodied in it to the same extent as the things for which money is exchanged. Carroll was firmly convinced that the basic monetary fallacies, such as the idea that paper money is wealth and that interest can be lowered by printing money, have their origin in the fact that the monetary unit has become separated from the monetary substance.

The proposed reform was to return to the monetary practice of an earlier time when the monetary unit was actually a unit of weight of precious metal. The troy ounce seemed to Carroll to be the logical unit to replace the dollar, which he held was fundamentally defective in that it did not even represent in the mind of the public any specific amount of specie. In subsequent papers Carroll did not urge this particular reform, but he continued to insist that the only form of nonmetallic currency that should be tolerated was the fully backed coin certificate issued by the government itself. As might be expected, he approved of the gold certificate that first appeared during the Civil War, although this new form of currency actually was not in widespread use because it commanded a premium over the greenback.

Carroll never tired of inveighing against "paper money," which to him meant any kind of circulating media not backed 100% by specie. One of his arguments against paper money is that the holder of a note in effect gives up command over capital to the issuer and thus really makes an interest-free loan. He applies this idea to the Civil War greenbacks, showing how their issue enabled the government to obtain resources to carry on the war. He also applies the same reasoning to bank deposits, insisting that it is the bank's depositors that furnish capital to the bank rather than the bank that supplies capital to its customers. While Carroll did not press on to develop the idea of forced saving, the distinction that he attempted to make between capital in money form and in the form of wealth is central to that concept.

In one of the essays published during the Civil War Carroll does concede that if paper money is to be used at all, it should be issued by the government and not by banks. Despite this grudging concession, at the war's end he urged the prompt resumption of specie payments. Fearful of the effects of a drastic fall in prices, which he noted Ricardo had failed to foresee after the Napoleonic Wars, and which many in this country felt must come if resumption was to become a reality, Carroll toyed with the idea of adopting a dual currency system. Under his proposal all existing contracts and obligations would be satisfied in greenbacks, but all new undertakings would be entered into on a specie basis. Although his arguments against deflation are persuasive, he fails to make clear how the two currencies could circulate side by side. In subsequent discussion of resumption he abandons the idea and takes the position that the stock of money is in excess of the nation's needs and therefore might safely be contracted without inducing the drastic fall in prices that he had feared. It is here that he returns to the idea of a fixed per capita stock of money that he had advanced in his early writings.

Basically Carroll was a metallist rather than a nominalist in his approach to the nature of money. He regarded anything but metallic money as a fiction, leading inevitably to disaster. Contrary to Knapp's dictum that money is a creature of the state, Carroll's view is that money arises from exchange between producers and gets its purchasing power and its capacity to circulate from the commodity out of which it is made. Like the classicists, he held that value is derived ultimately from labor. Therefore, only a commodity money could embody value in the sense of containing within itself the crystallized effort of past production. Carroll does not deny that debt money can circulate, but he insists that inflation and inevitable collapse will follow any attempt to substitute inherently valueless tokens for metallic money. Carroll, however, does not fall into the error that has commonly been made by metallists of holding that the precious metals are constant in value. In discussing the outpouring of gold from California, he makes clear that any increase in the ratio of gold to other commodities must lower the value of gold. At heart he was a quantity theorist, if of a low order. In this he differs from many who have insisted on a gold currency. Contrary to what might be expected, he does not make the value of money turn about the cost of producing gold.

Carroll was not a sophisticated quantity theorist. He recognized the *V* and the *T* terms of the equation of exchange, but he made no effort to go beyond Mill's simple statement of their nature. He did, however, set forth some interesting views about the rate of flow of currency in the economic system. He makes much of the idea of an invariable normal relationship of 1 to 25 between total currency and total wealth or property, terms which are used by him without distinction. The basic idea he attributes to John C. Calhoun. Although Carroll makes use of this idea repeatedly, he never explains why this ratio exists. To him it is a simple empirically determined relationship. He also held that a similar normal relationship of 1 to 10 holds between total currency and total circulating capital. This seems to have been of his own invention. Again he fails to make clear why this ratio is constant. Carroll does not deny that there are departures from these normal values, but he insists that they are useful empirically to determine if the currency is in excess. Since he explicitly recognizes the phenomenon of hoarding, it is clear, at least by inference, that he recognized that velocity is a variable. But Carroll can hardly be said to have contributed to the understanding of the phenomenon of velocity.

The three words, "price without value," which Carroll never tires of repeating are the key to his thought. His central idea was that currency generated by bank lending pours forth only to drive up prices without creating additional value. This he found philosophically repugnant because it involved a fiction; more important, he held that the rise in prices was only temporary and inevitably culminated in collapse and wholesale bankruptcy. When the banks attempt to collect the loans that generated the currency that drove up prices, debts contracted when prices were high would be defaulted, and ruin would descend. The burden would be heaviest upon the merchant group, because they are accustomed to financing themselves by borrowing at banks. Carroll describes in great detail the effects of alternately expanding and contracting the currency, pointing out the effects of price changes on the distribution of wealth and income and also condemning the transfers of property that accompany bankruptcy. He observes that creditors are frequently defrauded by bankrupts, and this type of loss must be added to the losses assignable to changes in the value of money.

A further consequence of debt-currency expansion is to check exports by raising the prices of domestically produced goods to a level where foreigners find them unattractive. Imports flow in despite the tariff wall erected to protect domestic industry, and specie flows out. The effort to strengthen the nation's currency through adopting a policy of protectionism consequently produces precisely the opposite of the intended effect. Moreover, the monetary expansion that accompanies the early phase of the sequence of events serves only to weaken the credit structure. Collapse with an inevitable wave of bankruptcies follows, even if with a lag, each expansion in the currency. This is the theme of the first essay, and it recurs again and again.

Toward the end of the series of essays Carroll takes up some of the special problems of international finance when he considers the effect of resumption on the nation's gold holdings. In discussing the mechanism of specie flows, he finds it necessary to develop a theory of foreign exchange rate determination. His explanation sounds much like the purchasing power parity theory advanced by Gustav Cassel.[17] That is, changes in relative prices in the two countries account for changes in the exchange ratio of their currencies. Carroll, however, rejected the idea that the balance of trade determines the exchange rate. He saw clearly the importance of elements other than commodity transactions in the balance of payments, and his discussion of exchange rate behavior in connection with the problem of retaining metallic money shows an awareness of the central issues. To contemporary students it may seem puzzling to find Carroll saying that the exchanges are at par when the premium on London is 9½ per cent, but this is no barrier to understanding the fundamentals.[18]

Carroll's interest in exchange rate theory grows in part out of his antiprotectionism. In several of the papers written after the Civil War he attempts to show that the nation need not rely on a high tariff to build up its gold holdings preparatory to resumption of specie payments. This leads him to comment on the revenue aspects of the tariff. After denouncing the tariff because it interferes with economic specialization, he undertakes to develop the argument that raising revenue through import duties results in allocating the burden of taxation inequitably. As in his discussion of specie flows, his analysis runs in terms of the shifts in relative prices required to achieve a new equilibrium once something has occurred to change an existing pattern of resource utilization. Carroll unquestionably saw clearly the distinction between general price changes and relative price changes, and he certainly understood the importance of relative price movements in shifting from one equilibrium to another.

Carroll's explanation of why high interest rates and high prices occur together reminds one of Keynes' discussion of what he called the Gibson paradox.[19] It was Carroll's opinion that the explanation was to be found in the use of bank debt as currency. In order to get banks to acquire the paper tendered by businessmen, that is, to make more loans, higher interest rates are required. The additional money created in the lending process forces up commodity prices. Carroll thought in terms of a model in which interest is the price paid for debt claims. It will be noted that this approach to interest theory is employed by some contemporary theorists, and Carroll deserves credit for making an ingenious suggestion.

Carroll was tireless in blaming the Bank of England for introducing fractional-reserve banking, although he is careful to point out that at first the practice was restricted to note issue. In no less than twenty of his essays Carroll has occasion to speak harshly of the Bank of England for the part it played in demonstrating to the world that banks may operate with fractional reserves. In one place, as was noted earlier, he uses as the basis of his criticism the Protestant origins of the Bank, but ordinarily he attempts to rest his case on analytical reasoning. Carroll urges that there is no necessary reason for America to copy slavishly European financial practices, which on occasion he holds as unacceptable as European political practices. Here his American patriotism comes to the surface. Carroll was one of that group of midnineteenth-century Americans who saw a vision of a genuinely new social order. But Carroll was not above using European examples to bolster his case when that was convenient. The final essay, for example, lauds France for sticking to the use of gold coins as a medium of exchange. He was not always consistent, but few reform-minded persons are.

On two matters of banking theory which were widely discussed in the nineteenth century and which are still of interest, Carroll expressed himself with characteristic originality as opposed to the dominant view of his day. He ridiculed the idea that real bills are preferable to other kinds of bank assets, and he rejected the notion that elasticity in the currency is necessary. On both these matters the discussion is brief, but the clarity with which the subject is treated leaves no doubt that Carroll has a just claim to recognition. Here, as in his observation that a war debt's burden falls on the present generation, the treatment is such as to indicate that Carroll could see beneath the veil of money.

The editor may possibly be forgiven for refusing to say just where Carroll should rank among nineteenth-century monetary theorists. Clearly, if one may judge from the paucity of references to his writings, Carroll never became a major prophet. Along with a surprising number of other nineteenth-century Americans whose ideas are not markedly inferior to current thought, Carroll is known only to those familiar with the history of monetary and banking theory. But even such excellent studies as those of Mints and Miller leave one unaware of much that Carroll wrote.[20]

In his own time, his writings did not go wholly unnoticed, as is shown by the comments evoked from other contributors to *Hunt's Merchants' Magazine.*[21] Despite Carroll's vigorously expressed ideas on national financial questions, we have no evidence that he influenced public policy. Those who criticized his views are no better known than he is.[22] One obstacle to the wider diffusion of his ideas springs from the fact that he left behind no books. Any writer who limits himelf to essays in periodicals risks being soon forgotten. A further possible factor is that Carroll's ideas were both too orthodox and too radical. When explanations were sought for the financial distress after the Civil War, mass support could easily be mustered for programs that required no understanding of the subtleties of monetary theory.

Despite the apparent neglect of Carroll's ideas by his contemporaries, they are important enough to justify their being disinterred from the yellowed pages of the journals where the essays first appeared. Carroll's proposals for monetary and banking reform may have no greater chance of adoption now than when he wrote, but no one can deny that the financial problems with which he concerned himself are still unresolved.

One essay, "The Monetary Unit and Financial Economy," has been included in this book even though it lacks Carroll's signature. The paper that preceded it foretold its coming, and its content leaves slight doubt that it is from the pen of Charles Holt Carroll. Occasional changes of spelling and punctuation have been made to facilitate reading. Otherwise the text is unchanged.

To a number of people thanks are due for assistance in preparing this collection of the writings of Charles Holt Carroll. Deserving particular mention are: Mrs. Catherine J. Pierce, Duke University Library; Miss Rosalie A. Lang, Boston Public Library; and Miss Elizabeth C. Litsinger, Enoch Pratt Free Library, Baltimore. Valuable assistance was also rendered by members of the staff of the Library of Congress and of the New York Public Library. My wife, Glenna Sherman Simmons, assisted me in my efforts to trace Carroll's family background. Mr. Richard H. Nolan of Boston deserves special mention for his assistance in searching official records. My heaviest obligation, however, is to my colleague, Professor Robert S. Smith of Duke University, who provided wise counsel.

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Durham, North Carolina October 20, 1961

Notes

1.Cf. L. W. Mints, *A History of Banking Theory* (Chicago: University of Chicago Press, 1945), p. 161. An account of the ideas of the period is given by this author.
2.His parents were Jared Carroll and Elizabeth Holt. See *Charlestown Births [1779] 1800-1843,* Vol. II, pp. 22-23 (record deposited in Bureau of Vital Statistics, City of Boston). Until about 1800 the spelling of the family name varied among New England families. There were six younger children in the family.
3.The following directories list Carroll's name: *Matchett's Baltimore Directory,* 1829-1849/50; *The Boston Directory* (Geo. Adams), 1855-1860; *The Boston Almanac* (Coolidge and Wiley, Mussey), 1850-1860; *The New England Business Directory and Gazetteer,* 1856-1860; *The Cambridge Directory,* 1849-1863/64. *The Newton Directory,* 1871-1891, allows one to establish Carroll's whereabouts following his retirement.
4.Carroll's marriage is listed in *Cambridge, Massachusetts, Vital Records to 1850.* The birth of the eldest son is also given. The names of the other children (except the son, Howard, killed in the Civil War) are given in the will of Charles Holt Carroll, which is filed at the Middlesex County (Mass.) Courthouse, Cambridge, Mass. The eldest son, Charles Carroll, was graduated from Harvard College in 1853. In connection with the family's moving to Cambridge, it is interesting to speculate on the identity of the "Charles Carroll of Maryland" mentioned in an 1849 letter of Amos Lawrence. *See* William R. Lawrence, *Extracts from the Diary and Correspondence of the Late Amos Lawrence* (Boston: Gould and Lincoln, 1856), p. 276.
5.During the 1870's the *Newton Directory* lists the occupation of Charles H. Carroll as "merchant," but this does not ring true. No business address is given. Nor do Carroll's writings suggest that he was actively engaged in business after the early 1860's.
6.Leather dealers were numerous in the 1850's. Ninety-five names are given in the 1860 edition of the *New England Directory and Gazetteer* in its Boston section under this heading. Interestingly, Amasa Walker, whose ideas and Carroll's are strikingly similar in many respects, was of a family engaged in the leather trade. *See* Seth Bryant, *The Shoe and Leather Trade of the Last Hundred Years* (Boston: Author, 1891), p. 43. Whether

or not Carroll and Walker were personally acquainted is not apparent from Carroll's treatment of Walker's ideas in "The Currency Theories of the Day."

7.At his death Carroll's estate amounted to only a few thousand dollars, but this is not necessarily indicative of his financial position thirty years earlier. It is conceivable that Carroll may have experienced financial diffi culties before he retired but managed to preserve enough of his wealth to live in comparative ease. He makes so frequent mention of bankruptcy as to make one wonder if he himself did not experience it. The leather trade was very hard hit by the panic of 1857. Carroll himself mentions failures of leather dealers in "Financial Heresies." *See* "The New York Hide Mar ket in 1860," *Hunt's Merchants' Magazine,* XLIV (July, 1861), 42-44. There is, however, no direct evidence that Carroll failed in business. A search of petitions in bankruptcy filed before the Massachusetts Court of Insolvency at the Sussex (Mass.) Courthouse did not support the hypothe sis, but these records are not indexed and may not be complete.

8.This is somewhat confusing, for both the father and the son were writing about the same time. The father, however, always signed himself "Charles H. Carroll"; "C. H. Carroll"; or "C.H.C."; the son, simply as "Charles Car roll." The following items seem to be from the son's pen: "A Tramp with Tyndall," *Scribner's Monthly Magazine,* V (Dec, 1872), 182-190; "Paying Debts," *ibid.,* VI (Sept., 1873), 665-670; "Renunciation" (poem), *ibid.,* XII (June, 1876), 187; "Concerning Cheapness," *ibid.,* XIII (Jan., 1877), 314-317; "New York in Summer," *Harper's New Monthly Magazine,* LVII (Oct., 1878), 689-704; and "Narraganset Pier," *ibid.,* LIX (July, 1879), 161-177. *See also* Charles Carroll (ed.), *The Salon: A Collection of the Choicest Paintings Recently Executed by Distinguished European Artists. Edited by Professor Charles Carroll, Assisted by Rene Doloreme, Armand Sil-vestre, Gaston Boelschy, and Other Foreign Experts.* 2 vols. (New York: S. L. Hall, 1881). An obituary for Professor Charles Carroll appeared in the *New York Daily Tribune,* Feb. 16, 1889 (p. 2). This states that Charles Carroll wrote musical articles for the *New York Mirror* for the previous two years, that he was professor of German and French, and that he was versed in Latin, Greek, and Italian. That he had a scientific bent is sug gested by a long letter to the *New York Daily Tribune,* Oct. 9, 1881 (p. 5) concerning electrical machinery at an international exposition.

9.*Newton Journal,* Jan. 18, 1868, p. 2.

10.*See* Samuel F. Smith, *History of Newton, Massachusetts* (Boston: American Logotype Co., 1880); Lucy Ellis Allen, *West Newton Half a Century Ago* (Newton: Graphic Press, 1917); *The Mirror of Newton Past and Present* (West Newton: The Newton Federation of Women's Clubs, 1907). The leading family appears to have been the Aliens, who operated the Newton English and Classical School, which is described in *Catalogue of the West Newton English and Classical School, 1883* (Boston: Warren Richardson, 1883). One of the Carroll daughters, Bertha, is listed as a former student.

11.Carroll cites the following: President John Adams, Francis Bowen, John Gr Calhoun, Henry Ct Carey, Michael Chevalier, George S. Coe, Charles

D'Avenant, Thomas De Quincey, Thomas Doubleday, Ralph Waldo Emerson, Edward Everett, John Francis, John Fullerton, Albert Gallatin, J. W. Gilbart, Michael Godfrey, William Gouge, James Guthrie, Joseph Harris, Samuel Hooper, Joseph Hume, H. J. Klaproth, William Lawson, James A. Lowell, Charles Mackay, J. R. McCulloch, John Stuart Mill, Lord Overstone, Francois Quesnay, David Ricardo, J. B. Say, Adam Smith, Goldwin Smith, Richard Sulley, Henry Thornton, Robert Torrens, Amasa Walker, Daniel Webster, and David A. Wells.

12.*Catalogue of the Newton Athenaeum Library, 1871* (Boston: Kingman, 1871). It is possibly significant that only the first ten volumes of *Hunt's Merchants' Magazine* are listed in the catalog. *Bankers' Magazine* is miss ing entirely. Carroll's writings would thus have been entirely inaccessible to anyone dependent on the resources of the Newton Library.

13.*See* L. W. Mints, *A History of Banking Theory* (Chicago: University of Chicago Press, 1945), pp. 128-129, 135-138, 155-157, 161, and 298. *Also see* H. E. Miller, *Banking Theories in the United States before 1860* (Cam bridge: Harvard University Press, 1932), pp. 37, 53, 65, 71, 118-119, 140, 176, 195, and 229. Charles H. Carroll is not mentioned in Joseph Dorf-man, *The American Mind in American Civilization* (New York: Viking Press) in the sections on monetary writers of the nineteenth century in volume II (1946) or in volume III (1949). Nor is there any reference to Carroll in Fritz Redlich, *History of American Business Leaders,* Vol. II, Pt. ii, *The Moulding of American Banking, Men and Ideas, 1840-1910* (Ann Arbor: Edwards Brothers, 1951). Carroll's name is also missing from the standard biographical dictionaries.

14.Carroll's obituary in the *Boston Morning Journal* (Feb. 26, 1890) states that he wrote on bimetallism, but this has not been possible to substanti ate. Carroll showed no interest in this topic up to the last of the essays in this book, and when it appeared, he was eighty years old. I surmise that his health began to fail about this time. After 1879 the *Newton Directory* entries indicate that he was no longer head of the household.

15.H. E. Miller, *op. cit.,* p. 37 n. On the whole, however, Miller's appraisal of Carroll is not adverse.

16.*Bankers' Magazine* during 1859 printed several items about the Bullion Bank, one an article from the *New York Evening Post* which spoke in an approving tone. The prospectus for the bank, together with the names of the incorporators and the seventeen directors may be found in *Bankers' Magazine,* XIII (Dec, 1858-April, 1859), 409, 440-449, 757-760, 821. See also *Hunt's Merchants' Magazine,* XL (Feb., 1859), 203-204. Among the organizers of the Bullion Bank the name of George Opdyke stands out. On Opdyke, *see* L. W. Mints, *op. cit.,* pp. 127-131, 142-143, 146-147, 153-154. The observation that the bank never operated is supported by the absence of any record of its activity in the *New York State Banking Re port, 1860-1863, q.v.* (Four separate annual reports are contained in this volume.)

17.On the relation of Cassel's doctrine to nineteenth-century exchange rate theories, *see* Jacob Viner, *Studies in the Theory of International Trade*

(New York: Harper, 1937), pp. 379-381. It is not apparent from Carroll's writings to what extent he was familiar with the exchange rate controversies of early nineteenth-century England, but in many respects he follows the Bullionist and the Currency School views.

18. When Carroll was writing, it was customary to quote London exchange in terms of the Spanish dollar. This yields a par of $4.44. Illustrations of the computations involved are given in Thomas P. Kettel, "Mints," *United States Magazine and Democratic Review,* **XXVII (July, 1950),** 54-55.

19. *Treatise on Money* (New York: Harcourt Brace, 1930), II, 198-208.

20. A possible explanation may be the lack of a comprehensive index of periodical literature for the middle of the nineteenth century. Of the thirty-six papers reprinted in this book, only fifteen are listed in *Poole's Index to Periodical Literature.* Mints, *op. cit.,* lists **only ten** papers, none of which appeared after 1860. H. E. Miller, *op. cit.,* also lists ten, but three titles differ from Mints' list. Neither Mints nor Miller cites "Currency and the Tariff," although *Poole's Index* carries this title. Miller limited himself to literature up to 1860. It is not clear whether or not Mints and Miller examined Carroll's later writings.

21. *See* Henry C. Baird, "Considerations on Value and the Precious Metals," *Hunt's Merchants' Magazine,* XXXIX (May, 1859), 570-573; Richard Sulley, "Money or Currency in Relation to the Principles of Political Economy," *ibid.* (Oct., 1869), pp. 374-385.

22. Richard Sulley wrote numerous papers. He is mentioned briefly by H. E. Miller, *op. cit.,* p. 89 n.

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1

The Currency and the Tariff*

FREEMAN HUNT, Esq., *Editor of the Merchants' Magazine, etc.:*—

Dear Sir:—I ask the attention of your readers to some plain thoughts on the currency and the tariff, differing from those generally promulgated. Some misapprehension of the difficulty and the profound depths of the science of political economy, in its relation to these subjects, so intimately blended in their action upon the industry, commerce, and prosperity of the nation, appears to have oppressed the minds and embarrassed the arguments of most of the writers upon them. But the normal principle, that genius, intelligence, industry, and integrity are entitled to their equivalent reward, underlies the science of political economy; and it is the duty of every man who has a thought to spare, to give it voice, and claim for this principle its just prerogative in the institutions and policy of the nation.

We see that our commercial system is in a state of antagonism to this normal principle, or national law of industry and trade; and the most marked peculiarity of our history is found in the constant drain of the precious metals—the frequent mercantile failures, the severe money pressures, and consequent prostration of industry, and the violent and unjust transitions of property that succeed—notwithstanding the genius, intelligence, and unparalleled industry of the people. Nothing of this sort occurs to any

* Reprinted from *Hunt's Merchants' Magazine and Commercial Review,* XXXIII (Aug., 1855), 191-99.

comparative degree in any other country, and in some countries such events are wholly unknown.

It is the wont of businessmen to look widely abroad, or to dive deep into the unfathomable science of political economy for the cause of the frequent pressures and panics that disturb the trade and industry of this country. It appears to me that cause is near at hand—on the surface, and capable of a very simple illustration. Let me present one that I have already published elsewhere.

Suppose, Mr. Editor, that you and I, and Peter and John, and ninety-six others, form a community large enough for varied in` dustry and mutual support, engaged in the business of life. Peter and John dig gold, and we adopt the produce of their labor for our medium of exchange and measure of value. It is plain that the produce of their labor in gold will be exchangeable for, and will properly represent the same amount of labor in your magazine, my leather, our neighbors' corn or potatoes, or anything else. This is the just condition or natural law of this state of things. Of course, he who works the most intelligently as well as the most industriously, will accumulate the most property. There will be some oscillation from excess of production in some branches, and deficiency in others, but the margin of that oscillation will be limited, soon observed, and we shall return to the proper distribution of labor, with the certainty of the vibrating pendulum to its center. It matters not how much or how little gold Peter and John produce, it will serve our purpose equally the same, and prices will keep parallel with the quantity brought into or deducted from the currency.

Some of us now discover that we can live with less labor by banking. We obtain a charter, offer the security of a strong vault, and by this and other temptations gather all the gold in the community into the coffers of our bank. We then, according to the charter, discount notes and bills receivable, credit the proceeds of the discounts to depositors, and issue bank notes, till the deposits and circulation payable in specie on demand amount to three times the sum of the gold previously constituting the currency. How much does this operation increase our property? Nothing. It will inevitably increase prices and expand our obligations of debt on the same quantity of property transferred threefold. It will give us magnitude of name for everything, but of wealth not a picayune more than before.

Now, there is another community of one hundred men in a country accessible to us—they have their Peter and John digging gold—they have no bank of credit discount—nothing of money but gold—they have as much gold as we, but only one-third the sum of *money* to settle the balances of trade—their price of a day's labor is necessarily one-third of ours, and the value in money of all their indigenous commodities and property must be one-third of ours. We open a commerce with this community. Does any sensible man need to be told that they will glut our markets with their commodities—nay, that they will manufacture our raw material, and sell the product back to us, charged with only one-third the sum for labor that we must pay on our own similar production, and by fair and legitimate commerce drain us of our specie? This is no mere hypothesis. It is very much the condition of our trade with Germany. Notwithstanding our reputation for whittling, they whittle out penny-whistles and Nuremburg babies, and with them whittle our specie out of our pockets. We deal with France upon similar terms for silks and gew-gaws, and with every other country in the world to a disadvantage in the exact proportion that we have depreciated our currency below theirs by the issue of bank notes and bank credits, redeemable in specie, beyond the equivalent value of bullion. With equal industry, under equal conditions of labor, they can help themselves to our gold almost without stint; and no tariff within any collectable scale of duty could prevent this result.

I make this statement broadly, to show the principle upon which this system of discounting upon the credit of the bank virtually operates. There is great protection to us in the folly and weakness of other nations, rather than in our tariff or our wisdom, which we will consider hereafter.

Meanwhile, this Briareus sits in our midst, grasping with his hundred hands our whole industry and commerce. Sometimes he appears to be reinforced by his two equally hideous brothers, who were once buried by their father in the bowels of the earth, in disgust at their deformity, and the whole three hundred handed giants are "huddling in our necks with their damned fingers," tickling us into a fancy that the dollar is almighty, and teaching us, pagans that we are, to worship its graven image in a paper note. It is but a *kite*. We are charmed with its graceful sweeps and curves and gyrations in the breeze; but the first squall snaps the twine, and lands our paper deity in a distant field, where other boys as foolish and as fond as we, launch it again into the air, to be admired, and lost, and found as before.

The immense variations in the quantity of this delusive currency that we call money, the greater part of which is but a mere "promise to pay" money that has no existence, produce corresponding variations in the money value of property and debts, so that no reliable estimate can be made of property for any considerable period of time. There can be no reasonable reliance that the quantity of money which measures an obligation for six months will be anywhere at its maturity to discharge the debt; and this baffling uncertainty renders the trade of the country but little better than licensed gambling.

Statisticians demonstrate that only three to five of every hundred who enter into trade in this country pass through life without failure or dying in poverty. When we consider the opportunities thus afforded to the unscrupulous of grasping the fruits of the labor of others, the distress of the conscientious, the sufferings of families, the broken health and broken hearts thus occasioned, this fact is perfectly appalling.

Perhaps the mode of estimating the exports and imports by our currency may be the only practicable way of aggregating them for statistical purposes; but it is a very indecisive and unsatisfactory account of their quantity; for it is quite possible that the quantity may remain the same, while by name in money value they would be doubled, or *vice versa;* and the same is true, of course, in regard to the wealth of the nation. Inflations or contractions of the currency may double the figures at one period, or reduce them fifty per cent at another. For this reason, our tabular statements of commerce and of consumption per capita are wholly unreliable; they can be frequently impressed into the service of falsehood as well as truth, and made to prove anything or nothing, to accommodate the theory or the prejudice of the writer.

In the city of Baltimore I observed for about twenty-five years the variations in the value and rent of a warehouse in the most central position for business, occupied in the first instance by Mr. Peabody, the present London banker, at the annual rent of $750 per annum. It had been built upon a ground rent of $900 per annum four or five years previously. The owner had been compelled by the monetary crisis attending the operations of the branch of the United States Bank in that city in 1819 to relinquish it to the owners of the ground, who, with one of the finest warehouses in the city added to their property, could not obtain for it within $150 per annum as much as they had before received for the ground alone. Flour at that period was worth $3.75 per barrel, so that 200 barrels of flour would represent the yearly rent of that warehouse. In the subsequent years during which it was under my observations, the rent increased from $750 to $2,000; and it is an instructive coincidence that at each new lease, 200 barrels of flour nearly or exactly represented the price of that rent, varying as it did in money, and increasing nearly threefold. No doubt that rent is worth nearly or precisely 200 barrels of flour to-day. This ought to show the little reliance to be placed in tabular statements of property in money, with our defective currency. The property in this case is unchanged, excepting by the depreciation of age. It is a warehouse, costing a certain amount of human labor and ground, in the same central position in regard to trade as at first. It is the same wealth, and nothing more. Yet a tabular statement of the property of Baltimore would contain this item at three times its value in 1823. Certainly flour is not a very stable measure of value, depending as it does upon varying crops and an uncertain foreign demand. Nevertheless, it is more reliable for long contracts than money, under our system, as this illustration demonstrates. The builder and owner of the warehouse in this case was wronged; he was despoiled of his property by our money system, and others possess the fruit of his labor without having granted any equivalent therefor. Every other city in the Union can furnish similar examples of this inaugurated iniquity.

Of what avail, then, is the provision of the Constitution of the United States that "Congress shall have power to coin money and regulate the value thereof," or the negative provision, that "no State shall emit bills of credit, make anything but gold and silver coin a tender in the payment of debts, or pass any law impairing the obligation of contracts"?

The value of money is *regulated to disorder,* to the impairing of contracts, and to the confusion of all just ideas regarding the rights of property, as effectually by the powers exercised by the States in granting bank charters, with authority to issue "bills of credit,"—for bank notes are nothing less nor more—and those bills are as effectual and forcible a legal tender in practice as if the several State Legislatures passed direct laws upon the subject at every session, or even authorized the issue of base coin. And the following strange anomaly or rank absurdity presents itself to every ingenuous mind disposed to consider language to mean what it says:—

"A principal authorizing a thing to be done, does it himself, and what a principal cannot do himself, he cannot authorize to be done." This is good law and good common sense; in defiance of which, and in defiance of the plain provisions of the Constitution, we find the States creating banks, authorizing the issue of notes—bills of credit, in fact, and nothing else—and directly emitting bills of credit in the form of bonds themselves. I am aware that special pleading has proved to the satisfaction of many minds that these bank notes and State bonds are not bills of credit within the meaning of the Constitution, and I once saw a letter to this effect from Mr. Webster to Mr. Peabody, of London, who with others entertained some scruples in regard to the validity of State bonds. I suppose it satisfied Mr. Peabody; it did not satisfy me. If the bank notes and State bonds are not bills of credit, it is impossible for a candid mind to determine what else they can be.

In the matter of State debt, which I believe is one difficulty in the way of the interpretation of this part of the Constitution, it seems to me that a sufficient voucher might be provided by entering the amount subscribed to a loan in a book in the hands of the creditor, after the manner of our bank deposits, and by transfers on orders from the creditor, recorded in the books of the State Treasurer. There would seem to be no constitutional objection to this; but in regard to the "bank bill of credit," that huge power of evil, a traveling tinker among the currency, changing values all the time, causing violent transfers of property, a constant discouragement to the conscientious, enterprising merchant, urging the unscrupulous and cunning to dash boldly forward and occupy, to the exclusion of better men, the avenues of trade, the great source of poverty and distress to honest, industrious men and their families, and, finally, the cause of broken hearts, recorded in the bills of mortality under every name but the true one; it should be utterly repudiated and abolished, along with the credit deposits that belong to its system.

In our government scheme of finance, for raising surplus from impost duties, we must meet a struggle of opinion between the advocates of the principles of protection and revenue, so purely political and partisan, as to blind the opponents to the plain facts that lie at the bottom of all prosperity, whether of the individual, the family, the community, or the State. This prosperity rests upon the free untaxed labor, genius, and intelligence, of the people; and the less the government has to do with it the better. One man working ten hours of the day, and exchanging his surplus produce with another, working with the same intelligence and industry only seven hours of the day, must bring the latter in his debt, if both are equally prudent in their consumption, and exchange their products on an equal measure of value. This simple fact we lose sight of in our arguments upon the tariff question. There cannot be a doubt that the labor of the people of this country, with their power of machinery and unequaled general intelligence applied to the production of wealth, is in the ratio of ten to seven of that of England, the next most favored nation of the world, or even greater. We need no protection against such weakness, and we should ask of the government no teaching, only protection for life, liberty, and property, and the smallest possible tax of any kind. The principle of protection applied to the tariff, is in my opinion, a chimera; and it is clearly a method of inflating prices, and checking exports; thereby increasing the evil it was designed to remedy; causing the export of specie, the returns of which come to us in luxuries and manufactured articles, in competition with our home industry. If I pay my neighbor for his home-made article more than the foreign one would cost, I charge him the more for my labor in return, and we reciprocally raise prices on each other, and on all other producers, and thus aid the credit banking system to raise the prices of all commodities, till their export becomes unprofitable.

In a recent controvery upon this subject I took occasion to present the following proposition. Suppose it costs you $600 to maintain your family for a year, without any tariff on your cotton and woolen cloth, tea, coffee, and other necessaries; and during the year you can produce flour and potash, that can be sold for export to England at the extreme limits of $650. What will be your condition and that of the export trade, if, by reason of a tariff on the necessaries consumed in your family, your living is made to cost you $700? You could not afford to sell your produce at the exporter's limits of $650, and would not be likely to do it. England would procure her supplies from the Baltic ports or elsewhere, and draw on us for $650 of specie that we should otherwise pay in flour and ashes. This principle must run through the whole field of domestic labor, as I view the subject, and through all the ramifications of trade: therefore it appears to me the lower we can keep the duties the better. My correspondent replies by another question that covers the whole argument for the protective policy, so called. "If," he says, "by the aid of a tariff we create a home market, that enables you to realize $800 for your flour and ashes—how then?" Why then, I rejoin, it is nonintercourse and nothing else. But the export of such specie and the receipt of such commodities as will and must come to buy it, for if our usual products cannot be exported by reason of their high cost, it is plain that we must sell our specie or our foreign trade is at an end, and the industry it fosters is at an end with it. It would be a severe tariff, the scale of which its advocates have never measured, that under the operation of our system of inflated prices would prevent the importation of foreign products, more than sufficient to drain us of all the specie we could well spare, and run us in debt for a large balance into the bargain. The true policy under this supposition would be to have a nonintercourse act at once. This would at least save to us the California gold. Nonintercourse, embargo, and war, first established our cotton and woolen manufactures, and nothing else will sustain them if they are not sustained abroad, for the tariff does not help us.

I have no prejudice against the tariff policy. Badged with the log cabin, drilled in the Whig procession, fed with hard cider, and taught to consider hard money and free trade devices of the enemy, my prejudices and my reading have been all the other way. I read the *Tribune* dutifully still, and have never voted any but a Whig ticket, but the issues of that party are dead, and the party is dead along with them. There has been time for some calm consideration and independent thought upon the subject, and I make no doubt that ere long, most practical merchants will agree with me, that the protective tariff policy, and paper money, are both mistakes that need to be rectified.

I do not now propose to examine the question of a revenue tariff: but I must say that I cannot see its justice. I cannot comprehend why the producer with a large family, who must necessarily be a liberal consumer of foreign products, and who is apt to be a poor man, should be taxed more than a wealthy *unproductive* bachelor, or a wealthy childless man, or as much as any wealthy man, who consumes less or no more of foreign products than he. It would seem therefore, that the more equitable mode of raising revenue for the government would be by direct taxation.

Our true and efficient protective tariff is the intelligence, enterprise, industry, and integrity of the people, to which nothing in the known history of mankind bears any comparison, and the folly and weakness of Europe. These are our protection and our strength.

With the people of Europe war is the most honorable employment and the chief business of life, requiring and using the strongest men; and it operates with a more than twofold power against the resources of the nation. It changes an able producer to an exhausting consumer. It employs large numbers of the population in furnishing food and material for the army, and the labor and the cost of supporting men, women, children, and brute animals thus employed, are lost to the accumulative power and wealth of the nation. Judicious writers assert that no nation can carry on an aggressive war for any considerable period that shall require for its army more than one-fifth of its able-bodied men, the remaining four-fifths being indispensable for the maintenance of the army abroad and the mass of the population at home.

"In peace prepare for war," is the motto of all Europe. Accordingly, we see the nations bristling with bayonets in time of profound peace. It is a common idea that extravagance is the reason of the balance of trade being so generally against this country, and the cause of our commercial embarrassments; but there is nothing in it. Exceptional individuals there are who are extravagant, and spend more than they earn; but, as a whole people, we earn and pay for all the elegancies and luxuries we enjoy, and have abundant means left. No nation on the globe is so little extravagant as our own, in the true sense of that term.

But war is an extravagance. A standing army in time of peace is an extravagance. The army of France, which I think rarely falls below 400,000 men on the peace establishment, is a plaything more costly and exhausting to the resources of the nation than all the gay equipages, rich furniture, silks, satins, jewels, operas, and the other baubles that furnish interest and amusement to all the vain men and frivolous women in our land; and from these the principal nations of Europe are no more exempt than we. A privileged aristocracy, exempt from labor; an established church, costing, as in England, $35,000,000 per annum; a cumbrous mass of pauperism—all these are extravagances, the results of an old and decaying civilization, from which we, as a nation, are almost wholly free. Our comparative exemption from these, and the intelligent industry of the masses of the population, promoted and secured by our common schools, are carrying us forward to a height of power and prosperity, and with a rapidity such as the world never before saw equaled; and we are teaching the world with emphasis the important lesson for human happiness, that *peace,* not *war,* is the true mode of securing power, and the true policy for mankind.

Nevertheless, we *exploiter* each other in our business relations at home, and we fritter away a considerable portion of our productive labor for the benefit of other nations. With a productive power in proportion to our consumption, constantly applied, equal to 10 to 7 at least of the next most favored nation of the world, the balance of trade is almost constantly against us. True, we can spare this balance, and have the means of prosperity left, but it is wasted on wars and on objects foreign to our interests, or to the advancement of mankind. We should do better to keep it at home.

The explanation of this apparent paradox, this constant unhappiness and continued prosperity, is before us in the inflated, staggering currency, which is never anywhere in a reliable position twelve months at a time, and in the never-ceasing industry of the people. The tariff is of secondary importance.

It remains to consider the remedy for the evils we experience. This is a matter requiring the careful consideration of our merchants. As a class, it appears to me they have unaccountably neglected a subject easy of comprehension, the right understanding of which is of vital importance to their prosperity, and to the general welfare of the nation.

It is a trite remark, that it is easy to point out an evil, but not so easy to devise a remedy. Perhaps it may be a sufficient answer to this to say, that an idea must be created before it can have power to discover or enforce its remedy; and I think the true idea in regard to the currency has yet almost to be created in this country. The evil is the offspring of State legislation; and most men look to legislation for the remedy. The efforts of several of the States to pass laws to suppress the issue and circulation of small bank notes, are in the right direction. Such laws have been passed in several of the States, but are effectually enforced, I think, only in Maryland and Virginia; they have had a most beneficial effect in strengthing the currency of those States, and none passed through the money pressure of the latter half of last year with so little inconvenience or suffering.

But it would be impossible to get a uniform system of legislation in the several States upon the subject. An attempt to pass a law in the Massachusetts Legislature at its last session, restraining the issue and circulation of small bank notes, was defeated by the selfish interest of the members, many of whom, and some of the members of the banking committee, were bank officers or directors, and by the general ignorance of the whole, who were satisfied with the shallow idea that a one-dollar note will buy as much as a silver dollar, and they seemed to think that it would be an affliction to carry the weight of specie in their pockets. But such a measure, if adopted by all the States, would be only an alleviation —not a cure.

The true remedy I conceive lies with the people, and more immediately with the merchants in their individual capacity. If any number of merchants in New York or Boston would realize one or two millions of dollars in coin, and establish therewith a "mercantile treasury," it could, I think, be so directed as to become the nucleus of a power that would shortly reform the whole system of the currency of this country.

There are men in New York, and in every other city and community, thank heaven, who can be trusted. We know them and we trust them now. Their note is as good as any bank note of the best quality, and their word is as good as their bond. If such men would establish an institution or commercial firm of this character, manage it themselves, pledge themselves to each other and to the public, to receive, pay, and loan nothing but specie or the precious metals—unless it might be desirable to the public for the convenience of portability, to receive certificates of deposit, and never to issue one dollar of that description unless for the equivalent coin retained in hand—it could be made a substitute for our savings banks, that are now little else than satellites of the other banks of the credit system. They could borrow money at four, and loan it at six or seven per cent; they could charge a commission on accounts, loans, or transfers; they might deal in exchange, perhaps make advances for a commission on bullion or plate deposited; and other sources of profit might be found in the practical working of the institution to remunerate the proprietors. But it would operate with power, I think, in the correction of the evils of the present diseased currency, by keeping in check the issues of the banks of the credit system, for whose notes, to the extent of its operations, it would substitute specie.

It is a circumstance generally unknown or unthought of, that when the alarm in regard to the Provident Institution for Savings in Boston took place last fall, in consequence of the fact becoming known to the public that the institution had invested largely in the stock of the Webster Bank, the deposits in that institution and the other savings banks in the city and suburban towns, amounted to between eight and nine millions of dollars. They had nothing to pay out but notes of the Boston banks. The whole sum of specie in those banks was only $2,400,000, and they had before as much as they could do to take care of themselves, their customers, and their circulation previously issued. New York was as much pressed for specie as Boston. There was no resource for an immediate additional supply. In this emergency, a Catholic priest and a wealthy Irishman addressed the assembled multitude, who were clamoring for the return of their deposits, assuring them of their safety; and the excitement subsided. It was full time. Such a state of things is preposterous, and should carry a condemnation of the system that produces it.

The reduction in the quantity of money, and the fall of prices that would follow the substitution of coin for our entire paper currency, I have not now time to consider. It may form the subject of a future article; but it may be well now to say that great misapprehension exists concerning this. The change would be almost entirely a substitution of the one for the other, and not a great reduction in quantity to cause a general or disastrous fall of prices in this country; for the balance of trade is legitimately in our favor, as I have already demonstrated, to secure the coin to any desired extent as soon as we shall require its use. No nation in the world could exchange products with us on a specie, or any other equal measure of value, without falling in our debt. This is the explanation of the early and entire success of the subtreasury that politicians supposed would require and absorb all the specie, and break every bank in the United States. That admirably devised scheme of finance now retains in the country twenty or thirty millions of dollars of specie that would inevitably cause inflation, fluctuation, and widespread disaster, as before, and would disappear like magic, if the government funds should be again committed to the custody of the credit banking system. That money alone, in my opinion, preserved our banks from a general suspension of specie payments during the recent pressure.

In the present delusion of the public mind regarding banks, the system of expansion and inflation cannot stand still. The establishment of a bank is generally considered, in a country neighborhood, equivalent to the creation of wealth to the sum of its capital at least; and the legislature cannot equitably refuse a loan so valued, and already so freely granted, to any town that may petition for it. More capital, more capital, is the constant cry. Everyone thinks it necessary to provide more money for increasing prices and increasing demands. Nobody thinks of the natural remedy for a deficiency of money—lower prices, till they fall in an avalanche on all the property touched by the magic finger of the idolized bank. The sapient member of the Legislature, a duality of statesman and bank director, says a bank note will buy as much as the specie. It is money, in his opinion, real money, therefore the making of a bank is the making of money; and so we apparently go ahead, but really *advancing backwards;* and so we must go, so far as I can see, if we depend on legislation, till the bubble bursts in a general suspension of specie payments. Then will a specie deposit bank, or an institution such as I have described, be the only one having character or capacity to do anything; and then will its merits commend it to public favor in a manner that will probably put an end to the present credit banking system in this country forever.

Now, a "mercantile treasury" of this character might place and keep in circulation, in coin, a large portion or all of the money usually held on deposit in the "savings institutions," so called, which serve at present in a great degree as a means of inflation in other banks, and it could not be pressed for its engagements. It would substitute the thing promised to be paid for the mere "promise to pay," and it would be a public benediction.

I am not alone in this opinion. A new sentiment wholly independent of politics is fast growing into importance, that would rally around and sustain any reliable institution established to give it practical effect.

2

The Gold of California and Paper Money*

Freeman Hunt, Esq., *Editor of the Merchants' Magazine, etc:—*

The admirable article in the May number of your *Magazine,* on "the Gold of California," by the Hon. Thomas G. Cary, of Boston, deserves the careful attention of all who desire information as to the great movements which operate upon the commerce of the world, and influence the life and well-being of individuals and the nation. Gold is a lever of immense power in moving the fabric of society, the action of which should be understood by every businessman, at the cost of some study, for a higher purpose than his own immediate traffic or selfish ends. The custom of ages has so identified gold with money, that we have come almost to consider it as nothing but money. As money it is in everybody's thought, on everybody's tongue, and in many hands; but thought about, talked about, and desired as it is by all, it is as little known, or as poorly comprehended in its character of money, as if it had been appointed to that office by the present Congress of the United States. It is said that we, of this country, worship the almighty dollar. Surely, it is best to know whether our deity be a God or a devil.

Much has been written about gold since its discovery in Cali~

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fornia; but most of the writers have so involved the subject in the metaphysical mists of political economy, that common men can derive very little assistance or knowledge from their labors. It is, therefore, refreshing to meet with a good, plain, comprehensive essay, like the one in question, adapted to the purpose of instructing the many, and to the many I commend it for its practically plain teaching, and generally sound doctrine.

The purpose of Mr. Cary appears to be, mainly, to explain why the anticipations of a great rise of the prices of all property, from the influx of gold, have not been realized, and to show that gold is not an important addition to wealth, excepting as it is used for utensils or ornaments, or *necessarily* as an instrument of exchange.

With reference to the anticipated rise of prices, he relates the experience of a "merchant of sagacity," who, having $100,000 employed in loans on short time, invested it in property, from an apprehension that the influx of gold would reduce the rate of interest, and raise the price of all kinds of property rapidly. Sagacity is a relative term. We may not doubt that the merchant in question possessed the attribute in the comparative degree in this community, where so little is known of the true character of money, that we suppose its efficacy to be improved by adulteration, and its strength increased by weakness; but his sagacity failed him in this instance. The stocks fell, while interest rose and ruled high—8 to 15 per cent.

If he had carefully examined the history of money, and compared the periods of high and low prices in this country and elsewhere, he would have discovered that interest is always high when and where the prices of property are high. In other words, interest is always dear where money is cheap. Gold runs away from those countries where interest is high, to countries where interest is low, and flies from paper money as mankind flee from a pestilence. We can do nothing so effectual to raise the rate of interest, as to increase the quantity of money, whether metallic or paper; but more especially of paper, for that is debt, having the preference of every other debt. It is the debt of institutions holding the purse-strings of society; in every adverse state of the exchanges, turning the screw upon all other debtors, and raising the rate of interest with irresistible power. California furnishes an example of a high rate of interest, with a plenty of gold, and consequent high prices of property. Our Atlantic States, where money is made plenty with paper, come next, and the rate of interest continues to decline, successively, in England, France, &c, to those German States and the Eastern countries, where money is the least abundant, but exclusively metallic and most valueless; and the precious metals are traveling in the direction indicated by the declining rate of interest with the steadiness that belongs only to the operation of a natural law.

Mr. Cary very justly says, that "currency, like water, seeks a level, and the gold of California becomes mingled with the metallic currency of the world. If prices rise here, because our gold is falling below its value in Europe, some of it will be taken away to Europe till prices will cease to rise with us." Plainly, gold will go where it is worth the most, and the only way in which the worth of gold can be measured or determined is by the general price of commodities and property. This fact is rendered somewhat obscure to many minds by the term *dollar,* which means but a given weight of gold or silver. If we fix the mind upon gold by the ounce, and consider the exchanging of it for cloth or cotton as simple barter, which in fact it is, we shall find that having on hand cotton, corn, ashes, gold, copper, lead, silver, &c, that commodity will be taken for export which is the cheapest here and the dearest abroad, and we thus better comprehend that the dollar, being but a commodity consisting of 25 ‰ grains of gold, must follow the same law.

If 20 bushels of corn, 1 ounce of gold, 100 pounds of copper, and 5 yards of broadcloth, are equivalent value in England, and the English merchant having broadcloth to sell here, can lay down in England 21 bushels of corn, or 101 lbs. of copper, or 1 ounce of gold for his 5 yards of broadcloth, he will leave the gold and take the corn and copper. If he can obtain 1 oz. 1 dwt. of gold, but only 20 bushels of corn, or 100 lbs. of copper for his cloth, he will take the gold. Either of these articles is virtually the measure of value of the others; 20 bushels of corn being, in the case supposed, as truly the value of 1 oz. of gold, or 100 lbs. of copper, as 1 oz. of gold ($18.60 in our coin) is the price of 20 bushels corn, and so of the rest. Therefore, if by reason of our increased supply of either of these articles more of it is required to be given in exchange for the other than before, that article has fallen in value, and if it be cheaper here than in England, by more than the difference of cost of transportation, it will be exported to England, and it will be distributed to the ends of the earth on the same principle. There is no magic in gold to release it from the operation of this universal law. The average rise of prices and fall in the value of money, are, consequently, one and the same thing, and must permanently bear a just relation to the increase of the precious metals upon the stock of the world.

What the sum of this increase, and consequent rise of prices may be, Mr. Cary does not indicate; and I think the reader might infer from his essay, that the rise of prices has been very small, but a careful comparison of the prices current of 1849 and 1856 seems to show that it has reached 20 to 25 per cent on the prices of 1849, as nearly as such calculation can be made, including real estate and rents.

Bringing the estimates of Humboldt, Gallatin, and other reliable authorities, down to 1849, when the California gold came into commerce, the whole stock of the precious metals appears to have amounted at that time to about $500,000,000 in the world. Since that period, the increase for the whole world cannot greatly have exceeded an average of $150,000,000 per annum. Allow the excess for abrasion and contingent losses, and the increase would amount to 3 per cent per annum; this compounded for seven years gives an increase of 23 per cent.

Dry hides, a large and important article of commerce, have risen during this period in this country from 8½ to 26½ cents per lb., and in like proportion in all other commercial countries. Store rent in favorable locations is 100 per cent, and flour and grain were, when Mr. Cary's article was penned, about 50 per cent higher than in 1849. Now, if some things have risen so enormously, it follows that other things cannot have risen at all, and some may be worth even less than in 1849; otherwise the sum of money, with only 23 per cent increase, would be insufficient to settle the balances of trade. This deviation of value, among the various commodities, in relation to each other, may be caused by speculation, but it is usually the result of the common law of consumptive demand and supply. Money always finds customers, because of its power to exchange readily for everything else; consequently, there is no limit to price but the limit to the quantity of money. If one commodity rises, another must fall, to make room for it in the currency; and if one falls, another will be sure to rise, for, with rare exceptions, the great mass of the currency is always in use or in immediate demand. But deviations of this sort occupy public attention too exclusively, almost totally obscuring the effect of the expansion and contraction of the currency, exhibited in the aggregate rise and fall of the prices of property in relation to money, a vastly more important matter, causing more rapid and extreme deviations of price, and involving the consideration of the proper administration of the monetary system of the country. But such extreme deviations could not occur from the use of specie alone.

Obviously, the increased supplies of gold, coined into money, become mingled with the currency of the world, and prices will be averaged accordingly.

Precisely the same consequence results from the increase of paper money; fitful and mischievous only—never permanent anywhere, because, being nothing but debt, it cannot be long sustained beyond the sum of specie property belonging to the local currency with which it mingles.

The simple illustration before presented in the exchange of corn, gold, copper, etc., which some may think too simple to offer to an intelligent reader, is of the greatest significance, for it proves conclusively that we do not have any permanent accession to the currency, by reason of paper money. All we can use of paper and of credit discounts on deposit, *permanently,* must occupy the place of the same amount of specie, thereby driven abroad, the export of which takes the place, and prevents to the same extent the export of corn and of flour, that sour on a glutted market at home, or of other exportable commodities, the production of which would furnish profitable employment to the laborer, and give use and value to land and other property, now neglected, and perhaps unknown. More than this can only be put in circulation *temporarily,* to be cut down by the more lively outpouring of gold, till the currency is again reduced to the amount required within the specie measure, and the amount of paper thus remaining and substituted for specie, costs the labor of the country interest, and something more for the benefit of the banks—robbing Peter to pay Paul—while the use of specie would be a common benefit, costing nothing beyond the labor of its production, which must be supplied in either case. When the export of gold entirely ceases, we may reasonably conclude that the average price of merchandise is at specie value here, and the amount of the currency the same as it would be if no bank note or credit deposit existed.

Mr. Cary considers that gold is not an important addition to wealth, with the qualification, "excepting as it is used for utensils or ornament, or necessarily used as a mere instrument of exchange." As he admits that we had gold enough for all such purposes before, it follows that he does not consider the present increased supplies of gold any important addition to wealth at all. He does not state this as distinctly as could be desired, but his illustration of this point is good, and to the purpose. "The blacksmith and the carpenter contribute largely to the wealth of the community, but the head and the hand of the artisan are not wealth, however they may be productive of it, although the hammer and anvil, with the saw and plane, are also wealth to the extent of the necessary cost of such tools. But if the smith should spend his substance in procuring fifty or a hundred anvils, when his business required only the use of one, and there was no market for the rest, he would hardly be thought to have increased his own wealth or that of the community by the addition." This, it appears to me, is precisely the principle of our doings in California.

There is a distinction generally unnoticed or unknown, that it is most important to observe for the proper understanding of this matter, namely, the difference between *value* and *price.* Value is the power of a commodity or of property to exchange for other property, and is in the compound ratio of the utility and scarcity of the property valued. Price is simply the power of property to exchange for money. A bushel of corn at $1.00 is of equivalent value with 5 lbs. of butter at 20 cents per lb., or 10 lbs. of lead at 10 cents per lb. Now, if the quantity of money should be doubled, while the supply of and demand for the other articles remained the same, their price would probably be doubled, but their value would remain unchanged, for each would exchange for the same quantity of the other as before, and for the same quantity of all other property as before. Either would purchase double the quantity of money; but as we could neither eat, drink, nor wear the money, nor do anything with it but exchange it for other property, the sum of $2.00 would be of no more value than $1.00 was before. Money, then, would have fallen in value 50 per cent, but property, though increased in price 100 per cent, would have no additional value; for it would not, by reason of the greater price, supply an additional human want. Obviously, then, the mining of gold in California is labor lost to the country and to the world, so far and so long as its product is used for money; and its use for ornament and utensils, being for the gratification of luxury or vanity, is of the least possible consequence; therefore, we may safely conclude that the universal supply of gold is not an important addition to wealth.

Thus far, excepting the matter of paper money, which is not embraced in his essay, I accord with Mr. Cary fully. But almost every subject admits of an honest difference of opinion, and I find room in this for such difference from some of his opinions.

He thinks the high prices said to be caused by gold are more properly attributable to the emigration to California, which diminished the number of valuable laborers here—to wants of flour and grain in Europe, and to two years of unusual drouth here. The two latter are good reasons for the enhanced price of particular commodities, and so far as their increased price taxes labor it would affect in some degree other property, and raise its price, but not, I think, to a great extent. They are the ordinary fluctuations of value from variations of supply and demand. There must be a large increase of money to supply any considerable general increase of the prices of all property, or the enlarged balances of trade must produce bankruptcy. But as to the emigration, I think it could have had but a very temporary effect upon prices, if any at all.

A small community may be able to produce property as cheaply as a larger one. The element of consumption combines with production in determining the economy of labor, and the wealth of individuals and nations. Every man has all other men for his competitors in production and traffic, yet by industry and frugality he may keep the balance of trade in his favor and accumulate wealth.

And here let me travel a little out of the record to correct a common misapprehension. It seems to be forgotten or disregarded by most thinkers on the subject, that the labor of every community vastly exceeds what is required by the necessities of life. Probably one-twentieth part of the labor performed in the United States would feed, clothe, warm, and shelter the whole population, and perhaps put us in possession of all the plain comforts enjoyed by the community of Shakers; the remainder, of nineteen-twentieths, goes to the support of luxury, pays for silks, satins, and jewels; for war and intemperance; maintains the government; builds palaces and monuments; creates beauty and refinement; supports religion and literature, idleness and pauperism, theaters, fiddling and dancing, and folly in general. Some persons have been startled at the statistics of intemperance—its enormous cost. Why, we very wisely spend one day in seven for the sabbath of perfect rest. We might institute another sabbath of bacchanalian orgies, and most unwisely rest another day of every seven in the gutter, pay for the necessary liquor, and have abundant means left, not only to support the whole population, but to keep the balance of trade with other nations in our favor, if we would traffic with them in an equally valuable currency.

The measure will not be recommended by me, nor obtain my support; but there is not a nation with whom we hold commercial intercourse, that does not waste in war, ignorance, idleness, and in the support of abnormal institutions, contrived by the cunning and established by the strong to compel a luxurious and profitless maintenance from the hands of labor, more than such a bacchanalian sabbath would cost, over and beyond any waste or idleness here. We are not wholly without such abnormal institutions, but they are comparatively few and harmless. The worst among them is our banking system, which substitutes debt for useful, constitutional currency, as I have already shown, and gains its support and profit from the labor of the country, for doing nothing but mischief.

No nation known to history has ever been so generally industrious, or applied so much intelligence and power to the creation of wealth in proportion to population, and the result is manifest in the most rapid and vigorous material progress the world has ever witnessed.

"Large numbers of people left useful occupations here, and went to California for gold. Probably 50,000 men," in Mr. Cary's opinion, "whose labor was of great value, left with this object. But many vagabonds went with them, who were no loss here, and did nothing but mischief there." I can conceive that the sudden withdrawal of many valuable laborers may have temporarily enhanced the price of labor in the trades they deserted, but their places were soon filled; some departments of less profitable labor supplied the trades that paid best. Boys are growing to men all the time, and such matters soon regulate themselves. Under such circumstances, we might have for a time a smaller community, less consumers—profitably less so far as the vagabonds are concerned—as well as less producers; and there would be a diminished supply of articles of the least necessity—luxuries probably—perhaps fewer fiddlers, players, or organ grinders, but there would be "a few more left." It is impossible to employ the whole population in productive labor; they would soon overstock the market with useful things, and then some would be obliged to take to fiddling to gain a living and make themselves useful as consumers. This would seem to be all the effect the emigration to California could have produced here. I cannot think it had any but a momentary influence upon prices. I must therefore differ from Mr. Cary on this point, and conclude that the high prices are solely to be attributed to the increase of gold, disproportionate with the production of other capital.

He thinks if such were the fact that money should be more abundant than it is, and the rise should be nearly uniform. Paradoxical as it may appear, the more money we have in this country the scarcer it is, according to the common mercantile idea of the scarcity of money. The currency never was so full before as in 1837, when money became so scarce that the banks of the United States suspended specie payments. Speculation and overproduction grow with the increase of money; prices rise so that we become large buyers, but small sellers, in our foreign trade. The demand for money outruns the supply, no matter how great the supply may be, and competition keeps up the prices to the full measure of the currency. Overproduction, which should reduce the price of its special commodities, furnishes merchandise for speculation. When the currency is increasing, perishable articles are held till they decay. At such time the producers or holders of breadstuffs in the West always expect prices higher than the highest, and corn and flour sour before being thrown upon the market. They tell the jobber in the city that they cannot pay because they have not sold their wheat, and the jobber extends the credit because he can get a discount at the bank—fly kites—and pay an old debt with a new one.

Thus the demand for money is the greatest when money is really the most abundant, and debt is increased, creating customers for money and disquieting the whole community. Nobody is benefited by this state of things, but the bank-owner and capitalist; they get the best security and the best pay, and when settling day arrives, the banks, being themselves the great debtors of the community, control all the money and take care of themselves. Their bank notes and deposits, which we have been foolish enough to consider and use as money, now show themselves in their true character of preferred debt; it must be paid, and the contractions of bank "accommodations" necessary to enable the banks to do this, and the consequent reduction of the currency, must continue till the value of money is increased, and the prices of property reduced to the true level of specie measure. At any appreciable amount below this point merchandise will be received by creditors in preference to specie. It begins to pay to export merchandise again, and having settled among ourselves the whole sum of the contraction by bankruptcy, we make haste to forget it and the widespread misery it occasioned; the newspapers read us a few wise lessons on the subject of overtrading—the great benefit of such painful experience—say a good deal about the prudence that is now to regulate the concerns of trade, and then we are driven by the system (it is a mistake to suppose that we go voluntarily) round the same unhappy circle again, grinding the masses to poverty, and filling their hard earnings into the coffers of those who manage the currency.

What Mr. Cary means by the greater or less abundance of money is, doubtless, the common understanding of the term on 'Change, as I have here considered it, that is, more or less plenty in relation to the demand. It can hardly be supposed that, according to the natural law of the case, which he understands so well, that "currency, like water, seeks a level," he would expect any greater increase of currency in the United States than has already taken place.

For the reader's information respecting this I furnish the following comparison between the two periods of 1849 to 1856:—

In 1849—Bank Circulation, ...	$114,743,415	
" Deposits, ...	91,178,623	
Specie in Bank, ...	43,000,000	
" Circulation,.........	77,000,000	
Total of Currency in 1849, ...		$325,922,038
In 1856—Bank Circulation, ...	$177,157,412	
" Deposits, ...	237,964,981	
Specie in Bank, ...	60,000,000	
" Circulation,.........	190,000,000	
Total of Currency in 1856, ...		$665,122,393
Excess of 1856, ...		$339,200,355

The specie estimates are taken from the Report of the Secretary of the Treasury.

This is an enormous increase of currency—over 100 per cent in seven years—a greater ratio than ever before, excepting for the seven years prior to the disastrous 1837; and notwithstanding the great influx of gold, it indicates, in my opinion, a state of inflation. The gold received, instead of passing into the currency, is used as the means of expansion by the banks, their debt to the community being increased, and the specie thereby expelled. As we see by the above statement, they hold but $\$14\frac{43}{400}$ of specie for \$100 of immediate liabilities. In 1837, they suspended specie payments with $\$13\frac{71}{200}$ of specie for 100 dollars of immediate liabilities, being only ¾ of one per cent more than their present condition. I am aware that the increase of gold makes a present difference in their favor.

According to Mr. Cary, a great deal of the California gold belongs to foreigners, and "is sent first to New York, merely as the most convenient channel for it, and not because it is due to us." There can be no doubt of this. Since the gold came forward freely from California, say for the last five years, 1851 to 1855 inclusive, we have exported nearly \$200,000,000 in all, or \$40,000,000 per annum. As the total receipts have been but about \$50,000,000 per annum, during the same period, and we furnish the great bulk of the shipments to California, it is probable that not more than \$10,000,000 per annum of the gold belongs to foreign account. The balance of trade in merchandise is therefore against us \$30,000,000 per annum. Now, in my opinion, we lose this, virtually getting nothing for it. By reason of the paper inflation of our currency, we pay false or paper prices for imports, and for the same reason many things that England and other countries want are produced here at too high cost to export, or are not produced at all, and land and labor are lying idle that would otherwise be profitably employed, while breadstuffs and other commodities are being furnished to England by the ports of the Baltic and Black Sea; and various nations, by using a better currency, are enabled to undersell us in the different markets of the world.

If we measured our values by a currency as good as theirs, our commodities would be cheaper to Europe than gold; and their gold, which now passes through New York, might be arrested here, and form capital for the further employment of labor and the further extension of trade. Indeed, there can be no doubt that with an unmixed specie currency, and our greater general industry, we could turn the current strongly in our favor, and draw gold from Europe as freely as they now draw it from us, until values should be brought to a level, when the advantages of trade would be equal.

All we need to accomplish this is, to know, and to act upon the knowledge, that adding $5 of paper money to $10 of gold, reduces value as much as it adds to price; that the sum of ten dollars is precisely the same value as fifteen dollars, when it will buy the same property, and supply the same wants of life, and that one-tenth part of the money we now employ would move the same property, transact the same business, build the same cities, and command the same capital, as a whole, only at a lower name in money, and it would be the same wealth. As our currency now operates upon our foreign traffic, we might as well plunge $30,000,000 of gold annually into the sea.

The true policy for every nation is to keep the currency sound and strong. As gold and silver form the acknowledged money of the world, we can do no better than to use them in their standard purity, and permit nothing to be acknowledged as a dollar that is not a dollar. The addition of $5 in paper to $10 of gold has the same effect in reducing our money as adding one-third more alloy to the coin; it reduces the eagle to $7.50. Reversing Iago's simile, it filches from the eagle $2.50, but leaves its good name unsullied. And we ought to know that a "promise to pay," either of a bank or an individual, so far from being money, is a debt that must be paid, and will be sure to come in for liquidation at the most inconvenient moment. The scarcer the real money may be, the faster the imaginary money—the "promise to pay,"—will return for settlement, and thus paying both sides of the bill-book—payable and receivable, an operation that cannot be long continued—are debtors driven to the wall, and bankruptcy and distress spread broadcast over the land.

The principle of our mixed currency is a philosophical injustice. It is of unequal value to debtor and creditor, and to buyer and seller. As we say in technical language, its elements are not chemically combined, only mechanically; they do not permeate each other, as the alloy and other metal in coin, but are laid together in pieces of gold and pieces of paper, so as to be easily separated by the creditor; the gold retained and the paper thrown aside. Thus the seller having a commodity produced elsewhere by a given amount of labor and capital, represented by $5 in gold, finds here the same capital and labor represented by $6 of a mixed currency. He sells us the value to himself of $5, and takes $6 away for it, first separating the paper from the gold, and taking only the gold. Obviously we must be large buyers and small sellers upon these terms; and if we sell at all, must supply one-fifth more labor or capital to get back the same sum of gold or the same intrinsic value of anything else. It is in this way that we live and thrive, by laboring for the same capital more generally, intelligently, and industriously, than any other people; spending extra time in hard work, which is lost in our exchanges with countries possessing a better currency.

Now, if our coin were debased and chemically combined with 20 per cent of pewter, or some worthless compound, the seller or creditor would be obliged to take away the whole mixture, and the exchange would be made on an equivalent value—gold for gold. The creditor or the seller would receive no more gold than the due proportion in the currency, and would allow for no less, and no injustice would be done to either party. The trick of mixing currency is that the seller from abroad gives only $5 of his gold or labor for $6 of ours, by reason of the facility with which the gold is separated from the paper, a jugglery in the system not understood by the people. I assume this position merely for illustration, not pretending to say that the currency can be *permanently* debased by paper one-sixth, and kept convertible, although it may be so debased *temporarily.*

I have said that one-tenth part of our present money would answer every purpose of the whole; still less would answer equally well. There is no limit to the reduction that might be made, and with sustained prices, if the weight or fineness of the coins should be reduced in the same ratio, until a degree is reached beyond which the divisibility of the metal would not admit of expressing amounts sufficiently small. With the coarser metals—silver and copper—to fall back upon, this could scarcely occur. But such a measure would cause endless confusion in the value of coins of the old weights and standards that could not be immediately withdrawn from circulation. The true policy in every variation in the supply of metals is to keep the coins permanently of the same weight and fineness, letting the prices of property change as they may. To secure perfect accuracy and justice in this matter is impossible. One metal will vary in relation to another. The decrease of the precious metals or of the currency injures debtors, and their increase injures creditors, most especially annuitants, and in a great degree laborers and salaried men, for wages are the last things to rise as the currency falls in value. I do not, therefore, see the propriety of the following remark of Mr. Cary, and it does not seem to agree with his general teaching: "With the use of steam for manufactures and navigation, of railroads, of electric telegraph and other modern inventions, nations are roused to an activity in the arts of civilization that may require vast additions of the precious metals for circulation." I cannot think so. It is true that a great increase of property, with no increase of money, would necessarily reduce prices, but that would be no more unjust than the advance of prices from the present increase of money. It would not affect unfavorably a different class—debtors instead of creditors—and annuitants would be benefited, as their income would be relatively more valuable. But no conceivable increase of transactions or of property, it appears to me, can render any great additions of the precious metals necessary.

This notion that trade requires more money is the fallacy upon which our paper-money system is erected, from a blind ignorance of its principles, and an unwillingness in the community to submit to any fall of prices; but, as I have already shown, it is not money but debt that is thus created, and the fall of prices, under the screen of this system, that succeeds every rise, is doubly severe, for the money that the community count upon to discharge their obligations, is not only abstracted, but, being of itself a debt, requires for its payment just as much more, precisely as any two debts of equal amount require twice as much money as one to discharge them.

I think it was in the year 1836 that several of the leading merchants of Boston, alarmed at the immense amount of commercial engagements running to maturity, and the inadequate sum of money in the community to discharge them, and impressed with the fallacious idea that bank debt is money, petitioned the Massachusetts Legislature for the charter of a bank, with a capital of $10,000,000, to enable the people to discharge their obligations. Even the prominent and judicious firm of Perkins & Co. were among the applicants for this charter. Such was then the delusion upon this subject. The establishment of a bank with such a capital, for such a purpose, at that time, would have been like an attempt to extinguish fire with oil, and it is somewhat surprising that the Legislature, under the solicitations of such esteemed and practical merchants, should have had the penetration to discern the truth, and the good sense to refuse the grant, as they did, by reason of which the State was saved from much additional embarrassment in the disastrous period which immediately followed. We cannot be too emphatic in denouncing the idea that an increasing trade necessarily requires an increase of money, as an error and a delusion. It might be otherwise if value and price were the same, but as the value of property may be the same at a very different price at different periods, it is of very much less consequence to alter the quantity of the currency to suit the altered conditions of trade, than to restrict trade to the proper values of a stable currency. Indeed, to accommodate the currency to the continual fluctuations of trade, so as to regulate prices, would be utterly impossible; while if the currency be let "severely alone," trade will accommodate itself to the currency with perfect equity. Debtors and creditors must always be more or less affected by the increase or diminution of the currency, and so they must be by the increase or diminution of commercial transactions, that alter prices by requiring greater or smaller quantities of money to represent and adjust them. They must take their chance in the revolutions of the wheel of fortune. But if there should not be another ounce of the precious metals raised for a century, trade would not suffer, nor the supply of any want of the community be in any degree affected thereby, unless some ornament or utensil of gold or silver, the value of which would be necessarily represented by more of other property than now. Prices would fall, but only gradually, or trade increased, and not *perpendicularly,* as during a severe bank contraction. Values would be the same as now, and would fluctuate the same, depending upon the supply of and demand for each particular commodity. The same quantity of wheat or beef would feed the same number of men, who would build the same sort of house or ship or railroad. What if at one-half the price? Would the house, or ship, or railroad be less useful, because of the lower price, and if the one-half price will buy the same quantity of wheat or beef, or anything else, pay for the labor and support of the same number of men then as the whole price now, is it not clear that its value will be the same, neither more nor less?

So much of repetition of this idea, I trust, may be pardoned by the reader, for it involves the whole question of the currency so necessary to be comprehended, and so little attended to, respecting which I find Mr. Cary's article, although treating only of gold, highly suggestive. But the present condition of things clearly indicates that the addition of the precious metals for a long future period will far exceed the relative increase of trade, so that, without the aid of paper money or credit banking, prices, however they may fluctuate at times, must in the aggregate surely rise. It is deeply to be regretted that this certain effect cannot be foreseen by the majority of our people and legislators, and thus remove the excuse for credit banking, which rests wholly upon the false presumption that the constitutional currency is insufficient to supply the medium of trade.

But several of the States of Europe are running deeply into the folly of credit banking and paper money; and the "credit mobilier" is covering the Continent with debt. This will place them at a disadvantage in their trade with England and this country, if we do not pursue the same folly to the same extent. I learn from a German merchant, connected with Hamburg, that already prices have risen there, so as to embarrass their export trade, and that interest, which was formerly two-and-a-half per cent, has been of late 6 and 7 per cent per annum.

The bonds of the "credit mobilier" are, of course, expressed in currency, but a house is not a given quantity of francs and centimes, and when those bonds, given and received for houses, stocks, and other property, become sufficiently numerous, and the holders find it necessary to realize to meet the increasing money engagements, to which the immense transactions of that society are giving rise, they will be thrown on the market in large numbers and amount, and although payable only at the expiration of ninety years, they will be likely to create a pressure for money that will destroy their own value, for they, like all other property in movement, will require money for their exchange, and they can only command the share of the currency that belongs to them according to their value or price in proportion to other property moving in the market at the same time, for all of which the supply of real money will sooner or later be inadequate. But the whole system is running to debt and inflation, and by raising prices in Continental Europe, we may expect that the people there will be compelled to perform extra labor to balance their trade with us, as we have done under our banking system to balance ours with them, till the bubble bursts, as similar bubbles have burst before.

That prince of financial mountebanks, John Law, in the beginning of the last century, forwarded his celebrated scheme for a land bank, essentially upon the same idea as the credit mobilier. He proposed to coin the whole landed property of the kingdom of France into money, by getting it pledged for his bank notes, and finding an easy instrument in the regent—the spendthrift Duke of Orleans—he succeeded in coining nearly the whole property into debt, and plunging the kingdom into the most inextricable financial confusion. The preternatural excitement in business which attended this scheme required a great addition to the currency, at the same time that the bank notes, under the operation of the natural law by which an inferior always drives before it a superior medium, forced the coin rapidly from the kingdom, and a grand explosion, at the end of four years, terminated the existence of the mammoth absurdity, with the fortunes and happiness of great numbers of the best people of France.

The extent to which the present French Emperor is involving his nation in debt—the concern of himself and his ministers, or the men connected with him in the "credit mobilier," and the enormous stock-jobbing and speculations now being carried on, through the instrumentality of that society, lead prudent men to doubt whether Louis Napoleon is a less extravagant man or a better financier than the credulous Duke of Orleans, and to anticipate for France, at no distant day, a climax of commercial and financial embarrassment little, if any, inferior to that produced by the necromancy of Law.

If I have engaged the reader's attention in the foregoing pages, I trust he may be convinced:—

That a merely local increase of money cannot be maintained, excepting by productive labor, which requires as it earns money; and that increasing the currency of the United States in any other way is like pouring water into a full vessel to run over as fast as supplied into the broad ocean of the commerce of the world.

That the present influx of gold is no addition to wealth, so far as it is used for coin, because the increase of money is all expended in price, adding nothing to value; so far, therefore, the mining of gold is labor lost.

That the increase of gold for ornament and utensils is not an important addition to wealth.

That interest is always dear where money is cheap; interest being the rent of loanable capital, bearing no relation to the value of money.

That there is great disadvantage and loss in credit banking or paper money, because it checks productive labor, by forcing unnaturally the export of gold in the place of merchandise, and by its necessary contractions, causing bankruptcy and distress, making the rich richer, and the poor poorer.

That the aggregate rise of prices and fall of money are corelative terms.

That the extinction of paper money and credit discounts would reduce the currency only the sum of the excess beyond the specie measure, which exists but temporarily, producing evil while it lasts, and that merchandise would be immediately exported to bring back the coin for which bank notes and credits are now substituted in the currency.

That debt in any form is not money, and will not supply the place of it, except when money is seeking customers, and not customers money.

These are the leading points that I have endeavored to impress upon the mind of the reader.

It seems necessary frequently to repeat, what ought to occur to every intelligent man, that the objections so constantly urged against gold or a hard currency of its being troublesome and unwieldy, could, and in practice would, be removed through the issue by respectable parties or institutions—doubtless banks of deposit—of certificates of deposit for coin, the coin being retained to meet the return of the certificate.

The advocates of a specie currency object only to the falsehood of inaugurating into money what is in fact debt, that must be collected from the banks before it can become money—they cannot pay till they can collect it from the community, and the community cannot pay till they can ship goods to California or Europe and get returns. All that we require is that no token shall be added to the currency as money that is not money, to create false and enhanced prices for foreign products, or to prevent the sale of our own, or to create false obligations, that in the nature of things cannot be discharged. Against the certificate of deposit no objection lies, as it would add nothing to the currency, nor depreciate in any degree the value of money.

It is strange that men who can see the sun of a June day do not see the glaring evils of our present system, and unite in measures to reform it altogether by the establishment of deposit banks, earning their support and profit by borrowing money at a low rate of interest, and lending at a higher, and charging an honest commission for honest service, instead of interest on capital blindly loaned by the public, against whom the interest is charged, or, as in Massachusetts and some other places, an illegal and unjust rate of exchange.

Thus, in a commentary on Mr. Cary's article, finding it suggestive for the purpose, I have endeavored to furnish a plain essay on our mixed currency system of coin and paper money, that I deem an element of great unhappiness in the community, and the most ingenious device for taxing the people without their knowledge or consent, that could be conceived.

I may appropriately conclude with the well-known remark of Mr. Webster: "Of all the contrivances for cheating mankind, none has been more effectual than that which deludes them with paper money. This is the most effectual of inventions to fertilize the rich man's field with the sweat of the poor man's brow."

3

Change of the Banking Principle*

MR. EDITOR:

I beg leave to occupy a few pages of your Magazine with some suggestions relative to banking and the currency. From habits of thought, early acquired in this direction, I have, during my business life, felt more than most men the great importance of the subject to this country.

Early in life it seemed unaccountable to me that a community, as intelligent, enterprising, inventive and industrious as ours, should be individually so unsuccessful in business; laboring with cankering anxiety early and late, to fall into bankruptcy so generally at last; while the nation, as a unit, is in a state of vigorous prosperity. The figures of the late General Dearborn, of Massachusetts, showing that 95 or 97 of every 100 who enter into trade, fail once in their lives, or die in poverty, were startling; but an observation of many years, among traders great and small, confirms their truth to my mind. If we inquire why such widespread disaster should attach to traffic here, and be unknown in the experience of any other nation, we are usually answered that it is the result of our great enterprise and activity—an overanxiety to accumulate wealth. This, it appears to me, is the very reason why failure should not occur. The certain way to succeed in anything is to be in earnest, and defeat, under such an impulse, is the excep-

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tion, not the rule, in everything but traffic in our country. Certainly the best provision for acquiring property, and for paying debts, is constant and active employment. Work must produce capital; nothing else can: the enterprise of the merchant in distributing it, in opening new markets, discovering new wants, stimulating labor, and directing it into profitable channels, is of a character to deserve success, and would secure it, were his operations sustained by an uncontractible and sound currency.

The evil, I think, lies here, and nowhere else; it is in the unstable currency; the power of expansion and contraction in the system of banking; the system of granting credits and issuing notes as money, which are not money, but simply debt.

I believe the existing banks could reform all this, to the increase of banking, and the extension of the commerce and wealth of the country, to an almost unlimited degree.

Most persons imagine that the currency would be limited to an exceedingly small and insufficient amount if bank notes and discounts on credit were abolished; they may probably be surprised to learn that this view of the matter is merely imaginary. Nothing can be more certain than the fact that the currency, as well as the wealth of the country, would be *increased* by retaining the coin which, by the adulteration of the currency with paper, is cheapened below the value of other property, and below its value to every people and nation with whom it has more use; and is thereby forced abroad.

I therefore propose to the banks to abandon the theory that debt is money, which is false and pernicious—return to first principles, and change the system of banking from depending upon the mere expansion of debt—which must always go on increasing, by reason of the competition of the banks for dividends, expelling the coin from the country, until checked by the pressure for specie caused by the excess of the export over the receipts—to the normal and just principle of borrowing at a low rate of interest, and lending at a higher; dealing plainly in real money capital, and not in the capital of debt, and charging a proper commission on accounts according to service rendered.

There cannot be any paper money kept in circulation, or any other kind of demand liabilities used as money, beyond the amount of coin that would otherwise constitute the money of the country; they must displace the coin to find room in the currency. Of course they must first be created, and there will be a temporary excess, but as soon as they are incorporated in the currency they become merged in price: money is thereby reduced in value, which is only another mode of saying that commodities rise, and the coin being, by reason of the convertibility of the bank note, of no more market value than the paper, is immediately taken up by our foreign trade and leaves the country. Thus it is, that an almost constant current of specie has been flowing from the United States to Europe, as fast as it could be gathered, from the beginning of the present century, leaving the unhappy element of debt to discharge the office of real money; the "promise to pay" being fixed in the bond in the legal tender of gold and silver, while the Atlantic Ocean rolls between the debtors and their means of fulfilling their promises.

From the period of the *evaporation* of the continental money, 1780-81, for fifteen or twenty years, till the banks had become somewhat numerous, there was an abundant supply of coin in this country for all the purposes of business and government expenditure, although the Revolutionary War continued during the earlier years of this period; indeed, the war itself brought coin into the country from France, for the payment of the French contingent of our army, and from England, for the payment of the army of the enemy. The country would have retained this coin, if it could have found use in the currency to give it value, but the Bank of North America began to substitute its debt for real money in 1784, and other banks followed, till the medium of paper money cheapened all the money in the currency—paper and coin being made of like value by the convertibility of the paper—and forced the coin away, leaving only the minimum necessary to keep the paper convertible. Specie is legislated out of the country by State banking, the national government, for ten years past, having done all in its power to counteract the State legislation and keep it at home.

A simple illustration will show the mode of operation by which the paper money drives the coin out of the country.

The weight of the eagle is 258 grains, 9-10ths fine; it contains, therefore, 232 2-10ths grains of pure gold: the pure gold constitutes its whole exchangeable power—the alloy is reckoned of no value. This coin determines the *price* of gold, both coin and bullion, to be $18.60 per ounce, of standard fineness, which cannot change without an alteration of the mint law relating to it.

Gold is a commodity liable to fluctuation in *value,* by demand and supply precisely like iron, hemp, corn or any other commodity; and the present increased supply, without any corresponding increase of other property in the world, is now reducing its *value* with unprecedented rapidity. I request the reader to fix in his mind the broad distinction between *value* and *price,* for as I have said, and it must be obvious to everyone, the price of gold can only be changed by law.

Suppose we possess

1 ounce of standard gold,............................	$18.60
3 bbls. flour, $6.20,.......................................	18.60
3 cwt. potash, $6.20,....................................	18.60

and we will assume these values to be equivalent to the foreigner and ourselves. He wants flour and potash—the gold will not satisfy his want—it will, however, exchange for commodities that will satisfy every material want, but if he takes it he can only exchange it at the ports of the Black Sea, or elsewhere, for the flour and potash, an unnecessary operation which he has no occasion to make, if they are as cheap here as the gold. He will take the flour and potash, and leave the gold, of course. But let us now increase our currency five per cent, by the fabrication of paper money, without a corresponding increase of the flour and potash, the demand for those articles remaining as before, and there will be a relative depreciation in the value of the gold; but as its price is fixed in the currency at $18.60 per ounce, and therefore cannot change, how will its depreciation become apparent? Clearly by the rise of 5 per cent in the flour and potash, and the market will stand thus:

1 oz. standard gold,....................................	$18.60
3 bbls. flour, $6.51,......................................	19.53
3 cwt. potash, $6.51,....................................	19.53

Now it is plain that the gold is the cheapest commodity; the foreigner will surely take it, and buy the flour and potash elsewhere. He would do this if the difference were only one per cent, or any appreciable amount; consequently it is not possible to add to the currency, permanently, any amount of paper money whatever; we can only displace specie by substituting the paper. It will be obvious to the reader that we have only to go through the same ciphering with the flour—increase its supply five per cent—the gold and potash remaining as before in supply and demand—and we reduce the flour from $6.51 to $6.20 per barrel, and make the three barrels of flour equivalent to the ounce of gold again. The law is uniform among all the commodities of commerce; money forms no exception whatever. If we make money cheap, by increasing the dollars, we must inevitably give more of them in exchange for other property. A continual deviation in supply and demand is taking place among all the productions of labor, and relative changes in price and value are consequently occurring. These changes are not observed, in coin or money, by the casual thinker, because its price is fixed: difference between price and value he does not know, but its *value* is as fluctuating as that of other commodities. When the bank loans are high, money is cheap, that is, it requires more money to purchase a given amount of any other property; the increase of prices in this case is nothing more nor less than a depreciation in the value of money—the rate of interest has nothing to do with it. Money, then, is sure to be exported, as being cheaper to the foreigner than our merchandise. He sells us his silk, or sugar, or broadcloth, for the mixed currency, at the inflated price which the mixed currency produces, but he takes none of the mixture in return; it is all convertible, unless the banks break, and he converts it, and takes the standard gold. We buy at the inflated price and pay in solid value.

This is a momentous consideration, to which I ask the attention of practical bankers. I believe we obtain no equivalent whatever for the coin and bullion thus exported; it is all paid in price over and beyond the true value. It would be better for us to add metallic alloy to the coin to the same extent that we now add paper money to the currency. Suppose the depreciation, by this paper alloy, to amount to five per cent on our whole currency of $600,000,000—I think it amounts to that in the average, sometimes being considerably more, as when the bank loans have been running up till we are bleeding freely in coin, at other times less, as when, at the close of every reaction, the export of specie is stopped by the enhanced value of money, when the sum of the currency is less than it would be in coin alone—then if we should add five per cent of metallic alloy to the coin, our eagle would be reduced in value to $9.50, but the price, $10, would remain the same as now, and as the alloy would permeate the other metal of the coin, the foreigner, who sells us his commodity for $10, would take the mixed article and get but $9.50 of value in return. If he could not afford to do this, he would not send his commodity here, and the imports would be checked. Now we alloy our money with paper, laid up with gold, but not combined with it, and the foreigner immediately separates the one from the other, leaving the worthless part—the paper—with us, and takes the standard gold.

It is wholly immaterial whether we add paper or copper, and make the debased money into two or a hundred eagles; the whole of them will possess no more value, and will buy no more than the one, and will move no more property, although the name of the property in dollars, that is, the price, will be increased two- or a hundredfold. The only power or value in the money, being in the pure gold or silver it contains, obviously we can add nothing but pure gold or silver to the currency to give it any power or value whatever. By failing to understand this, we are losing $30,000,000 annually, in our method of paying for imports, and might as well plunge that sum of coin into the sea. In a series of years, we have, in my opinion, lost $355,000,000 in this manner, and we are now borrowing it back from England, for railroads, State debts and various enterprises, and paying interest on capital of our own creation. It is the bank debt in our own currency for which the coin has been expelled; the sum of that debt being $415,000,000, against which the banks hold $60,000,000 of coin in their coffers.

But this involves a still more important consideration; the productive industry of the country has been limited to the same extent. If we had retained the coin, we should unquestionably have exported other produce, and employed labor to the additional amount of $355,000,000. Buying specie is simply buying goods for cash, the best as well as the most agreeable traffic in the world, and retaining and using the coin in the currency secures the same result. No doctrine in political economy is better established than that which teaches that paper money cannot be retained in the currency in excess of the coin that would circulate without it. Adam Smith states this with perfect clearness. This reduces the matter to a very simple proportion. We *have* the $355,000,000 of bank debt in the currency, and we have *not* the coin, in consequence of the debt. What, then, have we to do? I answer, give value to specie by using it. Make it our currency *exclusively,* and we shall inevitably sell produce or manufactures for the whole sum of the precious metals resubstituted for the paper money. Our true policy is to make money worth more than merchandise. The solid capital thus obtained would possess a self-creative power that would increase the wealth of the country beyond the most sanguine anticipations; $355,000,000 of debt, which is the prolific source of misery and bankruptcy, would be extinguished; many a heartache would be relieved, and many a heartbreak would be prevented, and the rate of interest would fall to the lowest point known in any country on the globe. The capitalist would be no loser by this, for his securities would be improved more than his interest account would be reduced. Doubtless the ratio of failure to success would be reversed, and ninety-seven would succeed for every three who failed or died in poverty.

We have a pregnant illustration of the excellence of this natural system of currency in the unqualified success of the constitutional treasury. Political blindness prevented many of our experienced merchants and bankers from seeing, in advance, any merit in this measure. Mr. Abbot Lawrence, whose practical mercantile ability cannot be questioned, recorded his opinion upon the subject, in letters to Mr. Rives, of Virginia, in which he stated that the transactions of government would employ and absorb so large a proportion of the coin that the subtreasury would break every bank in the United States; but they did not break, and Mr. Lawrence could see no reason why they did not, but in the extraordinary demand for our breadstuffs, created by the famine in Ireland, in 1847. He did not see that an extraordinary demand for our produce or manufactures must always take place whenever we require specie, and make it more valuable than merchandise by use, which gives value to everything. The nation obtained the specie from Europe, by selling produce, three years before the gold of California came into commerce, and the government retains it in the country only by compelling the sale of produce instead of the coin; in other words, by using the coin instead of the circulating debt. Can anything be plainer and more certain than the power and utility of this in promoting the prosperity of the country? It is equally certain that the same plan would operate to the same advantage in our commercial finance.

Every intelligent observer could have foreseen, by the course of the New York banks, from the beginning of the present year, the outpouring of specie that has taken place; and particularly in their sudden increase of loans from May to August, the rapid expulsion of gold and silver from August to November. The banks made money cheap by its increase, and merchandise dear, which is the same thing in other words. Gold, therefore, went abroad, where it was worth more than here, and by the same rule merchandise came here, where it was worth more than abroad. The constant increase of banking capital in New York and in other States renders it certain that the same policy is to be continued to the utmost stretch of our specie strength.

The relative condition of the commercial finances of France and the United States affords an excellent lesson on this subject.[1]

[1]Fullerton, a reliable authority, writing in 1844, quoted and commended by Mill, says:

"In France, where the bank note circulation is still comparatively limited, the quantity of gold and silver coin in existence I find now correctly estimated, on what are described as the latest authorities, at the enormous sum of £120,000,000 sterling; nor is the estimate at all at variance with the reasonable probabilities of the case. Of this vast treasure there is every reason to presume that a very large proportion, probably by much the greater part, is absorbed in hoards."

The great use of specie in that country, with the still limited bank note circula-

The coin in France is estimated by J. Stuart Mill at £120,000,000, nearly $600,000,000, about the year 1844. I estimate it at this time to be..........................		$800,000,000
Circulation and deposits of the Bank of France	$157,860,000	
Deduct coin in do.................................	31,747,000	
		126,113,000
Total currency of France		$926,113,000

Currency of the United States, according to the last general returns:

Whole amount of coin in the country		$250,000,000
Bank circulation and deposits..................	$415,000,000	
Deduct coin in the banks	60,000,000	
		355,000,000
Total currency of the United States		$605,000,000

Although the specie of the Bank of France is in the ratio of $20 to $100 of immediate liabilities, while that of our banks is $14.50 to $100 only, yet the Bank of France is pressed, almost to the suspension of specie payments, because her notes and deposits, being due to large operators, such as the speculators involved in the bonds and concerns of the Credit Mobilier, are, from the necessities of her creditors, pressing upon her for payment in coin; while the reciprocal debt to and from the banks here is widely extended, and involves all classes alike. There is no failing in France, because the mass of the traders and people are well supplied with coin, and therefore are not involved in debt. Here there is continual failing, and failures are just now on the increase, as the increasing bankrupt list of the *New York Independent* shows, because our people and traders have almost no coin at all, are deeply in debt, and are called upon, by the exigencies of the banks, to

tion, authorizes the conclusion that France has retained a large portion of the increased supply of gold since the discovery in California. I think it a very moderate estimate to put the sum of coin in that country, at this time, at $800,000,000. It is probably more.

pay, in specie value, obligations contracted at the inflated paper price.

A friend, an excellent authority, whose attention during a long life has been closely given to the subject of commercial finance, informs me that during his residence of fifteen years in Morlaix, a French town on the British channel, of 15,000 inhabitants, pursuing an active commerce with Spain, Portugal and South America, there occurred neither a failure nor a fire: the latter is an item in political economy of considerable importance that may be attributed to the absence of Young America, in which the French would seem to have greatly the advantage.

The statesmen of England understand the advantage possessed by the French in their currency. In the ministerial debate, concerning the embarrassments of the Bank of England, in 1825-6, Mr. Huskisson said, "If they wished to prove the value of a steady and unchangeable currency, they had it in the history of France; that country had been twice invaded by a foreign army, her capitol had been twice taken possession of, and she was obliged to pay large sums to foreign countries; but they had a steady metallic currency, and however such visitations might have affected the great—however the extensive contractor might have been injured or ruined—the body of the population remained unoppressed. The storm might have crushed the forest tree, but it passed over without injuring the humble reed. This was to be attributed to the permanent footing upon which the currency of that country had been established."

I make no doubt that such will be the result of the present financial crisis in France.

What if a war should be sprung upon us, by some of the untoward complications of our politics, as many politicians—less hopeful men than I—sometimes apprehend? What is the strength in the "sinews of war," of such a State as Massachusetts, for the struggle? The miserable pittance of $4,500,000 is all the real money there is in the State, both in the coffers of the banks and in the pockets of the people—leaving the United States subtreasury out of the estimate. Two or three rich men in Boston, if they chose to realize their property in money, could put all this coin in their pockets at once, and either of them, if he should happen to be disaffected to the public cause, could break every bank in the State with very little preparation. And this is one of the wealthiest and most enterprising States in the Union, entitled to at least $50,000,000 of coin in proportion to her present wealth, currency and commerce, which she might have, in two years of peace, without inconvenience to anybody, by withdrawing the paper currency, increasing and selling her manufactures, growing rich all the time, making her banking business of a legitimate character, and adding to its amount by the increase of real money.

It is time for us to look more deeply into this matter. Now, while a torrent of the precious metals is pouring into our lap, inviting use that would remove the incubus of debt under which the people have groaned and suffered for more than half a century, is it not blind infatuation to pursue a policy which scarcely permits the gold to kiss the shore on our side of the Atlantic? Europe, by pursuing the same folly, only in a less degree, is now driving the precious metals through the Red Sea to Asia, whence there is never a return. We need to feed that current only so long as our banks remain blind to their own and the nation's interest. If one of them would begin and withdraw its circulation, and pay and require payment in specie, the beneficial effect of the measure would soon become apparent. Certificates of deposit, issued against coin, can be used, if people must have paper for the convenience of portableness, the coin in all cases being retained to meet their return; but the point we must reach is this: The bank deposits and outstanding certificates payable must amount to the specie in the country, less the sum in the hands of the people, and no more. Pursuing the true and honest plan of lending money *only when they have money to lend,* the banks could reach this point, in my opinion, with profit to themselves, great relief to the people, and immense benefit to the whole country. They would become custodiers of the increased money, which would again increase of its own power, and relieve both banks and customers from the continual and complicated disasters of bankruptcy which must always settle the sum of every bank contraction.

This plan would insure the sale *for cash* of $355,000,000 of produce and manufactures in a very few years—in addition to our present commerce—give increased employment to our navigation, extinguish that sum of debt, reduce the rate of interest to three per cent or less, and secure the balance of trade in our favor with all the other nations of the world.

The wants of mankind are, and must continue to be, illimitable. Nobody, I believe, is fully satisfied with the most sumptuous belongings and indulgences; the luxuries of one age or generation become the necessaries of the next, and thus provision is constantly being made in advance for the employment of labor. There need be no fear that we can overstock the market of the world, with everything useful and ornamental, until plain mechanics are as well housed and furnished as the proud merchants, and merchants have attained the magnificence of princes, whom they emulate. The laboring classes are struggling upward, feeling destitute in the midst and in possession of what was abundance less than two centuries ago, and all have a wide margin of wants to be filled by their own labor.

We shall find a market for all we can produce; that certainly is secured by the law of progress which governs man's nature, and distinguishes him from the other animals of the earth. Let no one imagine that we shall find any difficulty in adding three or four hundred millions to our exports. So long as we buy we shall surely sell—the limit never will be reached. Unshackle the producers from the chain of debt that binds them now in the abnormal banking system, and the imagination cannot conceive the advance in material wealth that would be attained by this country in half a century of peace.

But the moral considerations involved in this question are still more important. Men are entangled in obligations by the expansion, and cornered by the contraction of the currency, and driven thereby to shifts and subterfuges that their souls abhor. Having once left the green fields of truth, and passed the border into the tangled and murky region of falsehood, they feel, like Macbeth, that

> Returning were as tedious as go o'er.

How many have been destroyed by this power of evil? How many are driven by perplexities thus produced to intemperance, despair and death? Worthy and sensitive men are the keenest sufferers in pecuniary adversity. Among many such whom I have known, I have in my mind one whom the money troubles of 1837 brought to a suspension of payment. He had been an indefatigable worker and a successful merchant. Ultimately he paid his debts in full, and came out of his embarrassments a wealthy man; but he never could get over the mortification of being a "broken merchant," and from the date of the disaster he was a "broken man." I knew another, not less worthy and industrious, always true and temperate to the last; he never failed, but the pressure of a contraction of the currency destroyed his debtors and his business. An old man, with a large and beautiful family depending upon his exertions, he fell into despair. I attended at his deathbed—the doctor did not understand his disease—I knew it well—it was a broken heart.

These are the considerations which move me to occupy your pages, and these are the evils that I believe the banks can remove. The institution or the individuals who shall reorganize the true and original system of currency, from which the country long since departed, and to which—thanks to Mr. Gouge—the government has returned, will, in my opinion, reap a rich reward in pecuniary gain, and ultimately in the approval and gratitude of the nation.

4

Money and Banking*

In the discussions relating to the currency that commonly arise among businessmen who have not paid any particular attention to the science of political economy, the prominent idea advanced in favor of paper money, and bankers' credits, called "deposits," and used as money, is that there is a great addition to the currency and to the facilities of business in these fictitious dollars. It is not so. If, however, it were true that money is permanently increased thereby, it would be precisely the reverse of the true policy, for the less the volume of the currency, the greater will be the value of the dollar, the lower will be the prices of commodities, the greater will be the exports, and the consequent employment of navigation, the more the employment of the people in the production of property, and in fine, the greater will be the prosperity and wealth of the nation. The wealth is in the commodities and property, not in the money which determines their price. Their *value* is quite independent of their *price,* and would be precisely the same with one-tenth of the currency we now employ in their exchange, as with the whole of it, only at one-tenth of the name in money; which would be an advantage, inasmuch as the bulk of the precious metals would be less cumbrous. It would save nine-tenths of the trouble and expense of their transportation for the settlement of balances. The world gains nothing by the increase of gold, but the trouble of handling more of it for

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the transaction of business at higher prices, except in plate and trinkets.

Money, it should be remembered, is not the leader of commerce, but the follower. It comes, legitimately, only to the individual or to the community as the result of industry and good management; industry and good management do not result from the possession of money.

The fact of paramount importance relating to this subject, of which even our merchants and bankers seem to be almost profoundly ignorant, is distinctly stated, and clearly demonstrated, by Adam Smith, that "the whole paper money of every kind, which can easily circulate in any country, never can exceed the value of the gold and silver of which it supplies the place, or which—the commerce being supposed the same—would circulate there, if there was no paper money."

He appears to have been the discoverer of this important truth, and the following is his illustration:—

> Let us suppose that the whole circulating money of some particular country amounted, at a particular time, to one million sterling, that sum being then sufficient for circulating the whole annual produce of their land and labor. Let us suppose, too, that some time thereafter, different banks and bankers issued promissory notes, payable to the bearer, to the extent of one million, reserving in their different coffers two hundred thousand pounds for answering occasional demands. There would remain, therefore, in circulation, eight hundred thousand pounds in gold and silver, and a million of bank notes, or eighteen hundred thousand pounds of paper and money together. But the annual produce of the land and labor of the country had before required only one million to circulate and distribute it to its proper consumers, and the annual produce cannot be immediately augmented by those operations of banking. One million, therefore, will be sufficient to circulate it after them. The goods to be bought and sold being precisely the same as before, the same quantity of money will be sufficient for buying and selling them. The channel of circulation, if I may be allowed such an expression, will remain precisely the same as before. One million we have supposed sufficient to fill that channel. Whatever, therefore, is poured into it beyond this sum, cannot run in it, but must overflow. One million eight hundred thousand

pounds are poured into it. Eight hundred thousand pounds, there fore, must overflow, that sum being over and above what can be em ployed in the circulation of the country...........But the paper cannot go abroad; because at a distance from the banks which issue it, and from the country in which payment of it can be exacted by law, it will not be received in common payments. Gold and silver, therefore, to the amount of eight hundred thousand pounds, will be sent abroad, and the channel of home circulation will remain filled with a million of paper, instead of a million of those metals which filled it before.

This is plain and easy reading, and the doctrine, inculcated, undeniably true. I commend it to the careful attention of the reader; for the paper money system, as I have already suggested, rests upon, and is wholly sustained by, the idea—the delusion, in fact—that the wants of trade require more money than can be supplied in gold and silver, and that this additional supply is obtained by the fabrication of paper money.

But the truth, which escapes public attention, is that the real wants, under such circumstances, are lower prices of property, and a consequent higher value to money. The want of money, among an intelligent, enterprising, and a laborious people, cultivating the arts of peace, if left to its natural remedy, will supply itself at the cost of other communities, less productive, or burthened with more oppressive consumption, with the absolute certainty of the law of gravitation. What better business can we desire than selling goods for money, when money is worth more than merchandise? This we do when we import specie in exchange for merchandise; and this we should be sure to do, by giving utility to the precious metals in the currency, until the withdrawal of the whole sum of the fictitious money, now usurping their office. The common notion of the want of money, or bank capital, or of the true method of supplying it, is a mere chimera—a most profitless and absurd conceit. This country needs no law but the natural law of distribution left to itself to secure an abundant supply of real money.

In the case supposed by Adam Smith, the coin, in the particular country, amounted to one million pounds originally. One million of paper being added, eight hundred thousand pounds of gold and silver are displaced and sent abroad. There appears then to be twelve hundred thousand pounds left in the currency; but it is not so. Two hundred thousand of the paper is issued against coin retained. The notes to that amount are virtually certificates of deposit, as all paper money ought to be. Both coin and paper cannot be kept in circulation for the same sum, at the same time. We must, therefore, deduct the reserve of two hundred thousand from the currency, and it remains one million pounds as before.

Thus it is that every paper note, put in circulation, is a "ticket of leave" to one of specie for the same amount, which must either go out of the country, or be absorbed in the bank hoards to meet the returning notes, and the same effect is produced by the inscriptions of bank credit. Not a farthing is added to the currency, except temporarily. The depreciation of the value of money is soon felt in the rise of prices, which stops the sale of exportable merchandise, brings in foreign commodities, and sweeps off the gold and silver.

To this the objector will probably say that a consequent increase of business will employ the paper addition to the currency. How will this be brought about? Let us inquire. He may never have reflected upon the great disproportion of other property to money in every country, which may be perhaps 25 to 1; therefore, property and business must increase twenty-five fold over the whole world, to employ each additional dollar, without reducing the value of money.

The first operation of the bank, on the credit system, is to discount a note, we will suppose, for Mr. Needy, obtained for flour, which—the currency having been before sufficient to circulate and distribute the products at the then ruling prices—he has sold at a remunerating advance on time. The net amount of the discount is entered to the credit of Needy, and thus becomes a substitute for money. He goes into the market for the purchase of wheat, with this substitute, in competition with his neighbor, who has gold in hand for the same purpose; the seller finding he has two customers instead of one to play upon, puts up the price. In short, Needy, and Hopeful, and Fuller, and a hundred others—buying and selling goods, and operating in the same way with bank money, as good as gold, according to the theory of our system, because promised to be paid in gold on demand—by their competition in the market, raise prices all round, exportable and imported commodities being affected alike, and what follows? Why, the community wanting our commodities, whether the next town, or State, or foreign nation, will not buy them of us if the same description of articles can be obtained at specie prices elsewhere—they will take our gold and silver, and set sail for the Baltic, or Black Sea, or White Sea, or some other sea, where no such folly, or less of it, enters into the money system, and there, where gold and silver have more utility and consequent value, they will exchange them for the wheat, or beef, or pork, or ashes, etc., which their wants require, at the lower prices of a stronger and better currency.

Is this an increase of business? No, it is directly the reverse. The producer, and the produce dealer, and the plow maker, and the harness maker, and the merchant's ships, the carpenter, rigger, and sailmaker, and all men and things through all the ramifications of commerce, depending upon the export trade, are shorn of their employment, and the profit to be derived from it, to the extent of this unnecessary export of gold and silver, and there is so much less capital in the country than there would have been, if "tinkering the currency" had not lessened the utility and consequent value of gold.

We cheat ourselves transparently in this matter. What we fancy to be a rise in *value* of our products is merely an alteration of the name in money that we exchange them by; they are not altered thereby, in their exchange value, with regard to each other—it is a rise of *price.* The additional money we obtain for them will buy no more of anything than the smaller amount bought before. The really effective thing we have done is absolute mischief; we have degraded gold, with paper alloy, and we sell it, without the paper, in its standard purity, at the degraded value. This is the consequence of not knowing the difference between value and price; *value* being the power of property to exchange for other property, and *price* its power to exchange for money only.

How long will these higher prices remain to delude us? Not a moment longer than it requires the foreign producer to throw his commodities into our market and exchange them for gold.

This inflowing of foreign products, and outflowing of gold, must infallibly continue, till the equation of international demand is established where it was before. Prices of imports must fall to the value of gold, when their supply will be checked—prices of exportable commodities must fall, in like manner, when they will go out in the place of gold; the true operation being, that gold, by the increased demand, rises to the value of merchandise. Meanwhile the product of the *debt-factory* we call "bank," will be nestled into the place of the gold it has expelled, and draw interest, for the proprietor, from the labor of the country, on capital not his own, for doing nothing but evil, in checking production, traffic, and the increase of wealth. There is also created a counter debt, from the people to the bank, which every contraction of the india-rubber currency, necessary to raise the gold to the value of merchandise, violently discharges, in bankruptcy, to the full amount of the contraction.

To this incubus of debt we owe the exorbitant rate of interest, so constantly prevailing in this country, and the constant scarcity of money for all the purposes of life. How few there are ready, and able, to pay cash to the butcher, or baker, or grocer, for their daily supplies; or to the church for the support of their spiritual guide. Even the crinoline, that occupies such breadth of pavement, goes on "tick." Every man, almost, feels that he had as much as he can do to raise money to meet his "Bills Payable" in bank, and all generous and philanthropic enterprises languish.

When, by the contraction of bank discounts, and the consequent scarcity of fictitious money, real money becomes again as valuable as merchandise, and can be kept at home; that is, when the specie export ceases, the banks by standing still, with the sum of the bank debt in the currency, huge as it is—$400,000,000 of immediate liabilities, beyond the coin in their coffers—might keep the exchanges in our favor, and secure a constant export demand for merchandise; but the whole profit of the business is in the creation of debt, to and from the people; and its nature—its very essence—requires the widest possible expansion of debt, and the utmost possible expulsion of money. As soon, therefore, as the export demand for specie ceases, and the exchanges of the world are in our favor, as during the past spring—when there is no wholesome want of money—the fictitious dollars multiply again, by the increase of bank loans, and we are put through the same round of misery as before. It is an unrighteous scheme, operating against all natural law—always inversely to our needs; and this its advocates call a beautiful equilibrium in the system! I am only surprised that any sensible man can entertain such an idea for a moment.

Every dollar of paper money is a certificate of mischief, and every inscription of credit for which gold or silver has not been deposited, and, on the undrawn loans, is not retained, is positive evidence that the same amount of merchandise, which otherwise would have been sold, is on hand or unproduced—that the same sum of money is not here that would have been here, and the same sum of debt, with its progeny of debt, is pressing upon the community without any legitimate right to an existence. The sum of this debt, in the currency—now $400,000,000—pressing upon all classes throughout the country, has been created in a series of years, by expelling coin once earned; and we are borrowing back from England a large portion of the amount for State uses, railroads, and other enterprises, and paying interest on capital of our own creation.

I believe this amount to have been utterly lost to the country in paying for imports the inflated prices of a mixed currency, more degraded than that of other nations. J. Stuart Mill says, very truly, that "the demand which affects money prices consists of all the money in the hands of the community destined to be laid out in commodities." The price of the imported commodity is thus determined by the amount of money here, while the exportable article must be sold by the measure of the foreign currency; that is, it must pay to export at the price to be obtained in the foreign market, or the exporter will leave it and take gold; as we see he does take all the gold we can possibly spare; for we never cease exporting it till the banks are driven to a pressure with the loss of specie. The exportable commodities are thus kept above the relative value of gold as long as gold can be supplied.

But by the law of value we must return from every inflation.

After forcing off all the gold we can spare, by paying the inflated price for imports, the banks stop discounting, and make money valuable again, when our produce falls in price and is shipped instead of gold, as I have before stated.

I am not of those who think the imports can be essentially checked by any national policy short of nonintercourse or war. Labor is a necessity abroad as well as here:—the imports must come. But the bank dollar employs no labor in its creation; it is made by writing a promise on a bit of paper; it creates no value, and is no wealth. It expands prices, however, as much as the real dollar, and is the ready instrument of the speculator. It cannot be used in the currency without degrading the value of gold, to expel it and make room for itself. As prices rise here, the almost lightning speed of commercial intelligence transmits the news to the shipping markets abroad. Hides rise in South America, sugar and molasses in Cuba, and cloth in England to meet the rise here:—our fictitious dollars raise the prices of the world, and we pay in extra labor the expenditure of other nations.

5

The Export of Gold

A notion extensively prevails in this country, that gold c *i* specie moves from place to place only to settle balances of accoun¿, and that the "balance of trade" is always against the country tha,t parts with its gold, and in favor of that which receives it. A leading New York print keeps this idea before its readers, as an apology or justification for the large and increasing shipments of gold from this country to England, and asks, "What better can we do with the surplus gold we produce, than pay our debts and obtain í> profit on its production?"

Certainly we can do no better with any commodity we may possess than pay our debts with the surplus, and produce more; but to suppose that this operation is peculiar to the precious metals, in the intercommunication of commercial countries, is a radical error. The constant departure of gold, as it arrives at New York, is deemed an evil by the good sense of a great majority of the people of this country; they know that specie is the only real money, and that the real is better than the fictitious of every good thing; but the constant repetition of the fallacious idea, that the balance of trade is against us, by those whose position or employment is supposed to make it necessary for them to investigate and understand the subject, deludes the public and throws the responsibility upon the wrong issue, or rather changes it from the cause to the effect. The cause is the degradation of the value of gold by the creation

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of fictitious dollars, convertible into gold. The effects are the shipment of the gold, and return of foreign merchandise in exchange.

"Too many imports" has been sung and said through all the changes of partisan political music, recitative and declamative, ever since the peace of 1815; and people have been deluded thereby to believe that excessive imports keep a permanent "balance of trade" against this country with England, and with all the rest of the world. A permanent balance of trade against one of two countries can no more exist than between one of two individuals; settling day is always coming round. The balance of trade between two countries is the aggregate balance of account between the individuals of the two countries. Of course it may vary one way or the other, but that it stands always or often against us is a delusion.

The customhouse figures tell little or nothing about it. If I send abroad a commercial adventure, with an investment of $50,000, registered at that sum among the exports, and accumulating $50,000 profit on the voyage, my vessel returns into port with a cargo of $100,000 registered among the imports, where is the balance of trade? What is there in this state of the account to cause an export of gold? Or, if my vessel is chartered, and earns me while abroad $10,000, which sum is invested in the return cargo, and of course registered among the imports, where is there any balance to pay by me or by the country? These figures would serve to show a balance of trade of $60,000 against us, when $60,000 of specie may have been gained to the country, with no balance due at all. Whether the returns come in specie or merchandise, the gain to the country is the same.

It happens, that for the two fiscal years, ending June 30, 1856, our exports *exceeded* our imports in the aggregate $26,000,000, and it will be remembered that, besides this sum, our navigation probably earned about $40,000,000 per year, to which must be added the profits of our foreign enterprises, included in the imports, and there would seem to be an immense balance in our favor. Nevertheless, we exported more than we imported, of coin and bullion, $94,000,000, in the same time. This shows at a glance that coin and bullion are exported, like all other commodities, because they are worth less here than in Europe, and are not sent abroad to pay debts more than wheat, beef, cotton, tobacco, or anything else. The truth is, the balance of trade is a chimera.

There is a vast preponderance of intelligent and productive labor in this country, relative to population, over any other on the globe, from the comparative absence of unproductive consumers. We have no great wars, with their constant incumbrances of standing armies and huge navies—no privileged classes, with their retainers, to feed upon the substance of the people, yielding no return—few paupers—and we have a comparatively small public debt, and inexpensive government. All these advantages are conspicuously shown in the rapid growth of the nation in population and wealth, and they secure the balance of trade between nations, as between individuals, to the most industrious and frugal, not in balances of account but in substantial possessions.

Notwithstanding all this, we make a losing business in exporting the gold, and create a most unhappy state of things at home, by the policy which makes its export necessary. We sell it constantly for less than it is worth—not being aware that the only measure of the value of gold is to be found in the price of all other commodities. Of itself it is a commodity, constantly altering in value by its own plentifulness or scarcity, and by the increase or reduction of its substitute in the currency—that is, bank money—both bank notes and credits. It is more sensitive in value than any other commodity, because it is universally desired, and can be more readily transported at small cost. Any appreciable deviation, therefore, will put it in motion from place to place. If the quantity of money is increased ten per cent, in relation to the property offered for sale, gold immediately falls in value by an average rise of ten per cent in the prices of commodities or property. This operation will infallibly compel the sale of gold, instead of commodities, to the nearest market having less money in relation to commodities, and we lose ten per cent in the transaction, that amount being added to the price of imports.

A piece of gold of 25 ‰ grains weight is called a dollar, a piece of 258 grains is called an eagle, and a piece of 480 grains an ounce. It is a great mistake to suppose that the value of gold is determined or fixed by these names or weights, any more than the value of lead is determined by its own weight. I£ we double the quantity of gold in relation to the commodities offered for sale, two ounces must be given for what one would have bought before. Double the quantity of lead, and the same effect is produced upon lead. We use gold as a medium of exchange, and therefore, instead of saying that two ounces of gold have fallen in value to one, we say that the *price* of the commodity offered in exchange has risen from one ounce to two ounces of gold. By the same law of value, we give two ounces of lead for what one would have bought before; only by expressing the change in the lead itself, we say it has fallen in price —we can buy two ounces for the same sum of money that would have bought but one before. All, therefore, that the government does by the mint law is to decree that a certain commodity shall be the medium of exchange and tender in the payment of debts. It would have been better, and the subject more easy of comprehension, generally, if the government had adopted the ounce as the unit of value with decimal divisions.

It is perfectly obvious, that as bank money is convertible into gold and silver on demand, its increase reduces the exchange value of those metals; and that at any time when the exchanges are at par or in our favor, and when, necessarily, it will not pay to export gold, and we are exporting merchandise in exchange for imports, an increase of bank loans will immediately turn the exchanges against us, by the degradation of the value of money, which raises the price of merchandise. The shipment of merchandise is checked to the extent of the export of gold which follows; the productive labor and business of the country are checked to a corresponding degree, and an unnecessary entanglement of debt succeeds; for it is transmuting debt into money which drives the coin and bullion abroad.

It is not true, as some writers have said, that we may as well ship the gold and produce more; for if we retain the gold, it is real money capital in hand, preventing debt, and the repetition of debt which follows the absence of money. We may export commodities in the place of gold, and still produce more gold, increasing business, profit and capital thereby immensely.

It is, perhaps, unnecessary for me to say that I am an avowed bullionist in banking. The whole theory of banking in this country rests on a great mistake—that increasing fictitious money increases business—whereas it is the increase of *value*—the product of labor alone—that increases business, or adds to the wealth of the country. The fictitious dollar, made without labor, by merely writing a promise on paper, is destructive to business. It degrades gold as much as it adds to prices; that rise of prices is a dead loss to the country; for it is indubitably nothing but the degradation of gold; and at that degraded value we sell it, under the delusion that we are made richer by the higher price of commodities at home, not perceiving that $1.10 in money will buy no more of the wants of life than $1 bought before.

The true policy is to keep down the volume of the currency to a firm reality; keep it, if possible, lower in relation to commodities than any other nation. There are two ways to do this: one is to reduce the money; the other, to increase the commodities. Either method will insure the sale of all the surplus products; for they would, by either of them, be cheaper here than elsewhere.

But we cannot keep the volume of the currency permanently below that of other nations, even if we sweep away the whole of the bank money. Gold and silver must flow in as fast as the bank money is withdrawn. It is well known to every student of political economy that no vigilance of government can prevent their going to that market where there is an effectual demand for them. Adam Smith says, that

> all the sanguinary laws of Spain and Portugal were not able to keep their gold and silver at home. . . . If in any particular country their quantity fell short of the effectual demand, so as to raise their price *[value]* above that of the neighboring countries, the government would have no occasion to take any pains to import them. If it were even to take pains to prevent their importation, it would not be able to effectuate it. Those metals, when the Spartans had got wherewithal to purchase them, broke through all the barriers which the laws of Lycurgus opposed to their entrance into Lacedæmon.

To increase the business of this country, and more immediately the export trade, we have nothing to do but to utilize the precious metals, by returning to first principles (as I proposed in an article published in your Magazine last year) and *banking in coin* exclusively. An immediate impetus would be given to traffic by this course. Even i£ but one bank should adopt it, the favorable influence would soon be felt. They should receive deposits in coin, and allow interest, say 4 or 5 per cent, and lend the money for what it is worth, according to the character of the securities and trouble and distance of collection, separating the two elements of interest and risk. There are securities in which the element of risk is absent; and there are others in which it is so prominent as to demand a guarantee commission greater than the rate of interest, which securities will yet command the money at that sacrifice. Now, it is preposterous to attempt to combine these two elements of interest and risk in one rate of interest or rent of capital. It would be cruelly unjust to the holders of second-class securities to enforce the usury laws, if they could be enforced, for they would not be able to obtain a loan or discount at all. They would be compelled to work for capitalists whose superior securities would take exclusive possession of the loan market. Except for the settlement of estates, and of contracts without stipulation, they are a violation of private rights; and being generally so regarded, they are very properly repudiated by both lenders and borrowers.

The coin and bullion bank should make its support and profit out of the difference of interest and in commissions—never issuing anything but coin or bullion, or certificates of deposit against coin retained to meet their return; and never making an inscription of credit without having coin in hand for the full amount of its undrawn loans.

This policy would change the current of trade immediately, and, if faithfully carried out through the whole country, would bring in $400,000,000 of coin—that being the sum of bank money used in commerce, in excess of the coin held in reserve. It would sink not only the same sum of debt, but the vast repetition of debt which the absence of so much money occasions. And who does not see that it would put in motion an immense activity in all the industrial pursuits of the country? For products must be had to buy the $400,000,000 of gold, whether it comes from our own mines in California or from our exchanges with Europe or any other part of the world.

All men engaged in business in this country in 1846 must remember the sudden activity imparted to trade in the fall of that year; but few have reflected upon its true cause. It was the action of the government in requiring coin for the payment of all public dues. The subtreasury went into operation in that year; and for the fiscal year, from June 30, 1846, to June 30, 1847, the import of coin and bullion exceeded the export, $22,200,000. This, of course, required the export of commodities to the same amount, in addition to the previous trade of the country, and it produced increased action in every branch of business. By some this was attributed to the famine in Ireland, which required an increased quantity of our breadstuffs; but the most that can be said of that is that it may have enabled us to obtain better prices. The famine might have been mitigated by supplies from the north of Europe, and from other regions. The paramount fact is that our government had determined to have the coin, and the country obtained it, as it always will obtain it whenever required, by the sale of its products. An increase of productive labor and increased activity of navigation and commerce in general were the inevitable consequences of this judicious policy. The nation would have obtained the coin without the aid of the famine in Europe. Who, that knows anything of the resources of this country in productive labor, with the wide world for a market, can doubt this fact?

If any wealthy man is desirous of doing a good deed, that may gratify him with the best results in his lifetime, and hand down his name to posterity as a public benefactor, he cannot, in my opinion, do or discover anything to be done so important to his fellow men for a lasting benefit, as to found an institution to check the enormous increase of debt now entangling the business of this country in the most inextricable embarrassment, which, in the nature of things, must destroy the happiness and hopes of numerous families, plunge many a worthy man into despair, and consign him to the grave.

The foregoing was written early in August. Now, in the middle of September, we are in the midst of a financial pressure, presenting the alternative whether the banks shall break their customers or themselves. The former policy prevails at this moment. I regret that I have not space for some further remarks upon this state of things, which springs from the debt banking system as naturally as buboes or carbuncles from the plague.

I aver that it is in the power of ten men in New York, and ten in Boston, to defeat the wretched policy which brings such misery upon the country. This can be done, not only without injury, but with ultimate benefit to the existing banks, with whom I have no quarrel in this matter, knowing them to be led by the same delusion that obscures the subject in the public mind; and it can be done with no more hazard to capital than would be incurred in the deposits of the present savings institutions.

6

Specie Prices and Results*

Most persons, if asked what would be the effect upon prices, of a return to an exclusively metallic currency in this country, would say that they would fall enormously, perhaps seventy-five per cent or more; at least, this is the opinion commonly expressed by casual thinkers on the subject.

They have in view only the ratio of the specie to the debt of the banks, as exhibited in their returns. It might be well for those who think so, to consider how long anything moveable would remain in this country at one-fourth its present price, or how long the specie could be kept out that would be offered in exchange therefor. As we export about $275,000,000 of merchandise annually, at present, it would not seem to require a great fall of prices to increase the export of merchandise to equal the gold exported—$50,000,000 yearly, and keep the gold at home.

What are the banks in this connection? They create no real money, no gold or silver, nor anything that will procure them from abroad. They create no value, and add nothing to the demand for labor, or to the products or wealth of the community; but they create debt, inflate prices, furnish machinery for speculation, and expel gold from the country, to make room for their own debt, and gain interest thereon. They do not, and cannot, make any *permanent* addition to the currency.

* Reprinted from *Hunt's Merchants' Magazine and Commercial Review,* XXXVII (Oct., 1857), 429-34. This paper also appeared in *The Canadian Merchants' Magazine,* II (1857), 114-115. I am indebted to Dr. Crauford Goodwin for this information.

It is marvelous what a perfect hallucination upon this subject possesses the minds of men otherwise thoroughly intelligent.

The truth is, the fall of prices would be scarcely appreciable, at any time when gold is not being extensively shipped out of the country. If gold is not exported, it is for the same reason that prevents the export of any other commodity; because its value is as great here as abroad. It has no more reference to debt, or the balance of trade, in this connection, than beef or pork.

What regulates or determines the value of gold? Certainly nothing but the money price of commodities. An average rise of prices is a fall in the value of money. An average fall of prices is a rise in the value of money. And as gold is money, it varies in value accordingly, inversely as the prices of exchangeable things. A general rise of prices can be brought about only by a relative disproportion between money and all commodities; money must become relatively plenty, or commodities relatively and universally scarce. This latter condition is scarcely possible. The great changes in general prices are the result of changes in the supply of money, as it is thrown upon or withdrawn from the market, alternately.

To bring this matter within the comprehension of every reader who will give it a moment's reflection, let us assume some one commodity as the representative of all others; its money price representing the value of gold. We will take wheat, for example, at the average price of $1.50 per bushel, and suppose it will pay something to export at that, but nothing at any higher price. Then if it should become a little scarcer, and rise 2 per cent, gold would be cheaper than wheat, and instead of shipping a bushel of wheat at $1.50, the exporter will send $1.53 in gold, with which he will buy 2 per cent more wheat elsewhere. This would be owing to a rise in the *value* as well as in the *price* of wheat. But suppose, instead of wheat becoming scarcer, the same relative disproportion between wheat and gold should be caused by an increase of gold, precisely the same effect upon prices would be produced; wheat would rise from $1.50 to $1.53 per bushel. This would not be a rise in the *value* of wheat, but a fall in the *value* of gold.

I presume the reader will not need to be told that the dollars manufactured on bank books, and in paper notes, are just as available for purchases, and have the same effect upon prices, as those made of gold and silver. At any time, therefore, when $1.50 per bushel is the exporter's limit for the shipment of wheat, if we supply 2 per cent more of the *fancy* dollars than the currency contained before, the shipment of wheat stops, and the dollars go in its place; but not the fancy ones—they are made for the home market, where they must remain.

It will be observed that this advance of 2 per cent is an average rise of all commodities, in the degradation of gold. Of course, the imported commodity is advanced with the rest, and we pay the 2 per cent, which is the precise addition of the paper to the currency, and get nothing for it; that is, we pay $1.53 for an imported commodity, which was worth, in the previous condition of the currency, $1.50; the paper addition to the price, equal to 3 cents per bushel on the wheat, being wholly lost. And this is the only way in which paper money can be introduced. It must cost the country its whole sum in standard gold.

Obviously, this state of things could not continue, for if it did, our gold would run out, and the imports would run in, till the gold would be exhausted. The gold does run out, till the excess of money is reduced, and wheat falls to $1.50, when wheat can be exported again; but the gold is gone, and we have the fancy dollars permanently established in its place by a sheer usurpation.

The reader will not understand me to say that there is ever a period when the export trade is entirely suspended. Some or many commodities can always be exported to various markets. In taking wheat for an illustration, I wish merely to embody the change of price and value produced by an alteration of the proportions between money and commodities; the average alone must be considered in this illustration.

Nothing can be more certain than that any increase of currency here, in relation to commodities, beyond the same relation elsewhere, will make gold worth less here, in the same proportion, and send it abroad. A fall of one per cent in the value of gold must be measured and determined by a rise of one per cent in the average price of the commodities offered for sale. Commerce will discover this with infallible certainty and take the gold. An average fall of one cent, therefore, in the price of commodities, by a reduction of that proportion of the currency, sinks that difference, and keeps our gold at home.

And here I would remark, that this fall of prices of one per cent, or ten, or fifty per cent, or whatever it may be, is precisely made good to us in the enhanced value of money. If fifty cents will buy as much of all property as one dollar, the value is the same. The effort to supply the additional sum, without increasing commodities, defeats itself, by degrading the value, in proportion to the increase, of money.

It is wealth—capital—that we want, not money. The less money we have in relation to commodities, the better; the more active will be the business, and the greater the prosperity of the country. We produce exportable articles abundantly, and can produce an abundance more. It is utterly impossible for us to prevent the supply of real money *if we use no other.* The only method of making money scarce in this country is that which we adopt, of making debt plenty, by which money is made *relatively* scarce. Two-thirds of our currency is debt—a mad system of kiting between the banks and their customers—and an enormous superstructure of debt is built thereon, keeping almost every trader in danger of bankruptcy. There is nothing else the matter with the business of this country. We are the most productive people in the world, by reason of our intelligent industry and the comparative absence of war, army, navy, idle privileged classes, paupers, and unproductive consumers generally.

Cultivating the arts of peace, with an education almost wholly devoted to utilitarian purposes, while other nations are wasting their resources in war and frivolity, we are growing strong; but we are contributing to them, of our earnings, many millions of good gold, yearly, for which we get no return. We thrive by vigorous labor in spite of the wasteful currency—not by it.

We create more property than any other people, according to numbers, and that remains in houses, ships, cultivated lands, and various merchandise, through all the financial revulsions. Thus we present the anomaly of a nation of great wealth, with very little money included therein, much debt among ourselves, which includes two-thirds of what we call our money—vigorously prosperous as a unit, with a people individually more generally bankrupt, careworn, and distressed, than any other on the globe. This, of course, is more frequently the case with the manufacturers and traders than with farmers and mechanics. As to the traders, there are not five in a hundred, over 55 years of age, who have not been compelled to compound with their creditors once or more, or who can pay their debts at last. In distributing the wealth of the country, they come more immediately in contact with the banking system, and suffer the most accordingly.

It is slander to say that all this is the result of individual mismanagement of business; it is the fault of an abnormal system of finance. Bankruptcy in trade occurs in proportion to the extent of the debt banking system all over the world; it almost never happens in countries using only a specie currency. It has visibly diminished in New Orleans—formerly the most notorious place in the country for bad debts—since the passage of the restrictive banking law of Louisiana, suppressing bank notes below the denomination of $5, and requiring the banks to hold one-third the amount of their immediate liabilities in specie. New Orleans is now the safest of our Atlantic cities in regard to commercial obligations and has greatly the advantage of the others in the exchanges of trade. Seldom does the name of a New Orleans merchant appear in the published bankrupt list; and in the present financial epidemic, originating in the inflation of the New York banks, which distresses almost every other city, New Orleans remains unscathed.

With such experience to guide public opinion, it is unaccountably strange that the transparent evils of our banking system do not fix the attention of every intelligent person in the land. They could be easily remedied, with great gain to the country, and the remedy would impart immediate activity to trade.

If we should retain the annual supply of California gold—$50,000,000, and buy $50,000,000 more from Europe, what would it be but selling an additional $100,000,000 of merchandise for cash? Every trader is desirous to sell his goods for cash, but few are aware that the reason he cannot do this is that the cash is not here, because it has less utility and value in our commerce than in any other. The bank debt, that we use in its place, and call *money,* is mortgaged by a counter debt as soon as it is created, and remains mortgaged as long as it exists. It is debt issued, for debt received, and is in constant demand to discharge itself. There is none of it to spare for cash traffic in merchandise. Its only office is one of transfer; debt can never be reduced by that sort of money. As long as the community owes the bank, the bank must owe the community. Unfortunately, the contract on both sides is for planchets of gold that neither party ever possessed. It is precisely the cornering trick of the stock exchange, elaborated and extended over the whole country. When the shorts are called upon to deliver, the planchets are in Europe and Asia; they can only be obtained by a journey round the world, and in the struggle to obtain them, the means relied upon may probably collapse one-half. What then is to be done? We are skilled by extensive practice in this emergency. Settle the difference in bankruptcy!

Now, I ask the reader to consider well the vast importance of this subject. The banks of the United States owe, in circulation and inscriptions of credit, about $400,000,000, over and above the coin they hold in reserve, and there remains $200,000,000 of coin in the whole country, including the amount in the banks, the government treasury, and the pockets of the people. That portion of this whole sum—$600,000,000—which is not hoarded, that is, which is being offered for the purchase of property, measures and determines the price of all the property of this country.

The debt portion—$400,000,000—of this currency usurps the place of the same sum of *money*—namely gold and silver—that in a series of years it has expelled in utter loss to the country. Not a picayune, in my opinion, have we ever had returned for it; for we could have paid for all the imports in our usual productions, which employ our home labor and navigation, for precisely that sum less than they have cost, and retained the $400,000,000 in coin, if we had given it value by use, and never degraded it by the addition of fictitious dollars to the currency.

And what an incubus of debt is piled upon these four hundred millions of kiting! Anyone who can estimate how debt piles upon debt, and how a comparatively small sum of money will circulate by payment from one to another and discharge it, may form some idea of the immense difference to this country, to our resources in war as well as in peace, to the morality, the peace of mind, and happiness of the people, between struggling under this huge mass of debt, and having the coin necessary for its discharge. Then there are many millions of dollars of counterfeit bills, in active circulation, as good as the best, till they are found out; they are the bobtail of this ungainly kite, and have cost the country good gold, for their whole amount, like the kite itself.

When the export of specie is stopped, by the curtailment of loans, if no new increase of loans were made by the banks, and the labor of the country were left unobstructed in its normal course to increase commodities, inevitably the exports must increase. Labor is a necessity, everywhere, and production the consequence. Commerce is Argus-eyed and finds a market for everything. She is creative, also, and makes a market where none existed before. Nothing but nonintercourse or war can stop the imports; only an unwise and feeble policy would attempt to do it. The more valuable the foreign commodities, and the greater the imports, the greater is the demand upon us for labor and navigation to supply returns. Labor alone creates wealth. Business is increased thereby, and enures to the advantage of the nation possessing the greatest amount of productive labor, and the least amount of unproductive consumption. We need not fear the whole world in this struggle, with our present peaceful industry, and the general intelligence which enables the laborer to handle his tools to advantage, and produce results not to be obtained elsewhere.

The exports of merchandise would increase, indefinitely, until, by the importation and production of specie, the whole four hundred millions of kiting should be displaced by coin, leaving a purely metallic currency, and gradually melting away probably twelve hundred millions of debt, that now rides the community like a nightmare, and obstructs, by a high rate of interest and continual defalcations and revulsions, the productive labor of the country. When that point is attained, when there is no paper alloy in the currency to degrade it, gold possesses its natural value, and will command that value in exchange for every other commodity. In such a condition of the currency we might as well sell gold as anything else. Any excess thrown upon the market would not remain here. Prices would rise—attract the imports and check the exports, as of late, and the excess of money, which cheapens it in relation to its value elsewhere, would be exported. But as all the dollars would be real—the product of labor, creating value by their own creation, whether mined or imported—there would no longer be any loss to the country in exporting gold. Being substantial wealth, the dollars would command substantial wealth, for their full value, in return.

There is now a certainty of a rise in the value of gold, that is, a fall in the price of commodities, that will temporarily stop the export of gold, set in motion our exportable merchandise, and give a start to navigation. In every such revulsion as the present, the reaction reduces money below the amount that would occupy the currency in specie alone, if there were no paper money, and necessarily carries down the average price of commodities below the true specie measure.

From the considerations herein presented, it results that whenever the banks of this country have so reduced their loans as to put a stop to the export of specie, they have done all that can be done in the reduction of prices *permanently;* they have then reduced the currency till money is as valuable at home as abroad. From that point the path is easy to a full resumption of specie payments; and, infallibly, that path, if followed, would be one of continued activity in business, and of unexampled prosperity. To that point they are compelled to recede, at certain periods, for their own salvation: it is no new thing. Their promises then occupy no more space, and amount to no more, than the specie they have displaced.

To that condition the banks are now receding, violently, for the New York banks lead the country in this regard; and when they reach it, if they would then stand still and not again increase the fictitious money, specie would flow in, and our commodities flow out, in exchange, inevitably and rapidly. We should gain, in the increased value of money, more than we should lose in the price of merchandise. Our idle ships would soon spread their canvas to the breeze, and more ships would be required. Railroads would find full and profitable employment, their stocks would rise, like magic, in the market, and we should secure the greatest sale of merchandise, and enjoy the greatest prosperity ever witnessed on the habitable globe.

But will the banks do this? Surely not. Their present system imperatively demands the utmost expansion of debt to earn, or rather to win, dividends, and the utmost expulsion of money to make room for their debt. Their loans will increase, the moment they shall be relieved of the demand for specie beyond their receipts; and the almost fabulous supply of gold will secure this to them speedily. We shall then go on selling gold for less than it costs, or less than it is worth, and increasing debt as usual. Debt, failing, and unnecessary suffering—aching and breaking hearts, among conscientious men; and defalcation, lying, and stealing among the unconscientious—must continue to be conspicuous in the walks of trade, so long as this system controls the commercial finances of the country.

All this might be easily remedied by a few influential men in New York and Boston, in the establishment of institutions for banking with specie, obtained as deposits are obtained by the savings banks, borrowing—or rather obtaining from the depositors, who would be the only proprietors—coin at a low rate of interest, and lending at a higher, and charging commissions for service, thus giving a true and practical direction to public opinion in the use of legitimate money—COIN ALONE.

I have not time, or space, for the consideration of the remedy in this article.

7

Interest and Cheap Currency*

It is important to consider the nature of interest with reference to any movement for the reform of the currency. It is almost uniformly supposed to be the value of money, and this false idea is the cause of more obscurity, in the consideration of the currency question, than anything belonging to the nature of the subject. Interest indicates the value of debt—not of money. It is inversely as the quality of debt—the poorer the debt, the higher the rate of interest. This applies to the whole mass as well as to each individual debt, or to the average value of the debt in every community. That of California is the lowest in value, with panic exceptions, of any in the world. This is owing partly to the same cause that degrades the security and increases the quantity of debt here—namely, *debt banking.* The bankers of California grant two promises to pay the same dollar, upon the principle of our chartered banks, and of course, when payday arrives, the same result follows that always must attend this system of banking—somebody must break for the obligation based upon the dollar created without value. Yet they grant only book-credits—people love to deceive themselves by calling them "deposits." Adams & Co., and Page, Bacon & Co., were ruined by this, with many other bankers and merchants. One would think there could be no occasion to add dollars of debt to the abundant gold currency of California; but there is no limit to the demand for dollars, whether made of

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gold, or silver, or debt, because there can be no limit to the price of commodities attending the increase and consequent degradation of the currency. Money can be merged in price forever.

But the principal difficulty with California is her position as a gold-producing country. This keeps the market glutted with commodities that, from the nature of the case, must flow there. The fact that the material of money is cheaper at the source of supply is only the converse of the fact that commodities are dearer there than elsewhere. If it were not so, the gold could not be brought away. Nobody would send merchandise from New York to San Francisco, intentionally, if he could obtain as much gold for it—that is, as much price for it—here as there. California must keep down the *value* of her gold to sell it, and this can be done only by keeping up the *price* of her imports. Gold is almost her only crop; it is but an inferior want—the superior or more essential wants are food, raiment, and shelter; to procure these she must sell her gold. Thus it is that prices, with accidental exceptions, must be higher there than elsewhere, and they will always attract an excess of imports. Prices cannot be low there permanently; therefore that excess, not wanted for money, is sold on credit, or advanced upon on time by commission merchants, at the high prices caused by cheap gold, the bills are discounted by the bankers, and the gold brought away for the sum of the proceeds. California is too new a country to possess much capital. Gold is not capital more than any other product of human labor, and relatively her commerce and her people are oppressed with a heavy debt. For these reasons the rate of interest is almost uniformly higher there than anywhere else. It is because of much debt and little capital.

As the quantity of debt, in relation to capital, increases anywhere, the quality depreciates in proportion—most especially is this law applicable to the currency. Therefore when our debt-currency, in which I include credits as well as circulation, is at the highest, as in 1837, and in the middle of August last—when, according to the fallacious notion of our people, we have the most *money*—interest is at the highest. The truth is, then we have the most debt and relatively the least money, and much of the debt is in the worst place in which it can present itself—the *currency.*

As debt declines in amount it improves in quality, except during the frenzy of the change; and when the debt-currency is at the lowest, interest is at the lowest. It was so in 1843-4, and now most of the debt existing four months ago having been removed from the market by defalcations and the reduction of bank loans, interest will fall below the legal rate in a very few weeks (probably by the time this article is in type), if the banks do not increase their loans, unless the same difficulties should reduce the currency of England below ours in relation to commodities. Indeed, it is there already on undoubted securities, and we may soon have all securities undoubted, if we will, and make an end of future bad debts.

These details respecting California apply also to Australia, with the exception that Australia was a cultivated country possessing capital, when California was a wilderness, and has greatly the advantage of California in this respect. They are necessary to show the fallacy of the argument against a specie currency drawn from the instability of credits in California, and the high rate of interest prevailing there. The truth is, an expanded and consequently cheap currency is the most costly and wasteful machinery a nation can possess; the history of the world shows it to be uniformly unprofitable or disastrous. It is evil whether formed of the precious metals or of bank debt, for a cheap currency and high prices of commodities are synonymous terms. It must encourage imports, check exports—excepting the precious metals which must be exported—and involve the community in debt; and bankruptcy follows in its train. This cannot fail to be obvious to every reflecting mind; nevertheless it has been unaccountably ignored by writers and talkers upon the subject of the currency.

A cheap currency is Adam Smith's great heresy, and here is his famous announcement:—"The substitution of paper in the room of gold and silver money, replaces a very expensive instrument of commerce with one much less costly and sometimes equally convenient. Circulation comes to be carried on by a new wheel, which it costs less both to erect and maintain than the old one."

This celebrated economist is as unfortunate in his illustration as in his argument with respect to paper money. A paper wheel would not seem to be very efficacious or valuable in a powerful machine. On the application of power, it is quite certain the machine would stop or run to destruction, and such, to my mind, is the effect of the paper substitute for money in the currency. It has thrown out of gear, repeatedly, all the machinery of commerce in every nation that ever adopted it, and the wild work we are having now is precisely owing to this nuisance in the center of our system.

I have no quarrel with the bankers, and those who administer the system. They are with us and of us, and are no more responsible for its evils than others. They unquestionably lose as merchants and citizens, by its general evil effects, more than they gain as bankers. The reader, therefore, will comprehend the distinction between the system, which I condemn, and those who are engaged in its direction and details.

Dr. Smith understood perfectly well that every pound note, or every bank credit, added to the currency, expels its amount of gold and silver; but it never seems to have occurred to his mind that the additional currency must degrade the value of the whole, before the precious metals can be displaced—that they must be sold at the degraded value, and that the excess, which causes the degradation, must be thrown off in the inflated price of commodities; so that the metals are utterly lost to the community that substitutes the bank currency.

No man is more eloquent than he in praise of the policy which spreads the most widely a thorough cultivation of the soil, as the true means to secure the greatest wealth and prosperity to the nation; yet he did not discover that, if the nation exports its gold and silver, it must retain the products, or stop the labor which renders that cultivation necessary—his argument thus defeating itself—and that debt must take the place of money, not merely in the currency, but in the repeated transactions that would otherwise be made for money.

This is a most important mistake of Dr. Smith's, that has exercised a wide influence in retaining debt in the currencies, and in disturbing the commerce of Europe and America. As a pioneer in the science of political economy, when few facts had been elaborated, upon which to form sound conclusions, it is not very surprising that this, which appears to be the only important error in his system, should have escaped his observation; but it is unaccountably strange that Ricardo, Fullerton, Mill, and others, who have written at a comparatively recent period, should have followed him in this specious, but false and destructive, doctrine.

What argument is there for a cheap currency, that does not apply, with equal force, to cheap houses, cheap furniture, cheap ships, cheap apparel, cheap food, cheap learning, and cheap everything? If this is true economy, how are we to have any wealth at all—in what can it be invested, and how are the people to be employed? Shall we return to barbarism, and put a stop to the employment and gains of our merchants, to promote economy? The argument is perfectly absurd; it would reduce the city to a group of shanties, and carry us back to the destitution of mother Eve and her apron of fig leaves.

Everything of utility is wealth. It is the same to us whether we produce or import it. In the former case, it is the direct product of our labor; in the latter, the product of our labor supplies returns. Therefore wealth, obtained in gold and silver, is the sure means of disposing of an equivalent amount of our products for cash. To object to this as a dear currency, and complain of the loss of interest thereon, is as futile as to object to the fine warehouses and dwellings, or to anything else that constitutes the wealth of New York, and say that Irish shanties would be a great saving, and answer every purpose.

If there is anything in the world we want dear and valuable, it is the currency; for while we can keep it more valuable than that of other communities, we cannot fail to sell commodities, buy money, and keep out of debt among ourselves and with the world. A valuable currency may be obtained in two ways, either by reducing its volume or by increasing commodities. The former, however, insures the latter, and is in direct opposition to our banking system; for just in proportion as we cheapen money, by increasing the currency, we sell our money, stop our exports, and of course limit the employment of our navigation, and limit cultivation, production, and wealth; and just in proportion as we pursue the opposite course, we thrive. Value, and therefore wealth, are the same at any price. A barrel of flour at $5 is of the same value, with a given amount of currency, as at $10, with double the amount.

We cannot stop the gold-producing in California. Under Providence, it is settling that country—that is all the good we can say of it; but if the same amount of labor were employed in any other production, it would be vastly better for the whole country, and would result in more wealth, and in securing a better population. It is only cheapening money, by raising the price of everything not made of gold; the only advantage being that we obtain gold leaf, plate, and trinkets in exchange, for less of other things. But we cannot stop it. What, then, should we do? Certainly use the gold—all we can of it. Give it the most extended use, and thereby the greatest possible value. Away with the debt banking! Let us have room for the gold. We have room, by withdrawing the debt from the currency, for $400,000,000 of gold, before the rest of the world can take any of it, unless more is returned than taken away. By retiring the bank currency we can keep a constant balance of gold in our favor, with a constant increase of business, and decrease of debt. While we are obtaining it we shall pay for all the imports in flour, wheat, corn, fish, beef, pork, ashes, and everything else that we can send out of our ports, not to Europe only, but, in every direction, to all the world. But, to do this, we must quit tampering with theories—we must use, and not neglect, the thing we promise to pay.

The quality, not the quantity, of the currency should be our constant care. If the quality is pure and unadulterated, the quantity will take care of itself. No foreign tariff, no foreign or domestic policy—short of war—no power on earth can prevent us from obtaining and retaining more gold, as we have relatively more productive labor, in proportion to population, than any other nation; except the abnormal power exercised, but not, in my opinion, constitutionally possessed, by the State Legislatures, of adulterating the currency in such manner that the mixture can be separated at will, the pure taken off at the adulterated value, and the dross left with us.

A constant effort is being made to place those who are satisfied with a pure currency in a false position. It is attempted to place us on the defense when we are plaintiffs in the cause. We are required to show cause why bank notes, issued upon real estate, imaginary estate, and no estate at all, are not as good as gold; why notes issued upon the security of State stock are not perfect; why the whole real property of a kingdom or a nation may not be coined into money by the transmuting power of legislation, and why a promise to pay is not *pay* itself. To all this we reply, that gold is gold, and silver, silver. We are perfectly satisfied with them for currency. We are no theorists, and have no theory to propose —none to defend. We have nothing to do with negations in the case. We state the positive fact that gold and silver are money, possessing value; and that a promise to pay them is debt, and not value. By what rule of common sense we are called theorists it is difficult to comprehend. They are theorists who utter a promise to pay an ounce or a dollar of gold, and propose to pay it with anything else. Whenever and wherever such promises have been substituted for gold and silver, the result has been embarrassment and loss to many, and ultimate ruin to more or less of the community. Dispel the mischievous theory! Cease tinkering the currency with a paper wheel, and let us depend upon the solid material of gold and silver!

The paramount law in commercial finance, I conceive to be, that the currency should never for a moment exceed its natural volume. However little this may have been understood by the economists, or however much neglected, it will infallibly become a settled conclusion of political economy. Nothing can prevent a commercial country from obtaining and retaining its due share of the precious metals to form the natural volume of its currency but that neglect of their use, and substitution of debt in their place, which degrades their exchange value. Because they form the medium of exchange, and a given weight of gold therefore becomes the price of other exchangeable things, people do not discover that, in parting with gold for something else, they are merely exchanging one commodity for another—that there is reciprocal value in the exchange, and that the parting with any additional sum of gold, in making the exchange, is quite as likely to be owing to a fall in its value, as to a rise in the value of the thing purchased; but it is so. The recent high prices have been caused by the swollen and unnatural volume of the currency; they have been a degradation of the value of money, and not a rise in the *value,* but only in the *price* of commodities and property.

There is a surprising fallacy in the public mind respecting the quantity of currency required to circulate the products of the country. If the principle of debt is not in the currency, any quantity will be sufficient to transact any extent of business. If commodities increase and the currency does not, prices yield until the export trade takes off the commodities and returns specie. Prices conform to any volume of currency, more or less, with equal facility. If expansion were not permitted, contraction, with the present increase of gold in the world, would be wholly impossible.

Debt in the currency is therefore a fatal principle. It cannot be introduced without being, in the first place, an addition to the natural volume of the currency, which, if not tampered with by legislation, would always be regulated by the labor and commodities offered in exchange therefor. The addition cannot remain. It must be lost in the inflated price of other things which cannot be sold, and thereby virtually cost us their equivalent in the gold exported, or it is paid away in the added price of imported commodities. If, with a natural currency, corn could be exported at $1 per bushel, and, by an artificial increase of its volume, the export of corn is stopped by a rise of price to $1.10 per bushel, and $1.10 of specie goes in its place, it is clear that the retention of the bushel of corn has cost us $1.10 in gold. This is one form of the evil. Another is that the foreign imports have the benefit of this rise of price, and the foreign commodity—a yard of silk for example—which, with a natural currency, could be bought for the price of $1, and paid for in a bushel of corn, will rise to $1.10, and must then be paid for in $1.10 of gold, because the foreigner can take the gold to another corn-producing country and buy there 10 per cent more corn with that amount of gold than here. In either case we lose 10 per cent in standard gold, and shall continue to lose until the excess, which is mere disease in the currency, is thrown off. I am perfectly satisfied that, in this manner, our artificial money costs the country its whole sum in gold, and restricts our business to the same extent, instead of increasing it as many have supposed.

But there is another evil, of still greater magnitude, which is the prime cause of our present financial difficulties, and of all the financial difficulties we from time to time experience—namely, *the dollar of debt, created without value and placed in the currency, creates an obligation, or is of itself an obligation, that never can be paid.* If the bank should lend gold to its customer, it would be one thing—*value*—and there would be *value* in the hands of the customer to repay it. Nothing would be added to the currency thereby; no depreciation of the value of money and consequent rise of prices would result therefrom. But the bank lends quite another thing—it lends *debt* and no *value.* Nothing goes into the hands of the customer, or the community, to repay it. It is the difference between something and nothing—between value and no value; and yet this thing of no value becomes currency, in addition to the currency existing before, and necessarily adds itself to the prices of all things—labor and commodities. In other words, it depreciates the value of money for its whole amount.

Suppose the volume of the currency to be doubled in this manner, then a commodity that sold before for $5, and probably for cash, would rise to $10; and as this artificial money is obtained only by creating a debt in exchange, the commodity will almost certainly be sold on credit, for the debt banking system must be supported by debt, of course. The reciprocal debt of the people and the bank becomes $10, which was only $5, or nothing before. Probably the article will be sold three times over on credit, at the average price of $10, creating $30 of debt. When the liabilities of the banks return upon them in a demand for coin, they demand the same sum from their debtors; they demand a *value* which never existed; one-half the sum was mere *price*—it cannot be paid.

The banks attempt to collect $10, five of which they never loaned and never possessed. The people possess nothing for it but the debt of the banks, and the banks possess nothing for it but the debt of the people. It is a reciprocal demand for coin that is nowhere, or for an equivalent value that is nowhere—that never existed. It is reciprocal destruction—the fight of the Kilkenny cats. Payment is impossible, and the $5 of artificial currency thus created, inevitably creates in this transaction $15 of bankruptcy. I am making a very moderate assumption in this illustration, for the capital of the bank is not *value.* It consists mainly of credits checked out of other banks, continued in an endless chain of debt, and when the demand comes for coin, it is not merely dollar for dollar they call back, but frequently five for one, depending upon the extent of their expansion. Moreover, the removes of a commodity between the producer and consumer probably average five, all of which, by this system, must be made on credit; but the number and extent of these credits, whether longer or shorter, obviously depend upon the expansion or contraction of the bank loans. If five, then every bank contraction compels the settlement of five times its amount in bankruptcy. There are three most important points or doctrines, herein presented, to which I ask the especial attention of the reader:—

1. Interest must be dear, and debt plenty, when and where the currency is extended and cheap.
2. Every dollar of currency, created without value, costs the nation its whole sum in standard gold, and restricts the business of the country. Europe adds her supply to the stream of the precious metals, flowing to the eastern nations from this country, upon the same unprofitable terms.
3. The dollar of bank money creates an obligation that never can be paid, and repeats the defalcation for every obligation based upon it. History and experience demonstrate this fact in every bank contraction, great or small.

These may be my discoveries. I do not find them mentioned in the writings of the economists, but to my mind they are self-evident truth.

Such are the evils of our system of banking, resting as it does upon the competition of more than 1,400 banks, whose profit and whose existence depend upon the abnormal principle of making interest on their debt payable, and degrading the currency. Who would not issue "bills payable," without limit, if he could be permitted by law to charge interest thereon, and how is such a power to be restrained?

A great fact, like the general bankruptcy now prevailing in the commercial world, does not spring suddenly into existence by accident. Like every other fact of human history it has its primal element, or ultimate atom. That element or atom is the dollar of debt added to the natural volume of the currency, and all remedies for the financial evils, of such frequent occurrence in this country, must be directed to the removal of this destructive principle.

I think it would not be difficult to establish in New York the legitimate system of *banking with coin,* if the Legislature of the State would modify the usury law in favor of institutions conducted upon that principle, so as to permit them to borrow and lend *money,* and nothing else, without restriction as to the rate of interest. But the restraint upon their loans must apply to their credits as well as their circulation. The credits to lenders would be payable at stipulated dates; the credits to borrowers must not be loaned for a dollar or a moment. They would be merely the safe keeping of coin, liable to be drawn out at any moment.

But to facilitate this system of banking, I think a law of Congress is necessary authorizing the deposit of coin in the subtreasury, and issues of certificates for the same, of the denomination of $20, and upwards. A paper currency being necessary, it should be so much superior to any other as to have the preference in circulation. It should be free from doubt and subject to no evasion.

Small payments for remittances would be necessary, for which coin would not be convenient, such as subscriptions to newspapers, etc. These could be paid in coin to the postmasters, who should be authorized to draw for the amount on the subtreasurer in the city, to order. The national government can well afford to be put to some charges, and ought to take every available measure to relieve the country from the present system of banking with debt, which is continually piling debt upon the people and spreading bankruptcy and wretchedness over the land.

With these measures on the part of the State and the United States, I do not see why a currency of *money* might not be established in New York, and if there, its adoption by every other State would, I think, be a necessity—for the exchanges would be so constantly and so largely in favor of New York, that she would infallibly take the coin for every convertible note or credit issued in the other States without value. It would be necessary to place this system under the supervision of a strong board of currency, for the whole State, to enforce the law.

I am clearly of opinion that when, if ever, New York shall establish a specie currency, with no evasions, the present ruinous system of banking upon debt will be at an end in this country forever.

8

Organization of Debt into Currency*

This work is being vigorously pressed forward by the New York City banks, they having increased their loans from $96,000,000 in October last, to $120,000,000 at the present date—7th July. By our unnatural system the deposits and circulation of the banks constitute the medium of exchange, and these have been increased in New York City since last October, from $61,000,000 to $114,000,000. The large reserves of gold with the continued receipts from California indicate that there will be a much greater expansion before they can be exhausted. The deposits and circulation are not money but *currency,* the most effective portion of which consists of the deposits; for, through the medium of the deposits, all the larger transactions of commerce are accomplished. It is a common error in estimating the currency to omit the deposits, for by the magic of our system the borrower often or generally becomes the lender and depositor of currency. Although both borrower and lender cannot have the same dollar at the same time, both are privileged to check upon it, and may offer it for purchases; thus it produces the same effect upon market prices, by degrading the exchange value of money, as double the amount of gold and silver in the hands of individuals. A sum thus available at sight by a check on the bank is as much currency as the bank note deposited in one's pocket.

* Reprinted from *The Bankers' Magazine and Statistical Register,* XIII (Aug., 1858), 137-42.

The real lender who deposits his money in bank, if a buyer in market of anything, creates a competitor with his own money. According to the homely saying, he "lends a stick to break his own head." The balance of cash on hand of both borrowers and lenders is in the deposits; they are convertible into specie on demand, *if not demanded too largely and too fast;* they pass from hand to hand in checks, are used for purchases like coin, and in competition with coin, and the banks discount upon them as upon their circulation or their specie: in short they are *bank debt organized into currency,* differing only in form from the circulation: the latter consists of certificates issued for a portion of the debt, while the former is that portion of the same for which certificates are not issued.

The term "deposit," as applied to the amount at the credit of a borrower, is in truth a misnomer, for the borrower deposits nothing—there is no money in the transaction; it is simply an exchange of debt. Yet it is effectually *currency* to be used as equivalent to coin at any moment. In event of a bank contraction, however, it is apt to become a most embarrassing claim upon both bank and borrower, for real dollars that are nowhere—that never existed.

The organizing of debt into currency is the prevailing error of this commercial age. It seems to suit the genius of our people, and is more practised in this country than in any other: next it prevails in England, less in France and Holland, still less in India, and not at all in China. To whatever extent this system is in use in any country, the precious metals are expelled; to that extent they cannot remain, for money and debt are natural antagonists, like fire and water; one must extinguish or expel the other. Consequently we now find gold and silver flowing from the United States—where we use debt in their place even to the denomination of one dollar in the bank note—to England, thence to Holland and France, and, by the Alexandria steamers, to Egypt: thence through the Red Sea to India and China, whence there is never a return. Official accounts show that over $100,000,000 of gold and silver are manifested as shipped from England and France by those steamers annually of late years. Some further amount is taken by passengers; so it seems probable that nearly or quite two-thirds of the sum of the world's production, yearly, of the precious metals, is being thrown upon Asia by the bank debt currency system of America and Europe.

Very extravagant figures are frequently made respecting the production of gold and silver, but taking official statements of coinage and of exports from Mexico, California, and Australia, making allowance for the amount brought away by passengers, &c, there appears to be no reason to suppose that the production of any one year has ever yet exceeded $180,000,000 in the whole world. Before the gold discovery in California it was but $55,000,000 per annum. Now we find about double that amount going to Asia every year —the silver to China, its place in Europe being supplied with gold.

But the effect upon the general commerce and the individual prosperity and happiness of the people of this country is our concern in this matter. Nothing will prevent the precious metals from going where there is an effective demand for them, and nothing will prevent them from leaving the country where such demand does not exist. If we do not use them for currency they will go where they have that use in addition to other uses; for, like all other commodities, where they possess the highest utility they possess the highest value, and under the keen instincts of commerce they are as obedient to the law of value as matter to the law of gravitation. *They* only are money; a promise to pay them is debt, and that debt is not equivalent to money, unless coin is exchanged for or remains deposited and pledged to meet it.

The "promise to pay," whether in the form of note or credit, placed in position to be used as currency in excess of the coin in the country, becomes a degradation of the value of gold and silver, and will compel the country to part with those metals at the degraded value, until the whole amount of the excess is exported, and absolutely lost in capital. The delusive effect of *price,* which is not understood by one man in a thousand, blinds the community to the truth in this matter. I have before illustrated this effect in your magazine, but it will bear repetition.

Let us suppose that we possess a currency of $100,000,000 of gold and silver, all active and of course measuring the price of all our commodities; for by the law of value all the commodities offered for sale will be exchanged or valued against all the money offered for their purchase. Now i£ we go into the banking system of exchanging notes and credits, and add 10 per cent or $10,-000,000 of bank debt in notes and book credits to our currency, all other things remaining as before, we shall infallibly raise the general price of things, 10 per cent. This will appear to give us $10,-000,000 of money, in addition to what we possessed before, and, it being supposed that the ratio of money to other property in every commercial community is as 1 to 25, it will appear to add $250,-000,000 to our property. Some statistician will now quote this as evidence of our great smartness, and of the advantage of our banking system, by means of which the wealth of the country has been increased $250,000,000. Alas for our smartness, which overleaps itself and falls on the wrong side. We have, like the silly shopman, gone over our establishment and simply, *very simply,* marked up our goods 10 per cent, by reason of which we have driven our customers into our neighbors' shops. The barrel of flour, which the exporter might have shipped at $5—will now be worth at home $5.50. Wheat, beef, ashes, and the numerous articles constituting our exportable merchandise, which employ the labor of the country in production, will be placed above his limits; he cannot export them, and instead of the barrel of flour at $5.50 he sends off $5.50 in gold, with which he buys 10 per cent more flour elsewhere, and our producers, our traders and our ships have so much the less to do. This effect is produced in the average upon all our exportable commodities; we retain them or stop their production at the cost in gold of 10 per cent more than they are worth. If the shopman before mentioned, should pay his debts at his own fancy prices, and where he owed $1.00, that he might pay in his own merchandise, should elect to pay $1.10 in gold, he would be no more foolish than we.

But this $10,000,000 excess of currency must run off in gold and silver. Our bank notes and credits cannot be employed in place of the metals abroad, and when our prices are brought within the natural limits of the natural currency, the shipment of gold and silver stops, and commodities are exported as before the inflation.

We have now the same volume of currency as before, namely, $100,000,000; but $10,000,000 of it is the bank currency of debt, for which we have parted with that sum of capital, and $90,000,000 of the original gold and silver. We have lost $10,000,000 of gold and silver in the inflation of price, having obtained nothing in return more than we could have had in exchange for our own domestic produce at one-tenth less price and retained the $10,000,000 of gold and silver besides. And now as the demand for gold upon the banks for shipment has ceased, and they can make no dividends without lending their debt as money in excess of their capital, another creation of $10,000,000 of debt currency is brought upon the market: $10,000,000 more of gold leaves to make room for it, $10,000,000 of our domestic produce remains behind that would otherwise have been sold, and, after the usual fall of prices, revulsion and bankruptcy, we come again to the original volume of the currency—$100,000,000, now $20,000,000 of debt and $80,000,000 of coin—and to shipping prices for our usual domestic products again; and we repeat this operation until we reduce our specie to the minimum, below which specie payments cannot be maintained. Now in parting with gold by this degradation of its value in the artificial increase of currency, we positively lose not only the sum of capital thus thrown away, but all the gain that so much real capital well employed would produce, for we have no capital left in its place—nothing but *debt,* which compels the whole country to buy and sell goods on debt and credit, with the certainty of extensive failure, in every bank contraction, that would otherwise be exchanged with money, for if the money remained it would be employed.

No nation or community with an open commerce can maintain a currency in proportion to commodities in excess of the average currency of the world; for, as soon as that excess appears, prices rise, check exports, encourage imports, and the precious metals, which are the only universal currency, must flow out until the equation of international demand is restored by the true average relation of money and commodities. In this country the whole currency usually consists of about one-third coin and two-thirds bank debt, the latter being sustained by repeated expansions that drive off the gold by cheapening it below the value of merchandise as fast as it appears, for all they hold of it is a dead weight to the banks, upon their present system, which derives its support from the loaning of debt and not of money.

I wish now to call attention to the fact, that for some time past, while the imports have been very limited, the exports of domestic produce have largely exceeded those of the corresponding period of last year, not in the aggregate *price* but in quantity and *value.* The value of money being greatly enhanced—that is, less money purchasing more commodities—the true value of our exports recently has been largely increased. Money for a brief period has been more valuable in this country than merchandise. Consumption and demand are naturally overtaking supply in the commodities that we produce with the greatest facility, and the country is just beginning to do well by a natural course of trade. Now, to check this, comes a renewed "organization of debt into currency" —an artificial increase of money to cheapen it. It wholly depends upon which we shall furnish the cheapest—money or commodities —whether our producers shall prosper and our merchants and navigation be well or ill employed. Since the world began there never was a period when there was less occasion or apology for the use of artificial money—when real money in gold and silver was so abundant, and so inviting use to give it value. But this is made by the artificial currency system, the foundation of the most extended mischief. Instead of using gold and silver for currency they are merely used as the basis of the greatest possible inflation by the banks, and consequent increase of debt in the community.

It was the cheapening of money among the nations using a currency of debt, and the inflated prices and obligations inseparable therefrom, which produced the revulsion last fall. We cannot restore prices to meet those obligations: many of them have been and more will be closed in bankruptcy, and if we should inflate again to the same degree it could only be succeeded by the same destruction. We cannot provide for those debts, and we should prevent any artificial increase of currency to prevent a future and similar catastrophe. But the banks of the city of New York control the currency and commerce of this country: when they expand, all other banks expand, and when they contract, all others must contract or fail. They are the financial directors of the creditor city of the country and thus of the whole country: they can cheapen money and compel its export with an increase of imports, or they can enhance its value, cause it to be retained, and secure the export of domestic produce and a decrease of imports at will. We have only to look at their figures to know what is about to happen in this regard, and it is plain that they have now determined to cheapen money and export the gold again.

We shall soon see all the other banks of the country increasing their loans—organizing debt into currency—general prices will rise; the present increasing exports of domestic produce will be checked; imports will increase, gold will flow out of the country at the rate of two or three millions of dollars per week; interest will rise with the increase of debt and decrease of real money; more banks will be demanded, because, we shall be told, the pressure for money and the high rate of interest make it evident that more capital and money are needed, and the additional banks will be expected to furnish additional capital and money. They will be obtained of course; for there is not a State legislature in the country, with the exception of that of Arkansas, but supposes that banks furnish capital and money: not a State but Arkansas suspects the truth that the banks of the present system create only debt, substitute that debt for money, and drive money and capital from the country. And we shall go on in this false direction until we come to another financial revulsion, as severe as the last, with debt riding the community to destruction, unless—and here we come to an effectual remedy—unless some influential banker, merchant or capitalist of New York shall take interest enough in the subject to understand it, and then take efficient measures to aggregate money capital in the currency—to organize into it *money* instead of *debt,* and thereby prevent money from being released for exports instead of our domestic produce.

I repeat, what I suggested in a previous communication, that individuals of wealth in New York, having the confidence of the community, can, with profit to themselves, reform the present abnormal currency and commerce of the country. If capitalists, like

Messrs. Astor, Wardsworth, Perritt, Peter Cooper, and others, would inaugurate the system of banking with money, aggregating a liberal *money* capital of their own with that of lenders, in an institution, with or without a charter, for lending their own money, borrowing of others at a low rate of interest, lending at a higher, and dealing in exchange, issuing only coin, or certificates of deposit against coin retained to meet the return of the certificates, and requiring payment in coin, or coin certificates without exception or evasion, obviously gold or silver would be retained in circulation or in their own coffers, to the extent of their operations; and to the same extent, domestic produce would be exported instead of coin in payment for imports. To a much greater extent debt would be extinguished and embarrassment prevented in the country; for at present every dollar of bank currency, which is nothing but debt, requires ultimately a dollar of real value to discharge it. Coin is demanded when no coin or value was created with the dollar of currency, and none passed on either side: the currency is required to be renewed to pay its counter debt, and the counter debt is mortgaged to pay the currency.

All our transactions are through the medium of "notes payable," and all the currency furnished by the banks is mortgaged to pay those notes, so that no money is in circulation to do business for cash. The more of such currency we have the less money we have, the more extended are the credits in time and amount, the greater the risks of business, and the higher the rate of interest. Probably five dollars of debt are thus created by the absence of one dollar of real money, to do the same amount of business, which, by being paid from hand to hand in sales for cash, would prevent them all. People wish to do business for cash but do not see that it cannot be done so, because we part with our cash to foreign countries, as soon as we obtain it, by keeping it the cheapest thing we have to export. We are thus obliged to go through the operation of *kiting* with the banks: it furnishes no money, being merely an exchange of debt and credit. Whenever the banks contract their loans the means of payment fail and the obligations founded thereon fail likewise—they cannot be paid.

In anything I say upon this subject there is no hostility to the existing banks. The fault is not in them, but in the delusive system which public opinion created and sustains. To that public opinion we must look for the remedy, and to that I address myself. A man or body of men cannot be blamed for pursuing a reputable business which the public sanctions and deems necessary. I believe, however, that the stockholders of banks, in the average, lose much more by bad debts and the general instability of securities and property, caused by the present system, in their individual affairs than they gain by their privileges or interest as bankers.

An institution like the one herein suggested would take money instead of debt from all institutions lending or dealing in debt as money, and ultimately bring them to its own terms of dealing in real value. This would finally make New York the centre of the exchanges of the commercial world, unless London should adopt the same policy.

I have not much confidence in legislation with regard to any improvement of the currency or the trade of the country, but the general government may do much to aid the restoration of a natural currency by receiving coin in the various subtreasuries and issuing certificates therefor, always retaining the coin on special deposit to meet the returned certificates.

We cannot *eat our cake and have it too;* this truth was settled to the satisfaction of each one of us in the nursery; nevertheless, we try the same absurdity in principle in our currency, and the consequences are demonstrated in financial revulsions, such as that which befell the country last fall. We must accept money or debt for currency; we cannot have them both for the same sum at the same time.

9

The Banking and Credit Systems, I*

To the Editors of the Merchants' Magazine:—

I have long wished to write an essay for your magazine on the distinction between the banking and credit systems, but have been deterred by the cool indifference of the public to the currency question, since the revulsion of last fall, which ought to have aroused public attention to the subject, and by an unfortunate disposition I discover in myself to scold about it. With every wish to respect public opinion, I cannot do it—cannot find anything in it to respect upon this subject. I try to smile with all my might, but find a scowl all over me as soon as I take pen in hand to write about it. When I would say the softest thing in the world, I feel that I dogmatize. With this difficulty to contend against, Messrs. Editors, I will, with your indulgence, proceed as gently as I can with the subject that heads our pages.

I know a worthy merchant of inveterate business habits who worked himself almost to a mummy in the pursuit of a gainful trade. Scrupulously punctual to every engagement, and scrupulously honest, he pursued the direct course that all prudent men and fathers and mothers advise, never turning to the right or left from his regular well-accustomed traffic for more than thirty years.

* Reprinted from *Hunt's Merchants' Magazine and Commercial Review,* XXXIX (Sept., 1858), 306-14.

Very cautious about bad debts, and very successful in avoiding them, he had accumulated a clear safe balance in July last year, to the credit of his stock account, of $175,000, beyond all contingencies excepting the exchange value of money. Now this worthy man, with all his industry, caution, and integrity, was swept clean dry of his whole estate last fall, simply by the sudden appreciation in the value of our currency consequent upon the contraction of bank loans. In a month, or less, one dollar rose in the market to the *value* of two dollars, and conversely his commodities and his ships fell in *price* 50 per cent, or from two dollars to one dollar. Of course he was in debt, as almost every man in business must be in this country, especially in Massachusetts, where we rarely have more than $5,000,000 of money in the whole State; the only possible mode of doing business being to take notes receivable and grant notes payable, getting the notes receivable discounted in bank to meet the notes payable discounted by others in like manner; repeating the same continually and using no money at all.

He was obliged to pay two dollars of debt, contracted on the former measure of price—the depreciated currency—with one dollar of his merchandise, valued by the new measure of an appreciated currency, as far as it would go; and the balance from his previous accumulations. This took the whole; it was too much for him; his mind gave way, and he is now in an insane asylum, a hopeless maniac.

The fault of this gentleman was that of the great mass of our businessmen, which bankrupts nearly the whole of them and sustains our present monetary system; he never cared a button for the *science* of his profession. He believed the only mercantile science consists in buying cheap and selling dear; and, with this peddler-achievement and exemplary patience, he expected always to manage, as he had done, successfully, a foreign business requiring three months frequently to countermand his order, and further or check his investments. During the bank contractions and consequent fall of prices in 1851 and 1854, I observed he declined selling; he held on to his commodities patiently till the banks inflated again and prices rose, when he sold his cargoes and secured his profits. He had no reason to doubt, in his philosophy, that the same result would immediately follow the contraction of last fall. He never bothered his head with the consideration of the power of gold to serve as the basis of inflation of the currency of the world, nor troubled himself with the irresistible nature of self-interest in the debt-currency system to accumulate debt that will command interest, as money, till the obligations of the community to pay money that never existed cannot be discharged.

All this was none of his business; his business was to import hides and wool, and get the most he could for them, and he pursued it faithfully. Unfortunately, it became an essential part of his business to get money when all the money in market was only money by name—when it was debt by nature, requiring to be paid as much and as fast as his own. This was a dilemma—a principle of self-destruction in the currency—a power of eating itself up—not provided for in his philosophy, and he was ruined.

Now, I find wise men in plenty—men wise after the fact—who think he ought to have sold at a loss on the early decline of the market; but this again was no part of his business; it was his business to sell at a profit, he had always done so and succeeded. Why should he do otherwise? He knew much of the demand and supply of wool and hides, and believed they altered in price only by a deficient or surcharged supply. Money, with him, was a "standard of value"; it always stood still in value except in the rate of interest, while everything else moved. He looked upon the increasing bank currency to be very beneficial, and had no conception that the rise in his hides was really the depreciation of money, and that the bank money was money only in name—that the banks would require real money to pay it at the time when he would most want money himself. In this he did not differ from nine-tenths or nineteen-twentieths of the merchants of this country; they look for the value of money only in the rate of interest, where it is not; the rate of interest having nothing to do with it, excepting to be high when money is low. Thus his fortune, his peace of mind, and the happiness of his family, have come suddenly to an end. Hundreds of others have suffered and are suffering, some even unto death, with broken hearts, under my own observation, from the same cause. I hold the merchants of this country responsible for it all; it is not the fault of the banks.

True, the origin of the evil was with the Bank of England, somewhat accidental I think, but our merchants sustain it to their own destruction, with no possible benefit resulting to the country, but with a loss of $50,000,000 of absolute capital, yearly, and the earnings which so much real capital in gold and silver would accumulate. With a little attention to the science of their profession, and a very simple and easy practical effort, they can reform it all, and leave England and other countries of Europe to enjoy the invention of the Bank of England of organizing debt into currency.

I have not time and space, in a short essay like this, to pursue the history of paper money or bank currency, but I may briefly say that the Bank of England was established as a mere *go-between* or agent to borrow money of the people and lend it to the government in 1694. The sum originally borrowed and loaned was £1,200,000 for an annuity of £100,000, or £96,000 a year, interest at the rate of 8 per cent, and £4,000 a year for the expense of management. This was legitimate and right; the lenders were the stockholders, and the government was the borrower. At five several periods this operation was repeated for various amounts, with a slight difference between the stock and the government loan, until in 1722 the capital amounted to £5,560,000 nearly, and the loan to government £5,375,000. The bank had, therefore, an unloaned capital of £185,000.

During all this period, the bank issued its notes, received individual deposits and loaned them, but there is no evidence of its having loaned more than it received, and it did a legitimate banking business until 1722. Then, in pursuance of an act of Parliament passed in 1721, it purchased stock of the South Sea Company to the amount of £4,000,000. To enable it to make this purchase it took subscriptions for only £3,400,000.

I do not find the reason stated for this deficiency of subscription, but presume the bank did not intend it. It may be inferred that distrust of the South Sea Company at the time rendered it difficult or impossible for the bank to obtain the full sum of capital to purchase the stock or annuities for £4,000,000. It was in the form of government annuities of £200,000 which were sold to the bank at twenty years' purchase, or at the rate of 5 per cent per annum. About this period the credit of the government was not always, or often, as good as that of private persons.

The capital stock of the bank, therefore, fell short of its loans in the aggregate £415,000; that is, it was deficient in subscription for the South Sea stock £600,000; from which, deduct the previously unloaned capital, £185,000; deficit, £415,000. This sum, then, the bank loaned in its notes and credits more than belonged to it; that is, of the money lodged for safe keeping belonging to its depositors and the holders of its circulation, charging interest on what was not its own. To this deficit it gave the very respectable name of "undivided capital." I think it was an *undivided swindle* upon the people, who did not understand it then, and who have never properly understood it since. The principle of a debt currency, therefore, appears to have had its origin with the Bank of England in the "South Sea bubble," the most outrageous bubble that ever existed. This principle has been extended under the still more agreeable name of "money," and has been constantly disastrous to England and to every other country where it has been adopted. Although property is produced and aggregated in spite of it, that property is robbed from its true possessor and transferred to the capitalist by this iniquitous scheme.

Afterwards, about 1754, the Bank of Amsterdam made a bold experiment of the same sort, rather more honest, because more easily understood. That was a bank of deposit only, and payments were made by transfers from one account to another on its books. It was bound by its principles to keep at all times in its coffers bullion equal to the full amount of claims upon it. About 1754, however, the Burgomasters in direction privately loaned 10,500,000 florins, about $4,200,000, to the States of Holland and West Friesland, and the Dutch East India Company. When this fact transpired, on the invasion of Holland by the French in 1794, the conduct of the directors, who had kept the transaction secret forty years, met with universal contempt and derision; but the principle was precisely the same as that of the loan to the South Sea Company by the Bank of England in excess of its capital, and of the present system in England and here, creating two demand obligations on one value, authorizing both lender and borrower to check upon the same money at the same time, thus increasing and cheapening the currency with mere "promises to pay."

The origin of this debt currency, or bank money, generally called "paper money"—although the deposits are as much currency as the circulation—explains its nature. It is *debt organized into currency* through the agency of a bank, over and above all the money in the world. In its nature it cannot be paid, because it adds itself to the price of property, and consequently to all money obligations, which can only be paid while the currency exists, on the measure of which they were contracted. The contraction of this currency contracts prices and the means of payment, creates a pressing demand for money to discharge the counter debt, and, to discharge itself, an equal demand for money which was never created. While its volume remains entire, it may be exchanged against commodities and may transfer debt, but it cannot make a final payment of debt. If final payment is demanded, either of banks or individuals, bankruptcy alone can discharge the sum required. If the bank gets paid, the deficiency must fall somewhere else in the community, for the money is missing.

I have thus briefly sketched the origin, nature, and effects of the debt currency partly to meet a statement I find in an article on "Banking and Currency" in your August issue, that banking ought not to be considered the cause of the late collapse in the affairs of the commercial world, but that it, and such periodical revulsions, must be ascribed to the general system of credit of which banking forms a part.

I am obliged to differ with the author of that article in this, and also in another, position he assumes, which is, of course, the popular notion upon the subject, namely, that money is the "standard or measure of value."

It is not always easy to determine whether a man is in the habit of getting drunk because he is crazy, or whether he is crazy because he is in the habit of getting drunk. It is clear that the debt banking and very extensive credits exist together, and are mutually dependent. If one causes the other, it is also clear that the father of the other is the father of all the mischief which results from both.

It is certain, to my mind, that money, to buy and sell with, is greatly preferred to debt and credit by most men. This is attested by the constant complaints we hear of the impossibility of doing a cash business, of the necessity of credits, and of such long credits, and also by the frequent attempts at combinations to shorten credits, which, after some eloquent speaking and some very energetic resolves, duly published in the newspapers, end in nothing, of course. The failure of all such efforts is inevitable from the nature of our currency. It is a currency of debt and not of money —it is fed upon, and can only be sustained by, debt, and is debt itself, which "makes the meat it feeds on." The debt currency, then, and the banking, which is the machinery of its manufacture, are the cause of the periodical revulsions in the commercial world. The unstable currency created by banking was plainly the cause of the collapse last fall, that ruined my friend of the wool and hide business, and thousands of others in this country and Europe.

Having adopted banking as our method of producing currency, instead of applying our gold to the purpose, it is quite impossible to retain money, and business cannot therefore be done strictly for money, except in *small grog and oysters at retail,* the transactions in which are within the specie circle, below the denomination of the one dollar note.

The process by which people are forced to provide promissory notes for banking is perfectly simple; it is by keeping dollars of currency in a little fuller supply, compared with commodities, than other countries. The dollars then become cheaper than commodities, and other countries send us their commodities—take the dollars made of gold and silver and leave us dependent upon those made of paper, which are co-existent with, and can only be produced by, promissory notes. This is a tread-mill operation; a man once *in for it* must step on or break his leg. The bank notes and credit inscriptions having been obtained on a promissory note, that note must be paid; other bank notes and inscriptions must be procured by producing another promissory note for discount to pay it, and so on in an endless round of exchanges with the bank, of debt for debt. As the bank lends no money, only promises, when a compliance with its contract in honest specie dollars is required, the dollars are demanded of its debtors who have none—who never had any. The paper and inscription dollars, of course, can no longer be furnished to them, as the required issue would destroy the bank. The debtors are simply *cornered.* Hence comes the "revulsion," which your contributor on banking and currency attributes to the "credit system." This term appears to have been originally adopted, as language frequently is, to conceal ideas; it is a very innocent looking name for the mischief-working banking system. So people fancy they borrow *credit* of the bank, but the man must be very blind who does not see that the bank note he holds in his hand is the bank *debt* and his own *credit.* He is lending capital to the bank while he holds the note, and the bank is charging him interest on his own capital—took it in advance when the note was issued. It is one of the sophisms of the system—credit sounds so much more pleasantly than debt. Capital and money are tortured in the same way out of all their proprieties by the present banking system.

The "credit system" is well enough; banking would be well enough if this wretched and dishonest principle of debt in the currency were abandoned. It is the very error of the moon to suppose, as many do, that an honest man would find difficulty in obtaining credit under a metallic currency system; he would be altogether more certain of obtaining it; the difference is, he would borrow money instead of debt, and if honest and frugal he would be sure not to fail, which he may be almost sure to do now. Debt and credit would then move harmoniously together, and not get periodically at loggerheads after the fashion of last fall. Debt in trade would be met by stable value in the currency, and could do no harm. Let the banks use *money,* and make their profit out of the difference of interest by lending at a higher rate than they borrow, and the production and export of commodities and all business would materially increase. All would then be well with us on this side of the Rocky Mountains.

As to California, her gold-producing afflicts her with a cheap currency, and she aggravates the evil by adding to it bankers' debt, in credit inscriptions, when it was already too cheap before. She must inevitably be glutted with imports, and must suffer the consequences.

We of the Atlantic States have not the infelicity of a naturally cheap currency to contend with, which is the misfortune of California, that must keep her prices higher than non-producing gold countries; otherwise commodities could not be sent there, and she could not export her gold. We buy her gold with the products of profitable labor, beneficial to us in the cultivation of the soil and in the use and improvement of the arts, as we do the gold of Australia or Russia, and the silver of Mexico. It is our folly, not our misfortune, that we do not know it to be better than debt for money, and learn how to keep it.

Our merchants generally think business cannot be done on any other than the present system. Very well, gentlemen; so long as you entertain that opinion, and act upon it, you will grasp wind when you think you grasp wealth. Nothing is more certain than that, if you will use money for the medium of exchange, you will import or retain $50,000,000 of gold and silver annually by exporting $50,000,000 of our domestic products more than you do now, until gold shall be in natural excess in the Atlantic States. It would be an absolute gain of capital for its whole amount, with the profits to be derived from its use; it would increase your business greatly, with an almost entire absence of bad debts; and, so long as the present increase of gold continues, with an almost constant advance of prices.

This brings us to the consideration of the nature of promissory notes, bills of exchange, and ledger balances, unconnected with the debt system of currency. Have they in any degree the effect of currency upon prices? Surely not. Their affinity is wholly with the property from which they are derived, and against which the currency is exchanged. They are merely a postponement of the money operation, from the time of the purchase to the maturity of the obligation. Money that would have been required at first will be required at last, to accomplish the exchange, and if the money is not then sufficient for the purpose, prices fall until it is sufficient, the same as if the commodity purchased had then been presented in the market for the first time.

I do not see why, with a currency of gold and silver, there should necessarily be any more competition in purchases on time than in buying for money, nor any more tendency to advance prices, because the constant maturing of notes would hold prices in check. On the contrary, I think repeated transfers of the same commodity on credit would frequently average payments for the same thing on one day, and have the same effect as repeating the supply of the commodity itself upon the relative value of money, which, of course, would be to reduce prices. Obviously, the more commodities there are thrown upon the market the lower will be their price, and therefore the higher relatively the value of money. The effect would be the same if several notes for repeated sales of the same commodity should cause a demand for money on the same day. But I do not insist upon this—it belongs to one of the most critical questions of political economy—the power of the "rapidity of circulation," or, as J. Stuart Mill suggests, the "efficiency of money." I wish only to establish the fact that the common evidences of debt, apart from bank notes and balances, belong on the side of commodities, and opposite to currency, in their effect upon prices and upon the value of money. They would have no disturbing influence in commercial or financial affairs more than the commodities from which they are derived, if not discounted, by our present system; or whether discounted or not, with a system of sound currency, where true value would be obtained at every exchange of the obligation. With a metallic currency, or what amounts to the same thing, a system of certificates, coin being retained against all issues, bills and notes might be discounted or transferred any number of times without increasing, or in any degree affecting, the volume or the value of the currency.

I am aware that I differ from other writers on this subject; but I cannot accept any authority opposed to my own practical observation as a merchant, and my own common sense, which teach me clearly that promissory notes are in their nature merchandise more than currency. They make demand upon currency or money to transfer or pay for them, precisely like the commodities from which they arise, with only a postponement of time.

The credit system, unconnected with debt banking, is in no respect chargeable with the financial revulsions that so frequently disturb the commerce and comfort of the world, and most especially of this country. This suffers more than any other country, and more frequently, from the excessive proportion of our banking to our business, its excessive competition among 1,400 banks, and its irrepressible *wild-cat* character. All the world over, the bankruptcies in trade, defalcations in pecuniary trusts, commercial lying and cheating, are in proportion to the expansion of this debt system of currency. Here, where we bank down to the denomination of the one dollar note, and set all our property flying upon what Adam Smith calls the "dedalian wings of paper money," the aggregation of commercial villainies, great and small, has become immense. Failing to make money—the negative fact of not succeeding—is immediately followed by the positive operation of making money by failing, which is the tolerably well understood profession of some men, in which they succeed remarkably well.

All this is inevitable from the operation of a system which alters the value of money, *presto,* by the sudden and unavoidable change of policy by the banks, from what is called accommodation to contraction—*the application of the screw.* Many honest men are driven by this to subterfuges that their souls abhor, to secure to their families for a brief period their daily bread. It is not always that they recover the self-respect necessary to restore them to the true position of moral honesty. I think the immoral influence of our banking system is a matter more deserving attention than the pecuniary evils it brings upon the community, and these are quite insufferable. Yet I do not quarrel with the banks for this. Public opinion, or rather public ignorance, sustains the abnormal system, and the public is responsible for its existence and its evils. Any business required by the public is a legitimate object of money-making, and may and will be pursued by worthy men. The haberdasher furnishes hoops and crinoline, and an amplitude of silk and satin outside drapery for all this framework, which cause many a husband and father to wince at the foot of the bill. Thus the handsomest thing in the world—a handsome woman—is converted into the ugliest—an exaggerated demijohn. Shall I blame the haberdasher? Surely not.

It was originally a trick in political economy of the Empress Eugenie to bring about an increased demand for French goods. Who believes that she felt any delicacy about carrying an heir to the Imperial throne under her belt, or wished to disguise the appearance of it, as has been suggested? She was a shrewd political economist in this measure. It succeeded. It is sustained here by the folly of our women, and the neglect of our men in not resisting as an indignity this system of fencing off—this being kept at an unnatural and unreasonable distance. Eugenie was the Bank of England of this system of female folly and extravagance which has overtasked the silkworms of France and China for several years past. I do not quarrel with the haberdasher for turning it to profit, and making the most he can out of it.

Nor do I blame the banks. The public, having become possessed with the idea that my note may be made money by the authority of a State Legislature, and being willing to accept it as such, granting me security that they will provide the means of payment, and pay me interest on it as money, is it to be supposed that I will hesitate to avail myself of the privilege? The same conceit being entertained of the notes of 14,000 or 540,000 individuals —I have no conception how many directors and stockholders of banks there are in this country—and the same privilege being granted to all these people of taking interest on their bills payable, without lending a dime of value for them—who doubts that they will issue them till they steep the community in debt to the very lips? and how is such an ungainly power to be controlled? I answer by public opinion—by throwing light upon the subject —and by the action of some good men and capitalists who will establish a "BANK" that is not a *"debt factory,"* and show practically to the self-deluded public the difference between them.

I think there is not one man in a hundred, borrowing currency of the bank, who does not imagine he is borrowing money; nor one in a thousand, perhaps, who is aware of the truth, that he borrows only his own credit in the debt of the bank, and that he must furnish the bank the means to pay with, or its debt cannot be paid. Such is the fact, however, with this debt principle in the currency: it is a mutual borrowing of notes between the bank and its customers—mere kiting.

Now, if a third party gets possession of the liabilities of the bank, and demands coin for them, or even the debtor himself before the maturity of his counter debt, how can they be paid? They were in the first place obligations to pay dollars of gold over and above any dollars in the country. They usurp and occupy the place of so many real dollars among the people, which are thereby forced abroad, as I have before stated; and such demands can be answered only in bankruptcy, because prices, and consequently the means of payment, fall as soon as the demand takes place; and they continue to fall in advance of the demand for money. Thus commodities are forced upon a reluctant market; sellers become plenty and anxious, buyers few and indifferent, and a general stampede of prices and general destruction succeed. These are the sure effects of a bank contraction, more or less, according to its extent; and it produces about five dollars of bankruptcy for every dollar of contraction, depending upon the average number of sales of commodities between the producer and consumer, which with a money currency would be made for cash. I think the transfers of commodities from the raw material to the consumer average five that are made by our system on credit.

I have but a few words to say of the "standard of value," having before explained the matter in your pages. There is no such thing; for the value of money fluctuates as it is thrown upon, or withdrawn from, the market, precisely like every other commodity. Money forms the price of things, because it is the medium of exchange, and may be called the measure of price, but it is not the measure of value.

Potatoes measure the value of dollars, as dollars measure the value of potatoes. Reciprocally, every commodity measures the value of every other commodity in relation to itself, money ineluded, and money is but a commodity that does the same thing. Add to, or deduct from, the supply of dollars in proportion to the demand, and more or less dollars must be given in exchange for other things. Add to, or deduct from, the supply of potatoes, and more or less potatoes must be given in exchange, by the same rule. As gold increases in quantity, other things remaining as before, it falls in value, and the dollar, which is but a component part of an ounce of gold, falls with it. And an increase of bank dollars, they being used as equivalent to gold dollars in the currency, depreciates the value of dollars and of gold also. Conversely, the value of gold and of the currency is increased by the reduction in quantity of gold or of convertible bank money. I need not enlarge upon this, it being the principle of value that I demonstrated in a former communication, showing the distinction between value and price.

From these considerations, the conclusion follows that there is a wide distinction between the debt banking and credit systems: they are unnaturally connected—paired, not matched—and the unholy alliance is constantly spawning a bastard progeny of debt, called by the attractive name of "money," which is unmingled evil.

If the commercial world had been content with the natural volume of a metallic currency, since the gold discovery in California, the late dire calamity in commercial affairs would have been an impossibility, whatever superficial thinkers may say upon the subject. There would have been a constant average advance of prices of two to three per cent per annum, benefiting debtors by making it easy to pay debts, and causing no loss but to those who are able to bear it—the capitalists with fixed-interest investments—excepting only the limited class of small annuitants.

The law of value is as constant in its operation as the law of gravitation, and must precipitate money, like water, from the higher to the lower level of volume, however imperceptible the difference of level may be to ordinary observers. Had we kept our money more valuable than the currencies of Europe, by abstaining from adding bank dollars to our dollars of gold, we should have had continued prosperity, all the more for the inflation in Europe, as long as Europe was not our debtor, rendering us liable to lose by her defalcations.

It will be ascertained, at no distant period, that political economy, though obscured at present by imperfect development, and consequent error in doctrine, is as exact in its conclusions as the science of mathematics.

10

The Banking and Credit Systems, II*

To the Editors of the Merchants' Magazine:—

On further investigation, I found, after sending off the manuscript of the article contributed by me to your September issue under the above caption, that I was in error regarding the time and circumstance of the commencement of the prevailing currency system—the organization of debt into currency through the medium of a bank. I had depended upon the authorities of Adam Smith and McCulloch, that happened to be before me at the time, both of which state that the stock of the Bank of England was increased only £3,400,000 to purchase the South Sea annuities, amounting to £4,000,000. They say nothing of the premium paid on that subscription.

In Francis' "History of the Bank of England" I find the following account of this transaction:—"In 1722, the South Sea Company were allowed to sell £200,000 government annuities, and the Bank of England took the whole, at twenty years' purchase, at a price equal to par. To meet the payment, amounting to £4,000,000, their corporate capital was increased £3,400,000 by £3,389,830 10s. being subscribed for at 118 per cent. By this transaction the bank made a profit of £610,169 10s., and the capi-

* Reprinted from *Hunt's Merchants' Magazine and Commercial Review,* XXXIX (Oct., 1858), 443-50.

tal amounted to £8,959,995 14s. 6d." Thus was formed the reserved fund, "which, under the name of REST, has increased with the business of the house, and has frequently proved of invaluable service."

This is a perfectly clear explanation of what appeared to be a deficiency of subscription for the purchase of the South Sea stock. We find it to be the commencement of the celebrated "rest," designed, as it has proved, to be a security for an unfailing dividend to the stockholders of the bank. Pursuing the investigation, I find the bank plunged into the debt-currency system, loaning its debt without capital in hand, as deeply as possible, at the very beginning of its existence. Its early operations are described by its friends so plausibly, and with so much sophistry and word twisting, that, as there are no publications of its opponents to be found, the casual reader would never suspect that this famous bank went into operation with almost no capital at all, and so continued for several years; but such is the fact. It was at first an engine, ingeniously adapted to operate with the loyalty and religious enthusiasm of the English people in favor of the Protestant succession of William and Mary; to carry on the war against Catholic France, in the endeavor of Louis XIV to restore the exiled Stuart, James II, to the British throne. Its efficient aid in securing the successful result of the siege of Namur, in 1695, was universally acknowledged, and thereby it gained great popularity. Its first deputy Governor, Michael Godfrey, was killed in the trenches before that place by a cannon ball, in the presence of the king, after having conducted a remittance of specie to the camp. But it was by the sophistical application of the terms "capital" and "money" that people were induced and deluded to accept its notes and credits, which were nothing but debt in a form more convenient than the tallies of the exchequer, for which they were exchanged.

Before the establishment of the bank, "tallies," according to a writer of that day, "lay bundled up like Bath faggots in the hands of brokers and stock jobbers." And they were faggots, neither more nor less. These tallies were sticks, with the indebtedness of the government scored upon them in notches; the stick, or faggot, was then split lengthwise through the notches—one half given to the creditor, and the other retained in the exchequer. When payment was demanded, it became necessary to match the two halves into a perfect whole again, as the voucher of the claim. This form of obligation, however inconvenient in other respects, must have been very secure against counterfeiting. I can conceive of nothing more difficult than to match one-half of a faggot, thus torn in two, with any other than the original piece.

The oldest account of the bank, I think, is the following, taken from a rare pamphlet, published in 1695 by Michael Godfrey, who was killed the same year in the trenches before Namur, as before stated:—

> The bank is a society consisting of about 1,300 persons, who, having subscribed £1,200,000, pursuant to an act of Parliament, are incorporated by the name of the "Governor and Company of the Bank of England," and have a fund of £100,000 per annum granted them, redeemable after eleven years, upon one year's notice; which £1,200,000 *they have paid into the exchequer* by such payments as the public occasion required, and most of it long before the money could have been demanded. . . . There was a proviso in the act, that if £600,000 or more of the said £1,200,000 should not be subscribed on or before the 1st August then next coming, that the power of making a corporation should then cease, and the money be paid into the exchequer by the respective subscribers and contributors.

The subscription, however, was taken up in ten days' time.

Noticing the objections to the bank, the same authority proceeds:—

> Some find fault with the bank because they have not taken in the whole £1,200,000 which was subscribed, for they have called in but £72,000, which is more than they now have occasion for. But, however, they have paid into the exchequer the whole £1,200,000 before the time appointed by act of Parliament, and the less money they have taken in to do it with so much the more they have served the public, for the rest is left to circulate in trade, to be lent on land, or otherwise to be disposed of for the nation's service.

All this looks very fine in words; we will put it into figures by and by. I think it must have puzzled the clerks of that day to tell how a bank could pay into the exchequer £1,200,000 with a capital paid in of only £72,000. We understand the thing now, however, by extensive practice in getting up modern banks. Freshmen in college are in the habit of exercising themselves in logic somewhat thus:—"No cat has two tails. One cat has one tail more than no cat; therefore, one cat has three tails." There seems to be no occasion to dispute such a wise conclusion. It is precisely as indisputable as the logic of the proprietors of the Bank of England, that was so satisfactory to the Protestants of England on its establishment, which built up a huge corporation at the cost of the people, and sowed the seeds of the present oppressive and irredeemable public debt.

Francis' History continues:—

> The corporation *were not allowed to borrow or owe more than the amount of their capital,* and if they did so the individual members became liable to the creditors in proportion to the amount of their stock. The corporation were not allowed to trade in any goods, wares, or merchandise; but were allowed to deal in bills of exchange, gold and silver bullion, and to sell any goods upon which they had advanced money, and which had not been redeemed within three months after the time agreed upon. The whole of the subscription was filled in a few days, *twenty-five per cent* paid down, [?] and a charter was issued on the 27th July, 1694............When the payment was completed, it was handed in to the exchequer, and the bank procured from other quarters the funds which it required. It employed the same means which the bankers had done at the exchange, with this difference, that the latter traded with *personal property,* while the bank traded with the *deposits of their customers.* It was from the circulation of a capital so formed that the bank derived their profit. It is evident, however, from the pamphlet of the first deputy-governor, that at this period they allowed interest on deposits, and another writer, D'Avenant, makes it a subject of complaint. "It would be for the general good of trade if the bank were restrained from allowing interest for running cash, for the ease of having 3 or 4 per cent without trouble must be a continual bar to industry."

Gilbart, in his treatise on banking, says of the Bank of England:—

The corporation were to lend their whole capital to government, for which they were to receive interest at the rate of £8 per cent per annum, and £4,000 per annum for management, being £100,000 in the whole. They were *not allowed to borrow or owe more than the amount of their capital,* and if they did so the individual members became liable to the creditors in proportion to the amount of their stock.

Now examine the following statement from Lawson's "History of Banking," page 44:—

On the 4th December, 1696, the governor and directors of the bank attended at the bar of the House of Commons, and presented to the house a statement of their affairs, as follows:—

DEBTOR

To sundry persons for sealed bank bills standing out	£893,800 0 0
To sundry persons on notes for running cash....................	764,196 10 6
To moneys borrowed in Holland	300,000 0 0
To interest due on bank bills standing out........................	17,876 0 0
To balance..	125,315 2 11
Total	£2,101,187 13 5

CREDITOR

By tallies in several Parliamentary funds................................	£1,784,576 16 5
By one-half year's deficit of fund £100,000 per annum	50,000 0 0
By mortgages,* pawns, securities, and cash............................	266,610 17 0
Total	£2,101,187 13 5

* This item includes £35,664 Is. 10d. cash, which, it appears, was all the bank had on hand to pay their notes, amounting to £1,657,996 10s. 6d.

The reader, if accustomed to accounts, will probably inquire—where is the capital in this statement? All there is of it is in the balance of £125,315 2s. lid. This covers capital and contingencies. Undoubtedly all the capital paid in at that time was the £72,000 mentioned by Godfrey. Francis must have been mistaken in saying that 25 per cent was paid down, which would have been £300,000 to appear in the balance. The bank had done a magnificent business for two years. The tallies bore an interest of 8 per cent per annum, and the bank was allowed 8 per cent per annum on £1,200,000—of which it furnished but £72,000—besides £4,000 for management. It had paid the heavy expense of its charter and establishment, and 8 per cent per annum dividends for two years to its stockholders, for no "capital" but their name, excepting the £72,000, and had £125,315 2s. lid. left.

For the loan in real cash of £72,000, the bank aggregated interest at the rate of 8 per cent per annum on the subscribed capital of £1,200,000, and allowance for management		£100,000 0 0
On exchequer tallies, mortgages, pawns, &c.	£1,951,187 13 5	
Less cash on hand	35,664 1 10	
	£1,915,523 11 7	
Of say 5 per cent net, after deducting interest allowed on out standing notes..		95,776 3 1
		£195,776 3 1

There seems but little reason to doubt that their gross income on £72,000 actual capital was about £200,000 per annum. I believe this bank was the first to call debt "capital," and give the name of "money" to convertible *promises to pay.* It appears unaccountable that a people can be so deluded as were the people of England then, and as the people of this country are now. They were lending capital to the bank in holding the bank notes, while they fancied the bank was lending them money, and were paying monstrous charges to the bank for the loan of their own capital. We are doing the same with our banking system at this time; it is but a continuance of the system of the Bank of England.

I shall not attempt to reconcile the statement that "the corporation were not allowed to borrow or owe more than the amount of their capital," with the figures as presented by Lawson, for it cannot be done. The truth is, the bank and the government were in partnership, both knowing that they must sink or swim together, and the method by which they obtained means from the people to carry on the wars of that period, and make profit for the bank at the same time, would not then, and cannot now, bear an honest scrutiny.

This seems to have been the discovery of the speculative Scotchman, William Patterson, who projected the Bank of England; that by calling a bank note "money," and promising that it shall be convertible into gold and silver on demand, the people will accept it as money without wishing to convert it, that they will lend their own labor and capital to the bank, and furnish the bank means to pay the note before they have occasion to demand payment of it themselves. Through the sophistical arrangement of this business people do not discover its nature, and usually submit to its impositions without inquiry, but it is only under favorable circumstances that they escape trouble with it. Accordingly, there have been frequent panics and difficulties with the Bank of England. In 1696, the second year of its existence, it stopped payment on its notes in consequence of the recoinage of silver. As the new coin was supplied by the mint this difficulty was soon remedied, but other pressures and runs upon the bank succeeded, until in 1745 it came near being wound up altogether by the invasion of the Pretender Charles Edward. On his entrance into Derby, 120 miles from London, the run upon the bank for payment of its notes drove the directors to the subterfuge of paying in shillings and sixpences, and of employing emissaries to obstruct the access of the creditors of the bank to the teller's counter. These emissaries presented notes, which were paid with as much delay as possible, then passing out of one door and in at another they redeposited the money, took fresh notes, and repeated the operation. By this *ruse* the bank avoided the suspension of payment, officially, and the directors took much credit to themselves for such sharp practice. A greater relief, however, was afforded by the retreat of the Pretender from Derby. If this had not taken place immediately, the bank would have stopped payment, and probably would have been broken up altogether; crises have occurred with it periodically ever since.

In my September communication I was therefore mistaken, in point of time 28 years, with respect to the commencement of the present system of organizing debt into currency; but I was not mistaken in attributing it to the Bank of England. It was the very principle of its existence—began with it in 1694, and has continued with it to the present day, checked only by such restraint as Sir Robert Peel was able to put upon it in the Bank Charter Act of 1844. By that act the issue of notes on debt security is limited to £14,000,000, which security includes the public debt, constituting the capital of the bank, and some other public dues. Every pound issued in notes beyond this sum must have a sovereign deposited and retained against it. But this limitation principle is not applied to the deposits, which can be increased by discounts indefinitely, excepting the restraint naturally imposed by the export demand for specie. The limitation of issue of the notes is a movement in the right direction, but, with the credits for discounts left untrammeled, it is quite ineffectual to prevent the expansion and consequent degradation of the currency of the kingdom, by which the precious metals are expelled to the continent and to Asia as fast as they are received. This leaves the nation dependent upon debt for the transaction of business, like ourselves, with the exception of the smaller class of traffic, for which cash is secured by the restraint upon bank issues below the denomination of £5.

The truth is, there can be no compounding or tampering with this principle of debt in the currency without serious damage. If it were good, we could not have too much of it, but it is evil continually—unmingled evil—and the first dollar of it is too much.

With \$1,000 of real money we know that, by ten removes or exchanges, merchandise to the aggregate amount of \$10,000 may be sold without debt or embarrassment; while the absence of the \$1,000 of money makes it necessary to sell that amount on credit, notes being created and discounted at bank, one to meet the other, through the whole of the exchanges, till ten separate parcels of debt, of \$1,000 each, stand subject to an alteration in the exchange value of money, perhaps four to eight months, and liable to be knocked down, like a row of bricks, on the application of the screw—the power of contraction of bank loans. This is our system, and this is what we experienced last fall.

Now, had we bought \$1,000 of gold, to begin with, and retained it, by the sale of two hundred barrels of flour, the wheat grower and the miller would have been thankful for the privilege of producing two hundred barrels more; it would have sped the plow, furnished additional employment to labor through the whole production, been a clear gain of \$1,000 capital to the country, increased trade, and, of course, wholly prevented the bankruptcy and distress resulting from the circulation of property to the aggregate amount of $10,000 without it.

What worse than folly, therefore, is the argument of the anti-bullionists, that a country gains by the use of a cheap medium of exchange! That as paper is cheaper than gold, so is the gain to the community in the substitution and use of paper promises and bank credits for money! We should repudiate this doctrine utterly, for it is clearly pernicious and false. What item of wealth can we possess of more utility and value than the commodity which accomplishes our exchanges without debt, and secures us from bankruptcy? and what thing is more worthless than the paper substitute that limits our production and traffic, and entails such wretchedness upon the country as we witness in every bank revulsion?

We want freedom from the present, constant, wasting care of debt; we want heart and spirit unoppressed, to labor with some certainty of reward. These we cannot have while DEBT sits like a Briareus in the center of our system of currency, grasping with its hundred hands all the methods and operations of trade.

I have not any doubt that an inconvertible paper currency, such as governments have issued from the earliest periods of history, is less injurious to the community than the convertible debt currency introduced by the Bank of England; for the inconvertible currency soon falls into line with the marketable stocks of the exchange, and is sold at a discount according to its estimated value. Real money, gold and silver, has a value independent of it—is not degraded by it, but measures its price as it measures the price of other property. A depreciated stock may serve as a medium of exchange, it may be bartered like any other property without being money, and may sink to nothing in the hands of its possessor, as most of the paper currencies of the governments of the world have done, without causing the export of an ounce of gold, or the loss of a dollar of capital to the country. Government paper, passing at a discount, or inconvertible on demand, is nothing but government debt—the same as government stock in principle and effect. The funded debt of England has none of the power or influence of currency.

But the convertible bank debt of notes and credits, formed by discounting a counter debt, is a very different thing. Although pure kiting, it amalgamates with the mass of the currency, and reduces it all in value, without being mingled with it in substance. It is a worthless alloy that costs us solid gold. The foreigner will sell us his goods at the value we put upon the mixed currency, and he will leave our domestic products on our hands at the fancy prices created by it; he will take none of the mixture away, but, separating the dross from the substance, he leaves the dross with us, at the value we put upon it, and takes the solid gold.

By a *cabalistic* use of the terms "capital" and "money," the wily Scotchman, Patterson, was enabled to impose a prodigious tax upon the people of England, for the benefit of his corporation, without their knowledge. The bank reaped its harvest from fresh soil, having the field to itself, aided by all the warlike and religious prejudices of the nation, and the corporation were thereby enabled to sustain themselves, for a time, upon a foundation that would disgrace a Western wild-cat bank of our country at the present day.

The establishment of the Bank of England was greatly promoted by the extortions of the goldsmiths, who were the previous bankers of the kingdom. For anticipating the taxes, in loans to the government, they frequently obtained interest at the rate of 20 or 30 per cent per annum. They had been plundered by the Stuarts, who had a habit of taking money by the strong hand, and, not yet being entirely confident of prompt returns, they made the new government pay for the perfidy of the old. They loaned money, however, and not debt. The distinction between their dealings and the dealings of the bank is explained by Francis, as already quoted:—"The bankers traded with *personal property,* while the bank traded with the *deposits of their customers.* It was from the circulation of a capital so formed that the bank derived their profit."

The clipped coins with their uncertain value, the extortions of the goldsmiths, the bad credit of the government, and the exhausting war with France, would seem to have called for the establishment of some financial regulator as an urgent necessity to England, in the latter part of the seventeenth century, but a *true bank,* established by authority of the government, to aggregate *real capital* for public and private uses, was the fiscal agent needed, and not the *debt factory* contrived by William Patterson.

Prices would then have conformed as they now conform to the volume of the currency offered for investment in the transactions of the day—as money is thrown upon, or withdrawn from, the market, they rise or fall. What possible benefit would flow from the possession of fifty times as much money or currency as constitutes our current medium of exchange to-day? Flour, now five dollars, would then be two hundred and fifty dollars, per barrel, and all other commodities and property would be in the same proportion. Not a fraction more of business could be done with the whole of it than we do with the more limited currency now—not a dime more of *value* or wealth should we possess; we should have only the same property measured in *price* by a cheaper currency. But every intelligent reader must see at a glance that we should operate at an immense disadvantage with such high prices. Where one pound of gold will now discharge a balance of account at home, or adjust exchanges with a foreign country, fifty pounds would need to be transported. It would require more than one cart and horse to make the exchanges of the clearinghouse in New York, and fifty times as much labor and expense in adjusting balances with gold everywhere. To carry gold change in one's pocket, sufficient for the ordinary pocket expenditure, would be out of the question.

Our best interests, the activity of business, the accumulation of capital, the absence of debt, and the prosperity and happiness of all classes in this country, depend upon our having never more, but always less, money or currency than any other people in relation to commodities. That we cannot always maintain this relation I know very well—the production of gold in California is against us. But it is suicidal to increase the currency a dollar when it can be avoided. We want a more valuable currency than any other nation, and this we can have by reducing or restricting its volume, or by increasing commodities. We want low prices for commodities, and a high exchange value to money. We want to sell commodities to other countries, which we shall always do when our currency is more valuable than theirs; for so long we are sure of an average of lower prices. Cannot our intelligent merchants be made to understand that we are better circumstanced with one dollar now than we should be with fifty dollars i£ the currency were increased fiftyfold? Cannot they see that when an ounce of gold buys more of the product of labor here than anywhere else, we have the commerce of the world at our command? This will be seen. The science of political economy will not always be neglected by merchants, and left in the hands of closet students. The industrious nation, cultivating with intelligence the arts of peace, which shall first repudiate the convertible debt system of the Bank of England, and the doctrines of Adam Smith, John Stuart Mill, and the other anti-bullionists of England regarding paper money, and so shape its policy as to give the highest possible value to its currency, will infallibly get advantage of the commercial world.

11

On the Nature of Commercial Value*

I propose to offer some remarks upon the nature and influence of commercial value, with especial reference to the term "measure of value," so frequently employed in economical science. The theory of this term, as commonly understood, I conceive to be the source of more practical mischief than any other theory of science.

There is no common standard or measure of value, nor can there be any, for the reason that no commodity can be found to represent value that is not liable itself to variation in supply and demand, and consequent fluctuation in value. Value is in its nature relative, involving a comparison between two or more things in respect to the labor, skill, and capital applied to put them in form or position to satisfy some want or desire, and also in respect to the supply of and demand for them; the value of each being in the compound ratio of its utility and its scarcity. Value is reciprocal between money on one side, and all other property on the other side, as well as between different properties, and is necessarily fluctuating. It can never be fixed and absolute, but must vary continually with the demand and supply of all exchangeable things, gold and silver included, whether coined or uncoined.

* Reprinted from *Hunt's Merchants' Magazine and Commercial Review,* XL (Mar., 1859), 309-13.

If an ounce of gold, whether in coin or bullion, will exchange for a barrel of beef, then an ounce of gold is worth a barrel of beef, as a barrel of beef is worth an ounce of gold. If at the same time a barrel of beef will exchange for 100 pounds of copper, then an ounce of gold or a barrel of beef is worth 100 pounds of copper, and conversely the copper expresses the value of the beef and the gold. This law applies to all the commodities of trade, either being the *measure of value* of the others, each and all fluctuating in value with the variations of supply and demand. Gold has no peculiar efficacy in this respect, it being itself a commodity subject to the law of value like every other commodity; it is cheap when plenty and dear when scarce.

Money, or the dollar, therefore, is not a measure of value more than anything else, labor included; indeed, labor is the more certain and permanent standard of the two. Money is, by the custom and for the convenience of all nations, the medium of exchange, by reason of which it becomes the *price* of things, and, to secure equity, and facilitate compliance with commercial obligations, it is by nearly all commercial nations made a tender for the payment of debt, but this adds no permanence to its value.

An ounce of gold is as perfect a price as a dollar of gold; the former is a quantity of 480 grains, the latter of 25‰ grains. Both are mere quantities of a certain commodity bartered like every other commodity, according to its exchange value in market. The government, by the mint law, do nothing to determine its value —they merely establish its quality at nine-tenths fine, and provide convenient coin for the medium of exchange. More dollars will cheapen dollars, as more apples will cheapen apples. Gold, having the same use, would possess the same value without regard to the mint law. It must, however, be understood that money forms one of the principal uses of the precious metals, and they necessarily owe to that use the corresponding portion of their value, which has been estimated by the economists at two-fifths. If, then, their employment for currency were to be abandoned, their value would fall two-fifths, in the average, and no more; it would then require an ounce of gold to exchange for the property which can be had now for three-fifths of an ounce.

All we can say of value, therefore, is indefinite; it is that money is cheap when and where commodities are dear, and commodities are cheap when and where money is dear. The relative value of money here and elsewhere can be determined only by the comparative average price of commodities. An increase of commodities thrown upon the market, without a corresponding increase of money, will always enhance the value of money by creating an additional demand for it; less money will then buy more of commodities; that is, their price falls. An increased amount of money thrown upon the market, without a corresponding increase of commodities, will always enhance the price of commodities; more money must be given for them, because its relative value falls.

Now, the difficulty in this matter lies in mistaking *price* for *value*—they are widely different things. Value is the power of property and labor to exchange for other property and labor, and may remain the same under the most extreme alteration of price. If we double the supply of money upon the market, other things remaining in supply and demand as before, the prices of all property will double in the average. In this case money falls in value one-half—two ounces of gold must be given in exchange for commodities which could have been obtained before for one ounce; there is no alteration in the value of other things, because their relation to each other remains unaltered; they exchange for precisely the same quantities of each other as before; the alteration is wholly in the value of money itself.

Price is the power of property and labor to exchange for money only. Obviously, therefore, if any commodity becomes scarce in relation to the demand, either by a falling off in the supply, or by an increase of demand, its power to exchange for money increases in proportion; its price rises accordingly. Allowance must be made for commodities that admit of substitution; thus, wheat, for example, might fall off in supply one-half, and the consequent rise of price would probably turn the consumption to a great extent upon Indian corn, rye, rice, &c, which would rise in price and value also, and we must estimate an average rise of value on the whole supply of cereals; still the general rule holds good; if at any period an ounce of gold and 100 pounds of copper were equivalent values, and the supply of copper in proportion to the demand should subsequently diminish one-half, we must then expect to give two ounces of gold instead of one for 100 pounds of copper. This is a rise in the *value* of copper, because its relation to other commodities is changed, and it is a rise in *price,* because it is an alteration in relation to money likewise; but, as I have before stated, if the same disproportion between money and copper should be caused by a double supply of money, we must still give two ounces of gold, instead of one as before, for 100 pounds of copper—the cause is different—the effect the same. Copper would rise in *price* 100 per cent without any rise of its *value,* while gold would depreciate in value one-half, or 50 per cent. This double supply of money increases the price of all other commodities in the same ratio—100 per cent—for a fall in the value of money is only another mode of expressing a general or average rise of prices.

Here let us clear away an obstruction to the proper understanding of this matter, namely, the notion that the rate of interest expresses the value of money; nothing can be farther from the truth. So far as interest expresses anything in relation to money it is the opposite of its value, for it happens, all the world over, that when and where the rate of interest is high, the value of money is low. Everyone whose attention is called to the subject will observe that money—real money—always runs away from countries and districts where interest is high to those where interest is low. Following the law of value, money flows from the cheap to the dear market, like every other commodity. Thus it leaves California, where interest is 24 to 30 per cent per annum, for New York where it is 6 to 9 per cent, and leaves New York for London, where it is 3 to 4 per cent, and London for Hamburg, where it is 2 per cent, and so on, running always counter to the rate of interest.

I have been surprised that the plain contradiction of the common notion of the value of money expressed in this fact has not attracted public attention. I think I have never heard or seen any public mention of it, except once in the sermon of a philosophic preacher.

J. Stuart Mill speaks of the 'Value of money" when used to denote the rate of interest, or the rate of interest to denote the value of money, as a misapplication of terms; and takes much pains to show "how great an error it is to imagine that the rate of interest bears any necessary relation to the quantity or value of the money in circulation." While agreeing with him as to the misapplication of terms, I differ from him in regard to the relation between the rate of interest and the value of money. A high rate of interest and low value of money would not accompany each other so constantly by mere accident; there is a relation between them, but in the inverse ratio; thus, whenever money or the currency is cheap or expanded in volume, general prices are high—dear prices and cheap money are synonymous terms. Now look at California; she can neither eat, drink, nor wear her gold—its value to her is almost entirely for export; she must sell it, and this she cannot do without sustaining the price of commodities above their average elsewhere. No one sends merchandise intentionally from New York to California, when he can obtain as much gold, that is, as much price, for it in New York. California must buy her imported commodities at the high prices resulting from cheap gold. In this respect California is like a foreign country to the Atlantic States; we buy her gold as we do the gold of Russia or Australia, with our commodities—our commodities are her imports. The high prices and the general appetite for gold throw a constant excess of imported merchandise upon the California market, and must continue to do so while gold is a native production that she must sell. She will have more foreign commodities than are necessary for her consumption; the high prices for surplus merchandise are a constant motive to speculation; commodities are forced upon the market at a tempting difference below the regular selling price to consumers; the surplus merchandise is advanced upon by commission merchants in acceptances that are discounted by bankers; it is sold and resold by and to speculators for notes that are also discounted; finally, no people in the world are more involved in debt abroad and among each other, in proportion to capital, than the people of California. Nearly all the gold they can raise comes away, leaving them in debt besides. Cheap as it is, and must be, naturally, they cheapen it still more by using bankers' credits, convertible on demand, as equivalent in value to gold and silver, thus adding to the real dollars of their currency fictitious dollars of debt; so they part with their money and do business with debt. It is debt that creates the hungriest demand for money—the most pressing necessity for loans—and it is therefore debt, in relation to capital, that determines the rent of capital or rate of interest. Nowhere else is debt so great in proportion to capital as in California, and consequently, nowhere else is credit so precarious and the rate of interest so high. The element of risk enters into the rate of interest everywhere, and, in spite of the usury laws, it must be paid for.

Such is the nature of a cheap currency, whether from the native abundance of gold and silver, or from the volume of bank notes and credits; it is always accompanied by debt, instability, and a high rate of interest. Wherever gold and silver are cheapest they will be sought and found by numerous customers, and bought with all the commodities of the world, while that cheapness remains. When their supply becomes so far exhausted as to raise their value above merchandise, that is, when the prices of merchandise fall below the value of gold and silver, and it becomes a losing business to exchange merchandise for them, the business stops of course, but this never happens in a gold-producing country without a financial revulsion. Such is the attractive power of gold, and so powerful the impulse by which commodities rush to it from points near and distant in every direction, and so great is its tendency to sustain prices, that the inflowing stream is seldom checked, and the market of the gold country never fairly yields, until it breaks down altogether under a glut of merchandise in a general stampede of prices, followed by widespread bankruptcy and distress.

I think we may predict with tolerable certainty that California will never enjoy more than three or four years consecutively of prosperous or even comfortable business while her present abundant gold production continues, and especially while she continues to add to the dollars of her natural currency the fictitious dollars of bankers' debt, inscribed in credits, for more than the gold they receive on deposit; for the effect of these credits, in excess of the deposits, in reducing the exchange value of gold, is precisely like the addition of so much gold itself.

It follows that a community gains nothing by mining gold and silver; it is labor lost, excepting so far as it supplies plate, trinkets, and other ornamental trifles in exchange for other things—a very doubtful advantage. That country thrives the most which buys the precious metals with the proceeds of its labor bestowed upon the widest and best cultivation of its soil, and upon branches of industry natural to its condition, which promote health, and a vigorous and intelligent population. That people are the most prosperous and happy who keep the precious metals valuable in comparison with other commodities, by the most extended use, and by a constant relative increase of commodities, to secure the sale of commodities and keep a constant demand for labor to replace them. Every ounce or dollar of gold thus obtained is a gain of capital; the operation is selling goods for money, opposed to debt; it increases production, secures a steady export trade, employs navigation, and adds to the nation's wealth.

It is a mistaken policy for any community to increase its currency, except from the absolute necessity of importing the precious metals in payment for balances from abroad which cannot otherwise be remitted; for the increased volume of currency increases *prices* without increasing *values,* the real effect being a fall in the value of gold and silver, and the inevitable consequence is a decline of the exports and increase of the imports of merchandise, the imports coming more or less in competition with home industry. This result follows the home production of gold; but the most suicidal policy is to increase the currency in convertible "promises to pay," which substitute debt for money, having all the injurious effect of degrading the value of the currency, with the additional evil of increasing the obligations of debt in fictitious values, which, on the demand of real dollars, cannot be paid. Bankruptcy is the result, as we witness in every contraction of bank loans.

12

New Views of the Currency Question, I *

I wish to make a distinct statement in your pages of the currency principle of the Bank of England, by reference to its early figures, and show, as briefly as possible, in what respect it differs from any system of banking or currency before introduced, at least so far as my investigations have enabled me to discover the facts. I wish also to say, what I have often said elsewhere, that I view the present banking system in this country, which is that of the Bank of England, as I view a bad or unprofitable fashion that tyrannizes over my family and my purse, as a thing to be opposed or reformed by all lawful and practicable efforts. I find an institution of hoops and crinoline surrounding my wife and daughters against their better judgment. It is a tyranny of taste introduced, I suppose, by the Empress Eugenie, to promote the manufactures and the trade of France, which it has done most effectually; the silkworms of the whole empire being altogether overtasked to supply the material for the ample skirts demanded by this preposterous fashion. I find the haberdasher catering to this taste with all his art. The more numerous and ample the petticoats he can put into my expense account, the more he gains at my cost. Do I blame or quarrel with the haberdasher? Surely not. He finds a public taste prevailing and furnishing a respectable business, out

* Reprinted from *The Bankers' Magazine and Statistical Register,* XIII (Mar., 1859), 673-77.

of which he makes all the profit he can. No man of common sense blames him, however he may oppose the fashion, as I do all I can, and pay the bills at last.

This is precisely my position in relation to the banks. Many of my best friends are intimately connected with, or immediately concerned in, the system of debt banking; it is the only method by which they can control any considerable business facilities. I cannot avoid connection with it myself, and have yet to see the bank officer or director who ever objected to granting me a discount because of my opposition to the system. In truth, many of its best informed and strongest opponents are among bank officers and bank directors, and some of them protest against it as openly and heartily as myself. I speak of the banks as the exponents of the system; it cannot be avoided; but your readers will, I trust, comprehend the distinction between the system I condemn and those concerned in its direction and details.

The celebrated Prussian professor of the Asiatic languages, Henry Julius von Klaproth, in a paper read to the Asiatic Society of Paris, states that he found in the Chinese annals the earliest financial operation of the Chinese ministry to meet the public expenditures, which had become too great for the revenues of the state, to bear date in the year 119 before the Christian era. At this period they introduced the *phi pi,* or *value in skins,* which were skins of certain white deer that were fed in the interior park of the palace. They were current in the palace and among the grandees at a price equal to fifteen dollars of our present money, but it seems they never passed as money among the people. This was *skin money*—a money of *value*—to which I can see no objection except its inconvenience in size. They were a foot square Chinese measure, and were ornamented with extremely delicate paintings and embroidery.

There was a general derangement of affairs in China, about A.D. 605-617, and all sorts of things were used for money—circular plates of iron, cut pieces of cloth, and even pasteboard. About A.D. 807, coined copper had become exceedingly scarce, by reason, chiefly, of manufacturing a great amount of bronze images representing *Foe* and the saints of his religion. The emperor then renewed a former prohibition against making vessels and utensils of that metal, and compelled the traders and rich families to deposit their specie in the public chest. For this specie they received certificates called "flying money," but in three years their use in the capital was suppressed: for some time longer they were current in the provinces. A.D. 960, a system of depositing silver in the imperial treasuries was established, for which securities were issued, called "convenient money," that were eagerly received everywhere. About this date we first hear of the issue of a regular paper money currency, namely, paper bills substituted for silver and not guaranteed by any pledge whatever: these were called *tchitsi* or *coupons,* and were first issued in the *chou* country, now the province of *Szu-tchouan,* as a substitute for the iron money, which was too cumbrous. This example was followed in the reign of *Tchin-tsoung*—A.D. 997 to 1022—and bills were issued called *kiao-tsu* or "exchanges." Every *kiao-tsu* represented one ounce of pure silver. Sixteen of the richest houses conducted this financial operation, and in the end were all ruined. The emperor then abolished the bills of this company, reserving to himself the establishment of a bank for bills at *Y-tcheou.*

These *kiao-tsu* appear to approach the nearest to the convertible system of the Bank of England of anything I find in history, previous to the establishment of that bank in 1694, but they were not the same in principle, as may be seen at a glance. If I understand the account, they were issued from time to time payable at three years' date; it does not appear what securities the issuers received, nor what the government had to do with the scheme, but the sixteen rich houses were called directors, and, as they seem to have been responsible for losses, may have been the proprietors. In any event these bills must have been, for a great part of the time, like any other securities in market, subject to an alteration in value in relation to silver according to supply and demand.

It is not necessary to pursue the history of paper money in China further, except to say that the government took the whole business of making and issuing paper money into their own hands, if they had relinquished it in the case of the *kiao-tsu,* which is doubtful, and the nation had all manner of difficulties with it. The Mongols, who made themselves masters of China, and founded a dynasty there called *Youan* in the latter half of the 13th century, were compelled to abandon the empire in consequence of the ruin they had wrought with an emission called *paotchao* or *paper money of value.* These Mongols introduced the same into Persia. After centuries of bankruptcy and confusion in their financial affairs, the Chinese finally banished paper money from the empire, about the year 1445, and there seems to be no further mention of it. As to the shroff chop notes, now used there by brokers, they are merely memorandums of balances of money due from one to another, like our borrow and loan tickets; they are not an issue beyond *value,* like our bank notes.

China is now reaping an immense advantage, in the increased sale of her products, by maintaining the most valuable currency in the world. This she does, simply, by confining it to its natural volume, and producing commodities to such an extent as to keep her money relatively more valuable than her merchandise. The silver of the world, and much of the gold, must flow to her, to the extent of her means in surplus commodities, which are very great by reason of her monetary policy. This, and nothing else, excepting a slight action in India of the same sort, is the reason of the great export of silver from Europe to Asia. China is doing what we ought to do—selling goods for cash. Her people are keeping out of debt by using *money*—a currency that does not depend for its existence upon debt and discount. The reader will please not jump to the conclusion that we must adopt the errors of China, and become Chinese, by employing a metallic currency, which we should improve with coin certificates for portableness without doubt. This is too apt to be the method of arguing against a pure money currency in this country.

Inconvertible paper issued by government is undoubtedly bad enough, as we see in its Chinese history, for, with the possible exception of the *kiao-tsu,* it was all government paper, and if further evidence were needed, we have it in the provincial and continental money of this country and the assignats and mandats of France. But I yet doubt if it be as destructive to the fortunes and general interest of the community in its constant effect, as the convertible currency—bank notes and balances—of our present system; because it does not necessarily create a debt beyond itself: it does not require a debt for discount to produce it. Its affinity is with property—not with money. It rises and falls, in relation to coin in which it is nominally payable, and which is the true money, precisely like government stock or any other property having a price, and coin has its natural value independent of the paper. Always, where such paper exists, there are two measures in the market; the coin remains the true one; and a debt for $100 contracted in inconvertible paper can be paid with $50 of coin when the paper is 50 per cent below par, because the debtor will buy the paper with his coin if it be his interest to do so. It is not so with the convertible currency; coin with that has not an independent value. When prices fall one-half, by reason of the contraction of the volume, and consequent appreciation of the value, of the currency, the true gold measure of $50 will not pay a debt of $100; we must give double the property for which the debt was contracted to discharge that obligation. The whole hundred dollars must be obtained from property fallen in *price* one-half, not because the property has fallen in *value*—it may not have altered in value in the least—one commodity may purchase just as much of any other commodity and of all commodities as before—but because money or currency has risen in value by scarcity in relation to the demand 100 per cent.

During the long intervals of centuries not mentioned in the Chinese annals, there must have been periods of prosperity in business with their paper currency. They have always been an industrious people, and everywhere work produces wealth. Commodities pay for commodities in any currency, and the volume of currency necessary to effect the exchanges is wholly immaterial, if it to be left to the operation of natural laws. Buenos Aires prospers with a wretched paper currency, 21 ½ dollars of which are worth but one of ours to-day. Their currency is valued by the doubloon of $16—so that, after all, their *money* is gold and silver, and their currency fluctuates in price, precisely like a public funded debt. With their valuable and indispensable commodities, such as hides, wool, tallow, horse hair, jerked beef, etc., they keep the exchanges in their favor with all foreign countries, recently, and we are obliged to pay them largely in coin, or in exchange on England. The merchants of Buenos Aires are gradually dropping the use of the paper currency in one commodity after another, and using directly silver rials and gold doubloons. We, with our self-destructive expansion of a convertible currency, are creating enormous prices for the commodities of Buenos Aires, and paying for them in gold, enriching Buenos Aires at our own cost, and by our own folly. That country will shortly have only a pure metallic currency. An inconvertible currency is more vexatious than unprofitable, while a convertible one is more unprofitable than vexatious.

Everyone who has attempted a careful investigation of this subject knows the great need there is of a nomenclature that will convey and not conceal ideas in reference to it. The sophistication of words has so sophisticated ideas, and stereotyped the false meaning, that scientific demonstration makes but little impression upon the public mind. That which it requires money to pay, obviously is not *money* but *debt,* the very opposite of money. Because we can buy with a bank note, people are possessed with the idea that it is money. So we can buy with a breath—a word of mouth, and make it effectual in the transfer of debt—is it therefore money? A promise to pay is *debt,* whether verbal, written, or engraved; value is not in the debt but in the thing promised—the "pay" itself. Currency here consists of all the dollars, real and immediately convertible, offered to be exchanged against property offered for sale, or customarily used for the payment and transfer of debt. Our *money currency* pays debt and ends it with *value;* the *debt currency* merely transfers debt with a promise to pay a value hereafter, but that hereafter is a fatal period. When value is demanded of that currency, a thing is demanded that was never loaned—a thing that never existed. In all other exchanges affecting price a value passes, but in the exchange which produces the debt currency there is none: it is the production of a fictitious dollar which enters into price and creates an obligation of debt as binding as if it were a dollar of value created from solid gold, but there is no dollar there, and when the demand is made of payment, it must be met with the thing it was made of—a promise to pay; when that will not answer bankruptcy must settle it.

Now our currency thus offered and thus used amounted altogether in the early part of August, 1857, to about *six hundred and ten millions of dollars,* consisting of bank debt in notes, and inscribed credits over and above the coin reserved in the bank coffers $410,000,000, and coin not in hoards $200,000,000, the coin in the banks being included in the two hundred millions, of course. of this coin the most active portion is in the notes and credits of the banks, which circulate its ownership whether the coin is removed or not: so far the bank liabilities are true money. Next is the coin below the denomination of $5, in those States where the issues of small notes have been suppressed, and fractions of a dollar everywhere. The rest is sluggish, some among the western immigrants, some in the stocking deposit of the Dutch farmers, and thus varying to the confines of the hoard.

I find no account of anything resembling this debt currency of $410,000,000 before the founding of the Bank of England—a currency of debt convertible on demand into coin, and thus having an exchange value equivalent to coin with no coin to convert it into—an amount of currency payable at sight in dollars over and above all the dollars in the country; simply debt with no *value* opposite—nothing but another debt like itself.

The Banks founded previously to the Bank of England were as follows:—Bank of Venice in 1171, Bank of St. George at Genoa in 1407, Bank of Amsterdam in 1609, and the Bank of Hamburg in 1619. All of these were merely banks of deposit and transfer, excepting the bank at Genoa, which was a bank of circulation also. The others were government institutions; this at Genoa was conducted by a company of shareholders, and it advanced immense sums to the government. I cannot learn that it ever advanced or circulated anything but coin or bullion; certainly it never issued "promises to pay," or inscribed credits for specie not in its coffers.

Now we are prepared to examine the principle of the Bank of England. I will follow this article with an account of that celebrated bank in a few weeks.

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New Views of the Currency Question, II *

The currency of this country, as I stated in your March number, is approximately two-thirds debt and one-third money; the proportion of debt being greater than in any other convertible currency in the world. A very large portion of the circulation is below the denomination of five dollars; one pound notes being the lowest known elsewhere, and these only in Ireland and in Scotland. This description of currency is co-existent with the Bank of England, and, with the bank itself, appears to have arisen from a public exigency. During the reign of the Stuarts the public finances were in continual disorder: their rapacity and extravagance, coupled with the absolute needs of the government, were the chief causes of the political complications that cost the monarch Charles I his throne and his life. On the Protestant accession of William III the financial difficulties were at their height. At the same time the war with France required large sums of money, which were raised with extreme difficulty and at great sacrifice; frequently the parliamentary grants yielded to the national exchequer but half their amount, owing to the necessity of anticipating the taxes and to the bad credit of the government. Tallies —notched sticks—then the vouchers of the public debt, were at 20, 30, and sometimes 40 per cent discount. Commissions and

* Reprinted from *The Bankers* Magazine and Statistical Register,* XIII (May, 1859), 833-42.

various extortions of the goldsmiths, who were the bankers of the kingdom, and of the tax-gatherers, completed the reduction.

In this emergency a Scotchman—William Patterson—devised the scheme of raising money for the support of the war by taking it from the currency and the country, and putting debt in its place, through the instrumentality of a chartered bank. For this purpose, and on this plan, the Bank of England was chartered and went into operation in 1694. The subscribed capital was £1,200,000, all to be loaned to the government for an annuity of £100,000 per annum, being 8 per cent for interest, and £4,000 for expense of management. Six per cent, or £72,000, of the capital was called in, and then the whole sum of £1,200,000, was *paid in* to the government exchequer, but how? Simply by making and passing to the exchequer, in the form of bank notes, promises to pay money the bank did not possess, in exchange for exchequer tallies—promises to pay money the government did not possess, nor ever have possessed to this day, for it was the commencement of the present oppressive and irredeemable national debt.

This, stripped of all its complications, is the principle of convertible debt banking; it is borrowing evidences of debt without interest, and lending counter evidences of debt at interest. In its origin, as here stated, it is plainly seen; but when complicated with deposits, absolute and fictitious—with the circulating notes and coin, and the intertwining of debt through the whole system—the public mind is thoroughly befogged with it. Nothing is created by this operation but debt—no capital, value, or wealth whatever—but *price* is added to commodities thereby as effectually as if so much gold had been produced or earned by labor and added to the currency, and multiplied obligations of debt succeed—promises to pay value that never existed, and which consequently cannot be ultimately paid. If the subscribers to the stock of the bank had paid in the £1,200,000 loaned, it would have been all right; a *value* in that portion of the currency would simply have been transferred; it would have added nothing to the currency—nothing to prices—nothing to the pecuniary obligations of the people. But as it was, the system was then inaugurated of adding convertible debt to the currency which should be money, degrading its value, expelling the money, limiting the exports of merchandise, and transacting the business of the country with debt.

There is a discrepancy in the early accounts, regarding the proportion of money paid in to the capital stock of the bank; Francis, in his history of the bank, unaccountably stating it to have been twenty-five per cent, when he might and ought to have had access to a pamphlet published in 1695, by Michael Godfrey, the Deputy Governor, in which the amount is distinctly put down at £72,000. Godfrey says:—

Some find fault with the bank because they have not taken in the whole £1,200,000 which was subscribed, for they called in but £72,000, which is more than they now have occasion for. But, however, they have paid into the exchequer the whole £1,200,000 before the time appointed by act of Parliament, and the less money they have taken in to do it with so much the more they have served the public, for the rest is left to circulate in trade, to be lent on land, or otherwise to be disposed of for the nation's service.

This ridiculous sophistry lies at the foundation of the prevailing system of banking to-day. Here were men, by calling themselves and being called a "bank," taking a clear interest of 8 per cent per annum on their own "bills payable"—the expense of management being otherwise provided for—6 per cent only of money being used in the business. That the sum paid down was no more is obvious from the following account presented by the governor and directors of the bank at the bar of the House of Commons on the 4th December, 1696:

DEBTOR

	£.	s.	d.
To sundry persons for sealed bank bills standing out	893,800	0	0
To sundry persons on notes for running cash	764,196	10	6
To moneys borrowed in Holland	300,000	0	0
To interest due on bank bills standing out	17,876	0	0
To balance	125,315	2	11
Total	£2,101,187	13	5

CREDITOR

By tallies in several Parliamentary funds.................	£1,784,576	16	5
By one-half year's deficit of fund of £100 per annum	50,000	0	0
By mortgages, pawns and securities	230,946	15	2
By cash	35,664	1	10
Total	£2,101,187	13	5

Mr. Lawson, in his history of the bank, remarks that the item of £35,664 was all the cash the bank had on hand to pay their notes amounting to £1,657,996 10s. 6d. The truth is the bank was in a state of suspension in 1696, on account of this preposterous expansion of liabilities and the recoinage of silver then taking place, which temporarily removed so much coin from circulation, that, with the amount forwarded to maintain the war in Belgium, they could not pay their notes. It is evident that 25 per cent—£300,000 of the capital—was not paid down as stated by Francis; if it had been, every reader acquainted with accounts will see that it would appear in the balance of the above account, which, including the capital, is but £125,315 2s. lid., just enough to cover the £72,000 and its gains.

The Bank was making large gains; it was receiving 8 per cent per annum over expenses on a capital not paid up, and then a further sum, not stated, on the loan of its notes.* It had paid two yearly dividends of 8 per cent each, and accumulated in two years £53, 315 2s. lid. beyond the £72,000 of capital called in. It appears from the foregoing account that the Bank had made an arrangement to pay interest on a portion of its notes, probably at the rate of 4 per cent per annum. D'Avenant, a writer of that day, makes it a subject of complaint. He says: "It would be for the general good of trade if the Bank were restrained from allowing interest on running cash; for the ease of having 3 or 4 per cent without trouble, must be a continual bar to industry." He does not ob-

* McCulloch says:—"The Bank discounted private bills at 5 per cent, during nearly the whole period from her establishment till 1824, when the rate was reduced to 4 per cent."

The credit of the government was at first inferior to that of individuals.

serve the distinction stated in the balance sheet between the running cash and the sealed bills: doubtless interest was allowed on the sealed bills only. It will be observed that the interest due of £17,876, as stated in the balance sheet, is precisely 2 per cent on £893,800, the amount of the sealed bills; being 6 months' interest without doubt. The tallies bore interest at the rate of 8 per cent per annum. Altogether this must have been a pleasant business for the stockholders. Their £72,000 invested in 1694 had earned them in two years, clear of expenses:

Two dividends of 8 per cent each.................................	£192,000 0 0
Surplus profits undivided..	53,315 2 11
	£245,315 2 11

A very handsome return, certainly, for the investment of only £72,000. The holders of the bank notes were taxed this sum without knowing it, and the notes handed in to the exchequer were exchanged for coin that was sent to Namur in Belgium, for the prosecution of the siege of that place, the success of which was attributed to the remittances thus obtained. A sum of money was thus drawn, under a disguise, from the pockets of the people, which they would hardly have paid as a direct tax, and the nation was drained of so much real capital by the substitution of a fiction of capital in its place.

It would exceed the limits and design of this article to pursue further the elaborate history of the Bank of England. I merely present these early figures of the institution to show the distinction between the inconvertible currency previously existing, as described in my former communication, and the convertible currency created by the Bank, and used as equivalent to money, in their relative effects upon commerce and wealth. The former cannot long retain the power of money, if the smallest fraction in excess of the true specie measure of currency is created thereby. It soon falls below par, and, although it may be employed as a medium of exchange at a reduced valuation, does not degrade the value of money, because it comes to be valued in money like any other debt or public stock. The Bank of England notes, during the suspension of specie payment at the recoinage of silver in 1696, fell to 20 per cent below par, and again during the long suspension from 1797 to 1821, they were below par a great part of the time, being an organized circulating debt valued, according to its utility and scarcity, in gold and silver. The three per cent consols of England could be employed as a circulating debt in buying and selling at 5 per cent below par to-day, perhaps, but they could not be money or currency—themselves the measure of price—without immediately exhausting the coin and bullion of England. No doctrine of political economy is better established than that of Adam Smith, that no community having an open commerce can maintain a volume of currency, in relation to commodities, exceeding that of any other community accessible to a direct or indirect trade. It follows that if the public stocks of England were available, or used, as currency, amounting as they do to nearly four times the currency of the kingdom, all the coin would be exported or retreat into hoards, and the stocks would fall to about one-fourth of their nominal value. In truth, therefore, inconvertible paper *promises to pay,* unless the whole volume of currency of which they form a part is less than the relative proportion of specie to commodities existing elsewhere, do not act as money or currency, but when they do not cause the currency to exceed that volume they do so act. Thus there was a considerable period during the suspension of the Bank of England, between 1797 and 1821, when, the issues of both notes and credits being carefully restricted, its notes were at par with gold and silver, but the moment the specie measure was exceeded by those issues they fell, and the curious position was taken by many intelligent writers, that the trouble was in the rise of bullion and not in the fall of bank notes. This also explains the condition of the debt currency of New York at and after the suspension of specie payments in October, 1857. By the previous severe contraction, the whole volume of currency was reduced below the true specie measure in proportion to commodities; consequently its value was maintained at par; specie rushed to New York, as the creditor city of the country, from all directions, along with our domestic products, which were abundant all over the country, and were exported to Europe in double the quantity sent forward in the same period of time the previous year, notwithstanding the abundant crops there. Exchange ruled for a time 8 to 10 per cent in our favor, and gold commenced to return rapidly from Europe, but all this did not suit the dividends of the banks; they immediately ran up their loans, checked the export of commodities, piled up the flour and other products till the warehouses of the city broke down under the weight, turned the rate of exchange against us—of course stopped the inflowing of gold, and turned the stream outward again. So we returned to our old folly of selling our money, keeping our merchandise, and living in debt.

Now, this is the distinction between the two sorts of currency we are considering. An inconvertible debt currency may be used like a convertible one, to the limit of the specie measure without degrading the value of money, and without checking the export of commodities or causing the export of specie; but when increased it will reduce its own value, or price, just in the proportion that the whole currency exceeds the true specie volume. On the contrary, the convertible currency, by being equivalent in use to gold, degrades and expels specie by adding itself to, and exceeding the specie measure at once. It adds itself to the price of things, checks the exports, attracts the imports, and causes an absolute loss of its whole amount to the country or community that employs it. The inconvertible currency only degrades itself, while the convertible degrades the value of gold and silver until it displaces them, and occupies their place.

It is owing to the prevailing and fallacious notion that money is a measure of value, fixed and absolute, that its degradation is not perceived, but when the power of money to purchase commodities declines, by reason of the increase in the volume of currency offered in exchange for them, it is the value of the money that falls, and the *price,* not the *value* of commodities, that rises. We continually waste our gold by not comprehending this operation of the law of value. I have demonstrated this in your pages before, but the subject is so important that the demonstration will bear repetition.

Let us suppose that the United States possess an exclusively metallic currency amounting to five hundred millions of dollars, and adopt one commodity as the representative of all the others—wheat, for example. With this volume of currency wheat is saleable for export we will suppose at $1 per bushel, that being the exporter's limit, because at the same or a trifling higher price he can buy it in the ports of the Baltic or Black Sea. Now, if we go into the debt banking business, and by exchanging notes and credits with the banks, add one hundred millions of convertible dollars to the currency, without increasing the supply of commodities, we shall infallibly stop the export of wheat by raising its price in the ratio of the increased currency, i.e., 20 per cent; wheat will be $1.20 per bushel. We must pay for the imports, and, as wheat can no longer be shipped, the exporter will ship $1.20 of gold instead, with which he will buy in the Baltic 20 per cent more of wheat than he can buy here with the same sum of money. The 20 cents of currency thus added to the price of the bushel of wheat is not *value,* for no property was created with or by the additional currency; it is *price*—a mere fiction of value; but it is no fiction in its effect upon gold; it is a depreciation of its value, and what we have done is to sell $1.20 of gold for the value of $1; for one dollar is the true value of the bushel of wheat left in its place. This operation will continue upon the average of commodities, some of which, like cotton, owing to our natural advantages, may still be exported, but lessening in degree until one hundred millions of gold is expelled, and the one hundred millions of bank debt fixed in the place of the gold, when the volume of currency will stand in amount as before, but different in character, four hundred millions being *money* and one hundred millions *debt,* and prices return to their normal position. Then, the demand for gold to export having stopped and merchandise furnishing our means of paying debts abroad, the banks, by the law of their existence, must inflate again; they can make dividends only by lending their debt; they add another one hundred millions of debt to the currency, which again adds *price* without *value* to commodities accordingly, stops the export of merchandise to the amount of one hundred millions of dollars, increases the import of commodities attracted by our high prices, many of which come into competition with our home labor, expels another one hundred millions of specie; and, after the usual fall of prices, revulsion and bankruptcy, we fall back again upon the natural volume of currency, now still more unnaturally constructed of three hundred millions of money and two hundred millions of debt. This operation, stimulated by the competition of the banks for dividends, will be repeated as money is earned and brought into the country, until it is restricted to the narrowest limit that will maintain specie payments. This limit depends upon no law, but so much upon the uncertain forbearance of creditors, that it can never be accurately determined and guarded against in advance; it is continually being exceeded by individual banks and they break: three times it has been so generally exceeded by all the banks in the country, as to cause a general suspension of payment, namely, in 1814, '37 and '57. In 1837 the average of specie to their immediate liabilities held by the banks was as nearly as can be ascertained $13.70 to the $100, and in 1857, $13.60 to $100; yet in New England, so great is the preference for debt and the competition of the banks in organizing it into currency, they frequently hold but 10 per cent of money to their demand liabilities on the average, and in Rhode Island alone sometimes only 4½ per cent.

But there is still a large amount of specie in the country beyond the reach of the banks, and yet within the limits of the currency; that is, not in hoards. I think this rarely amounts to less than one-third of the total currency of the country. No doubt this is the more sluggish portion, the most active part of this being where it is least suspected, namely, in the reserve of the banks, where its ownership circulates rapidly without the removal of the coin itself: from this it varies to the slow-moving stocking deposit of the Dutch farmer and the uncertain confines of the hoard.

In the argument I now have to offer upon the most destructive principle of our mixed currency, I propose to assume this money portion of it to be one-third, not inferior in activity to the debt portion of two-thirds. We had in 1857 four hundred millions of bank circulation and inscribed credits, and two hundred millions of money, making altogether six hundred millions of currency in the whole country, and we shall soon have the same amount again.

Everyone knows that the money of every nation constitutes but a small portion of their property; the currency, however constituted, is always the same in volume, permanently, as the circulating volume of money would be if the currency were all specie. The proportion of currency to the whole property of this country and of most commercial countries is and must be approximately as 1 to 25. I consider this ratio so well determined by natural laws, that if I would estimate the whole amount of the property of the United States I would rather know the sum of the currency, and multiply it by 25, than to have the most elaborate statistics otherwise prepared. But Secretary Guthrie's estimate in 1855 confirms this ratio. With great labor he collected statistics from all parts of the country, and concluded that the whole property of the country then amounted to $11,317,611,000. This is nearly the sum of the currency of that year multiplied by 25; but the estimate is a little too low, as Mr. Guthrie thought himself.

On this ratio, the volume of our currency being six hundred millions, the whole property of the country in and out of market amounts to fifteen thousand millions of dollars. Of this about two-fifths is constantly offered for sale, or, in the language of political economy, "in circulation," to be exchanged against the whole sum of currency. The relative activity of currency and property is therefore as 10 to 1, every dollar of currency performing the average circulation of ten dollars of property; thus we have on the average six thousand millions of property constantly in circulation reciprocal with the currency. It is perfectly obvious that the two hundred millions of money circulates, or may circulate, the average amount of two thousand millions of property without debt, and its function being thus employed, the other four thousand millions of property must be circulated through the medium of the four hundred millions of bank debt. However these two portions of the currency may mingle in their operations, it is quite certain that the average effect must be to distribute two thousand millions of property in sales for cash, and four thousand millions in sales on credit, and that four thousand millions of dollars in obligations of debt must exist, depending for the means of discharge upon the wholeness of the four hundred millions of debt currency, that can only be maintained by continual renewals of debt and discount. Now it is utterly impossible to maintain the integrity of this portion of the currency; it will expand with the forbearance of creditors to demand specie to the utmost limit of the safety of the banks, and it will contract five or ten dollars for every dollar of specie withdrawn for export, according to the proportion of specie to the immediate liabilities of the bank that may happen to be drawn upon. Every dollar of its expansion will add ten dollars of *price* without *value* to the aggregate of property and to obligations of debt accordingly, that must rest upon it for the means of discharge; and every dollar of its contraction will destroy the ten dollars of price before created, and stop the payment of that sum of the money obligations of the people to each other.

In August, 1857, the total currency of the United States exceeded six hundred millions of dollars: I think it was six hundred and ten millions. This was reduced by the curtailment of bank loans one hundred and sixty millions in two months, from the middle of August to the middle of October. I have not any doubt this stopped the payment of one thousand six hundred millions of debt in the fall and winter of l857¯'58, much, probably most, of which was among small traders and producers all over the country who are unknown to banks or mercantile agencies, it being for the interest of all parties concerned to be silent upon the subject, and large amounts were compounded without open defalcation. This sort of curtailment is very different from that produced by the export of specie. Specie cannot be taken from us without being bought—a value takes its place that will command specie in a re-exchange with another nation or community. It is entirely impossible to go far in reducing the currency by merely exchanging specie for commodities, because every step in that direction tends to equation; commodities fall in price and money rises in value—things come to a level directly. But the curtailment of bank loans is a mere exchange and offset of one debt against another; no value remains; it is the annihilation of so much of price with so much of the currency. The most prudent man is liable to be ruined in this way if he happens to be in debt when the curtailment takes place. A man may be worth $10,000, owing $20,000, and having $30,000 assets. A contraction of the currency that reduces general prices one-half sinks not his net estate merely, but the means of his debtors, and his whole assets of $30,000 to $15,000; he is now bankrupt $5,000, without any fault or imprudence of his own. I knew several as severe and honestly unfortunate cases as this in the winter of l857-'58.

There is another mischievous power in the debt currency that is seldom considered. Commodities pass through five exchanges from the raw material to the consumer on the average; the continual loss of debts by our expanded credits compels the traders to charge a large percentage on each sale, to cover the risk this system entails upon them. This charge by wholesale and retail dealers is believed to average not less than 4 per cent on each transfer; thus commodities reach the consumers burdened with about 20 per cent of price to cover this abnormal risk: producers must be repaid this change, and of course add it to the cost of their productions, which thus come into the world's market, greatly at disadvantage, in comparison with those of every nation possessing a more valuable and stable currency. The obstacle to our export trade created by this is very great, but has never been estimated. These five exchanges from the raw material to the consumer, going and returning, complete the circle of ten that I assume as the average relative activity of the circulation of currency and property.

The popular cry against a bullion currency exclusively is "the fall of prices" that would result therefrom: this is a groundless conceit, scarcely creditable to the intelligence of our bankers and merchants. How long should we retain flour, wheat, beef, pork, or any other product if it would pay five, or even one per cent more profit or less loss than gold in balancing the account of our imports? Not a moment longer than the time necessary to disclose the fact. Commerce is lynx-eyed in this matter, and never permits gold to leave the country, when it is appreciably more valuable here than merchandise, and never detains it when its value is appreciably less. London being the centre of commercial exchanges, the exchange on England determines whether our prices are above or below the specie measure, and the rate of exchange is the true exponent of the deviation. One-eighth of one per cent difference of value between gold and the average of merchandise will at any time determine whether gold or merchandise shall pass either way between Boston and New Orleans, or between London and New York. There is a singular delusion in the minds of men on this point, in the face of facts of daily experience. What we do with our debt currency is to degrade the value of gold and silver only so far as to make money cheaper than merchandise, expel the money, keep the merchandise, and thereby prevent the accumulation of wealth in the creation of more merchandise to the same extent, substitute debt for money in our exchanges to the utmost limit, extend credits to 8, 10, and 12 months, and forever; keep a stream of bad debts in the current of trade that gather at times to a torrent, and sweep the fortunes of the enterprising and industrious into the pockets of capitalists, and spread anxiety and wretchedness broadcast among the people: but as to the aggregate wealth of the country, it makes only the difference of about $50,000,000 yearly loss in the export of specie, with the profit that so much capital would earn. Mostly the operation is to plunder the debtor, and give to the creditor, by a transfer of capital in our own country, making no difference in our aggregate wealth in this respect, excepting so far as the general embarrassment suspends production.

Who would discover a difference of price, more or less, in commodities of ¾ or 1, or even 5 per cent in the average, caused by the alteration of the volume of the currency by the change from money to debt, or debt to money, where every commodity, being affected by its own variation in supply and demand, is continually varying, from one to one hundred per cent in price? Flour is sometimes $5, and sometimes $10 per barrel, and all other commodities are more or less affected by the law of supply and demand, without regard to the exchange value of money.

The fundamental error of our financial policy lies in the attempt to create wealth by creating currency: it is putting the servant before the master—the wrong power, in advance. We can create wealth only by producing commodities. The nation that pursues this policy will have, not only the most wealth, but the most money; they will have the least debt, and of course the least embarrassment; they must sell commodities and buy money: this is the present policy of France, whose currency now consists of about 1,000,000,000 dollars of gold and silver coin, and 100,000,000 dollars of bank debt in excess of the coin. She sells her products to England and the United States at our paper prices, and takes our gold in exchange. Of course there is almost no debt among her people; her home traffic must be conducted according to her currency about one-eleventh with debt, and ten-elevenths with money. Every trader and producer in the interior of the empire is said to be in possession of a bag of coin for his smaller traffic, and the larger operations are made through local bankers. New Orleans, notwithstanding her sickly climate, is, with her improved currency, according to her means in commodities, obviously getting the advantage of New York in commerce, and New York, with a better currency than Boston, is getting advantage of Boston. The State of Arkansas, having had nothing to do with debt banking, since the embarrassments created by her two banks about 1842, from which she is not fully recovered, passed through the late financial crisis wholly unscathed, and is now thriving beyond any former period of her history.

I am very much gratified to find the Bullion Bank of New York has become a fixed fact. It is an evidence of a change of system soon to follow the present, and of sounder views of currency than have hitherto prevailed. I wish it all success. It cannot be doubted if that bank succeeds by charging a fee on its deposits, that it will become manifest another may succeed with an increased business, by paying interest on *deposits* borrowed on time, and lending at a profit on the rate of interest paid; lending deposits when they are *deposits,* but not while they are undrawn loans; that is, by keeping always coin or bullion in reserve, dollar for dollar of its demand liabilities. With a reasonable capital such an institution would be a far safer depository than the present Savings Banks, for they have no capital at all, and are liable to great changes of value and consequent risk, from the long period covered by their loans. The increase of deposits in Savings Banks, and the enormous entanglement of debt produced thereby, are in my opinion charging a mine under the property of this country, that a spark may explode while we are in the enjoyment of fancied security.

We must look to the bankers and merchants for this improvement of bullion banking. Neither this nor any other improvement in banking or currency will ever come, in my opinion, from State legislation, for the reason that a sufficient number of disinterested men, of intelligence enough to understand the subject, cannot be found in any State legislature in the country, with the exception of that of Arkansas, where they have learned wisdom from painful experience, and from the lessons of Mr. Wm. M. Gouge, who has been occupied laboriously in Arkansas for several years in clearing up the rubbish of their two broken State Banks.

An institution of this character brought into activity in the full channel of trade, with a controlling capital, will speedily put a stop to debt banking in this country, for the other banks must then follow the same course or break, and it will place New York infallibly at the head of the commercial cities of the world.

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Bankruptcy in the Currency*

To the Editor of the Merchants' Magazine:—

I transmit to you for publication a paper read by me before the Board of Currency of New York. It contains some thoughts that I have before expressed in your pages, but as they are necessarily connected with what I conceive to be a fatal principle in our currency system, that I wish to expound to your readers, I will thank you to present to them the article entire.

It is well known to you, Mr. President and gentlemen, that I consider the currency of this country, and of other commercial countries, to contain a fatal principle of bankruptcy, the operation of which cannot be avoided by the utmost frugality of life or prudence in business. So far as I know, the exact nature and the extent of this principle have never been made the subject of scientific investigation. Although the general fact is well understood that contraction must follow the expansion of bank loans, and bankruptcy be the consequence, it is generally supposed that ordinary prudence in the conduct of banks and of individuals will save the debtor from failing, at least, if not from harm. The absolute law by which failure becomes inevitable, and the extent of its action, I propose to consider tonight, and ask your investigation of the subject.

* Reprinted from *Hunt's Merchants' Magazine and Commercial Review,* XL (June, 1859), 673-88.

The currency is of two sorts, related to each other like good and evil, or truth and falsehood; they are money and debt—elements as antagonistic as any two in nature. Our concern is with the debt currency; without this we need have no concern whatever about money, more than any other commodity—without this *value* and *price* would correspond, and money, by the natural law of value, would flow to that market, and be of ample volume in the community possessed of the greatest enterprise and industry with the least unproductive consumption, because there money must possess the highest relative value.

The community that produces and maintains the greatest quantity of commodities of general utility, in relation to the volume of their currency, or the least volume of currency in relation to their commodities, will inevitably sell commodities in exchange for the money of other communities. This law, so simple and obvious that he who runs may read, is constantly violated in our financial and commercial policy. We busy ourselves to the utmost extent in degrading the value of money by increasing the volume of our currency, and thus sell our money, keep our merchandise, and transact our business with debt; when no people on the face of the earth are so favorably circumstanced to maintain a currency of *money,* do business for cash, and export merchandise. Instead of looking to science to discover the cause of this ill-condition of affairs, we look only to partisan politics, and cry tariff!

The system or principle of convertible debt in currency—the plan of borrowing and lending debt, payable on demand, in the office, or to perform the office, of money, was introduced by and with the Bank of England into commercial finance in 1694. By and for this that bank was founded. Their "capital" was at first no capital; it was a pure sophism. Of their subscribed capital of £1,200,000 they called in 6 per cent, or £72,000, which was pretty much expended in obtaining the charter, the application for which was sharply contested. They paid into the public exchequer the so-called capital, which, by the terms of the charter, was to be loaned to the government. But how did they pay it? Simply by handing into the exchequer the bank notes for £1,200,000—promises to pay money the bank did not possess, in exchange for £1,200,000 of exchequer tallies—promises of the exchequer to pay money the government did not possess, nor ever have possessed to this day, for it was the founding of the present oppressive and irredeemable public debt of the nation. Forthwith they commenced receiving deposits and discounting commercial bills, and with the deposits thus obtained—money lodged with them for safekeeping—they redeemed the notes passed to the exchequer; they did not keep the money, and the government, being thus put in possession of real money in the place of the fictitious, by using the money belonging to the bank depositors, sent the coin under the guidance of Michael Godfrey, the deputy governor of the bank, to Flanders, at that time the seat of the war with France. This coin was employed with great effect at the siege of Namur; the city capitulated on the 29th of August, 1695, after a siege of seven weeks, and the success of the British arms on that occasion was attributed in a great degree to the supplies procured through the operations of the bank, which obtained for the institution immediately a high degree of popularity. The death of the deputy-governor, Godfrey, at the siege, added emphasis to the services of the bank, as he was supposed to have been sacrificed in the performance of his official duty, when in fact he was in the trenches as a courtier, against the remonstrance of the king, who gave him to understand that, as a civilian, he had no business there.

These circumstances, occurring within one year after the bank was fairly in operation, placed it at once so high in popular favor as to disarm all opposition, for before its establishment the coin and the credit of the government were in a very low condition. Thus the directors were enabled to carry their loans to an enormous amount within the next year, in proportion to their cash on hand. On the 4th of December, 1696, the governor and directors of the bank presented at the bar of the House of Commons, in answer to a summons of the House, a statement of their affairs, from which it appeared that they owed £1,975,872 10s. 6d., with only £35,664 Is. lOd. of money on hand; the balance of assets over liabilities, including capital and profits, being £125,315 2s. lid.

Their money amounted to only about l¾ per cent of the whole debt.[#] But they had brought themselves to a suspension of payment as may well be supposed. This was attributed to the recoinage of silver, but the preposterous loan of debt against debt by the bank was the true cause of the suspension.

We see, therefore, that this system started vigorously into fiction, and with a bad omen, in its infancy.

I use the term debt currency to embrace both the circulating notes and inscribed credits of the banks, less the coin in their coffers. The credits, absurdly called "deposits," when they consist of debt created by the discount of a counter debt, but of course rightly so called when absolute, are as much *currency* as the circulation.

Currency comprises all the money, and the customary substitutes for money, offered to be exchanged for property of any sort, or to be used in the payment of debt, and in transfers sanctioned or accepted by custom as payment.

Money is value—a commodity—the product of labor. With money we buy property and pay for it, exchanging one value for another without the intervention of debt, upon the principle of barter. In the United States, and in most or all commercial countries, it consists of gold and silver, with a little copper coin, the unit of value here being 25 ‰ grains of gold called a dollar. It pays debt and ends it with *value,* and then remains, keeping the currency whole to maintain prices and discharge all obligations created by its measure. There is about two hundred millions of dollars of this outside of the hoards, and employed as currency in the whole country. The hoards are *money* but not currency.

With the debt-currency we buy property by transferring a debt; we pass an order on a bank—the bank then owes for the property instead of ourselves, and promises to pay a value hereafter. Of this we have had over four hundred millions of dollars in excess of the

* They had borrowed £300,000 from Holland, and made an arrangement with a portion of their creditors by which the payment of their claims was postponed, and bills for £93,800 were sealed up, bearing interest at the rate of 4 per cent per annum; they also owed £17,876 for interest on the sealed bills, so that their demand liabilities were £764,196 10s. 6d., against £35,664 Is. lOd. of money on hand. There were no accounts current, or what we call "deposits," on their books.

coin in the banks, and in excess of all the money in the country. We shall soon have that amount again. As money or value this is all a fiction—as debt it is reality. It never *pays* debt without destroying itself—it merely makes transfers while it exists, and when, according to the conventional term, we have *paid* a debt by passing a note or a check on a bank, there is just as much money needed to cancel debt in the country as before.

I owe $1,000 to Johnson; $1,000 of money will pay and end the debt, leaving the currency entire. Not having the money, I give him an order on the bank; the bank now owes Johnson what I owed him before. The debt is not paid. If the bank discharges its debt by an offset with its creditor, it annihilates so much of the currency. This is simply the contraction of bank loans; it is an absolute destruction of the means of paying the obligations it had itself created in the price of things; the price must fall. This is the important difference between money and debt in the currency. Money remains to support prices and maintain the integrity of obligations after paying and ending debt, because it is value. The debt currency cannot pay and end debt without destroying its sum of currency, because it is not value; it cannot end debt without ending itself, leaving nothing to support prices and meet the obligations created by its measure, and resting upon it for the means of discharge. Like the Kilkenny cats, one debt eats up the other and no value remains. See the wretched effect of this in an illustration.

A trader by industry and frugality acquires $10,000 clear balance at the credit of his stock account, with a certain measure of currency. His assets are $30,000, and he owes $20,000. This is a very favorable average position of a trader in this country. Now, the banks, being obliged to pay their debts, annihilate so much of the currency, as was nearly the case in the fall of 1857, that general prices fall one-half. It is not the sum of the trader's capital merely that falls one-half, but the total of his assets; his debtors cannot pay, and his merchandise falls. He has $20,000 to pay and only $15,000 left to pay with. Instead of being worth $10,000, he is now bankrupt $5,000, without any imprudence or fault of his own, but simply by the miserable instability of this principle of debt in the currency. I know more than one worse case than this in the fall of '57. One is fresh in my mind where a merchant of my acquaintance, worth nearly $200,000, owed less than half the sum of his net estate—a prudent, exemplary man, and an indefatigable worker—he was ruined, and is now in an insane asylum.

We see by these examples that it requires the whole volume of the currency to discharge the obligations contracted by its measure. We cannot fall back upon the money portion of the currency to supply the deficiency of the other, because the money is employed in performing its own functions, in supporting its own share of the public obligations, and in accomplishing the exchanges depending upon it.

It is true that commodities pay for commodities, but the payment by custom and for convenience passes through the medium of currency, and the promise of the currency being to pay dollars, if they are not delivered at the time of the exchange, nothing else will meet that promise when dollars are demanded, let them cost in other commodities what they may. No matter how much money may remain in the currency, the debtor can have no means to obtain it when his means had depended upon prices that have fallen.

At the cost of some repetition I wish to mark accurately the distinction so ill-defined, and so little comprehended by the generality of men, between money and debt, and analyze the debt currency to its primal element or ultimate atom:—

About January 1, 1857, the debt currency of this country consisted of ledger accounts due by the banks and pay able in coin on demand...		$230,351,352
Bank notes...	$214,778,822	
Deduct notes of other banks.................	28,124,008	
In circulation among the people............................		186,654,814
Due to other banks, liable to check at sight.................		*57,674,333
Total		$474,680,499
Deduct coin reported in the banks................................		
58,349,838		
Amount of that currency January 1, 1857.............		$416,330,661

* With regard to the ban¼ balances—debit and credit—there seems to be no

There is some question among thinkers, about the effect of the bank balances as currency, that we need not now discuss.

Of this currency, the most active and effective portion is the credits—the fictitious "deposits." They constitute the medium of exchange of all the large transactions of commerce—of all the stock dealing and stock gambling of New York, and of most of the commercial gambling everywhere. They comprise the ' 'money" so called of the merchants and manufacturers; it is through them, mainly, that the foreign exchanges are turned for or against us; it is their increase, mainly, which raises prices, checks our merchandise exports, increases our merchandise imports, expels our money, and accumulates upon us about ten dollars of unnecessary debt for every dollar of money sent away. The variation usually in the amount of the circulation is comparatively limited—in the inscribed credits it is large and frequent. Some have denied to these credits the character of currency, but the question has been very conclusively settled by this Board of Currency. Call them what we may, they are the most mischievous portion of the mischievous

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more reason why one side should be deducted from the other in estimating the currency, than that the same plan should be pursued with the individual accounts. The bank lends A's "deposit" to B, both parties having the right to check upon their accounts, and there are thus two "deposits" of the same specific sum; in fact, both are checking on the same dollar. By averaging accounts with other balances for the day, this thing can be done in easy times, and it can be more than once repeated; but all these balances are *currency at rest,* waiting investment in commodities, as commodities in store are *merchandise at rest,* waiting investment in currency, 10 to 1 of the amount. The balance due by B cannot be deducted from the balance due to A, because the bank is liable for both in coin on demand. Both have the same purchasing power as coin in the market, and affect prices the same; both are embraced in the loans. So with the bank balances, those due *from* banks are *loans,* and those due *to* banks are *"deposits,"* and therefore *currency.* The whole system of debt banking is a balance of debt against credit of this nature. The balances due *from* the Rhode Island banks to the Suffolk, of Boston, for example, is a *loan* from the Suffolk; with the Rhode Island banks it is a "deposit." This same sum the Suffolk borrows on its circulation and credits, or perhaps from the Metropolitan Bank, of New York; it is all the same in either case; and if borrowed from the Metropolitan, it is a *loan from* that bank, and in the Suffolk it is a "deposit" due *to* the Metropolitan, and liable to check at sight, having the same purchasing power, and the same effect upon prices, as coin in my pocket that I may use to-day, or next week, or next year. It is therefore *currency.*

machinery of our currency system, and we are rapidly learning, to our cost, that they are not money, but the worst sort of debt when money is much and generally needed.

Not only has every dollar of these four hundred and sixteen millions driven abroad its equivalent dollar of gold or silver, but every dollar of the same sort created from the introduction of the system into the country in 1782, by the establishment of the Bank of North America at Philadelphia, has done the same thing, whether afterwards "contracted" in the discounts, or sunk in bankruptcy by the failure of banks. The system, from its inception, has done nothing but plunder the country of capital; limit our agriculture and manufactures; cramp our commerce and navigation; entangle us in debt; make spies and informers of us; and demoralize and make us wretched. We carry the marks of its withering touch in our faces; cankering anxiety is stamped there so distinctly that travelers write it in their notebooks, and publish to the world that notwithstanding our boasted liberty and aggregate prosperity, we are slaves to care and an unhappy people. We are prematurely old; we see it in the mirror, and acknowledge it ourselves. All this comes of living in debt and difficulty, while the unrighteous system scatters our money over the face of the earth as fast as it is earned, sinking us in bankruptcy individually at last. At the same time the labor we perform produces an unparalleled degree of wealth collectively, that too often enures to the cunning, who win, and not to the honest, who earn it. There never was a country so full of the elements of material prosperity as these United States—with a better and more varied climate; so much strong, virgin soil; so many intelligent laborers; and so few non-producing consumers, in proportion to population. Against all these advantages, to which we owe the rapid accumulation of our national wealth, we legislate our property, through a vicious banking system, out of the hands of its rightful possessor into those of the lucky capitalist, who, at the next turn of the screw, is frequently stripped of his property for the benefit of another, who happens to be the capitalist of the day.

No community, having an open commerce, can possibly maintain, permanently, a volume of currency greater than another, in relation to commodities, for the value of money is measured and determined by commodities, as the price of commodities is measured and determined by money. That which is the cheaper, the money or the commodity, will immediately pass to the dearer market. This law was discovered and demonstrated by Adam Smith, and is one of the best established in the whole science of political economy. Its operation is familiarly known to every merchant in the course of exchange, which immediately turns against the city or country having any comparative excess of currency, if it be convertible into money. A difference of one-fourth of 1 per cent will at any time send money from Boston to New York, or from New York to London. This simple and undeviating law condemns our banking system at a glance. But our merchants ignore this law; they say we send gold because we are in debt to London. How came we in debt to London, but for the reason that commodities are worth more here, which is only another mode of saying that money is worth less here, and more there? We cheapen our money, and commerce, acting with the promptitude and certainty that characterize all natural law, brings commodities to our dearer market, putting the balance of account against us. We might as well attempt by act of Congress to turn the current of the Mississippi back from its mouth to its source, as to think of checking the import of foreign goods by a tariff, or any other human statute, when the aggregate of our active currency exceeds even by one-fourth of 1 per cent its natural specie volume. Commerce will find it out when no individual can discover it, and its exponent is one-fourth of 1 per cent exchange against us—that is all.

I have, in former papers, assumed $400,000,000 as the sum of our debt currency; that was the average from July, 1856, to July, 1857, and, as I have stated here, it will soon amount to that sum again. Now the consequence of the existence of this amount of debt in the currency was, and will be, the co-existence of $4,000,000,000 of debt in the country, wholly unnecessary; destructive of the best interests and happiness of the people; the result of gross ignorance or neglect of the science of commercial finance, or political economy; restraining our natural production and traffic, and thoroughly absurd.

This may seem startling to those who have never reflected upon the subject, but it is none the less true. It will surprise no one who reflects upon the number of exchanges necessary to the circulation of all the commodities of our commerce, that, from the absence of money and the necessity of providing notes for discount, to keep this debt currency alive, must be made on debt and credit. So thoroughly does this system permeate and poison our business, that almost everything in country or town, from the supplies of the butcher and baker to the Calcutta cargo, *must* be sold on credit, the great want of currency being to pay a debt previously contracted, and then what we call *paying* is only transferring. For what I owe the baker I hand him a bank note—value is absent; the debt is not paid. What I owed the baker yesterday the bank owes him to-day; and as to the Calcutta cargo, the way I pay the note I gave for it, and which my creditor has had discounted, is to sell for a note, and get that discounted, paying debt with debt. It is the round of eternity. The ultimate debt can be paid only as we pay the debt of nature—by death. Value, the vital principle, is absent. The whole structure of obligations, over and above the true measure of value of a money currency, is but the baseless fabric of a vision, that, on the first demand of value, dissolves, but leaves many a rack behind.

It is a startling fact yet to be investigated by scientific men, that if, by an exchange of obligations merely, we establish one dollar of debt in excess of the coin in the currency, it will become as much the price of a thing as if it were a value—an additional dollar of gold; and that price never can be paid. The obligation rests upon the thing it is made of—moonshine—moonshine must sustain, and moonshine alone must pay it. It may be exchanged and kited, while the debt currency continues at its full inflation; that is, while it exists in price. But it is an obligation to pay a value that never was and never can be, for every value brings a co-existing obligation into being with it. If it be a dollar it will pay a dollar; obviously it cannot pay two at once. Therefore it is that the obligation to pay a dollar of value in the currency, that never was created, is an obligation impossible to be fulfilled. No doubt we may create and keep in circulation numerous obligations to pay a Kohinoor diamond, so long as the fallacy lasts in public opinion that they are as good as the diamond itself, because the diamond may be obtained on demand for each promise to pay, but there is only one such diamond in the world, and when the demand of one creditor for the diamond, the *real value,* is satisfied, and he chooses to retain the jewel, what is to become of the remaining promises to pay, for which no Kohinoor diamond, or its equivalent value, ever existed? This is the absurdity of our system; the bank contracts to deliver a specific thing; when an exchange of contracts, or promises, will not answer the purpose of creditors, and the demand is made upon the bank for the specific *dollar* which it never loaned and that never was created, we are plainly *cornered.* We have become so accustomed to the idea that an equivalent will always procure the dollar, men fail to discover that there is no equivalent to fiction but fiction.

But this is not all. Whatever may be the relative activity of the circulation of money and property becomes the measure of the number of obligations that must rest upon the fictitious dollar. I think that relative activity is as 10 to 1, and I was gratified to find my opinion confirmed by one of the most experienced financiers in this country, the late Mr. George Newbold, President of the Bank of America. I deem this matter of relative circulation so important, and Mr. Newbold's testimony so valuable in establishing the truth of my proposition, that I venture to call a witness and refer to Mr. George D. Lyman, Manager of the Clearinghouse, who was present with us in that conversation about three weeks before Mr. Newbold's death. It was then Mr. Newbold's opinion and mine, in which Mr. Lyman concurred, that every dollar of money or currency exchanges in its circuit, on the average, ten dollars of property. Of course this estimate must be approximate only, depending upon the average number of transfers from the producer, or from the imported raw material, to the consumer, which is believed to be five; of course the return transfers would be five, making ten in all to complete the circuit. Assuming this estimate to be correct, it follows that every dollar of the currency curtailed to reduce its volume to the measure of value, and stop the outflowing of specie, will infallibly leave ten dollars of obligations without any means of payment. Debtors must break in that ratio. By the operation of the law of value the contraction must take place, and continue until the currency is reduced to its natural volume; that is, to the same amount as it would be in gold and silver, if there were no debt in the currency. Then the excess, which was before mere *price,* a degradation of the *value* of money, having cost us good gold for its whole amount, by driving it out of the country, becomes a substitution of debt for money in the currency, fills the exact measure of the expelled coin, and occupies its place. To reach this natural and inevitable position of value, the price created by the fiction of money falls from the commodities to which it adhered like a fungus; it was not value—it was disease, and did not belong there, and yet that diseased price comprised the total of means to meet the obligation created by the false measure; it sloughs off in the cure by the effort of nature, as—

> She cures decrepit flesh,
> And brings it infantile and fresh.

It sinks, and all its obligations, running to maturity, sink with it. They can never be paid, and the coin is totally lost by its degraded value, not a dime of value being returned for it. This is philosophic truth.

I suppose this to be my discovery. At any rate I shall hold the patent till someone puts in a prior claim and makes it valid. I have not found it in the economists. Mr. Calhoun came nearest to it in his speech on the recharter of the United States Bank in March, 1834, and Mr. Gouge makes suggestions leaning the same way, but I believe the absolute philosophic fact that *price* created without *value,* by converting debt into currency, must end in the bankruptcy of all its obligations, and with the total loss of the expelled coin, is my patent. This, in my opinion, fully explains the distressing crisis of 1857, and all the revulsions that have occurred since this iniquitous principle was introduced with the

Bank of England into commercial finance in 1694; and it ought to form the basis of vigorous legislation by the Congress of the United States.

Can anybody fail to discover the wide difference between the product of labor in gold placed in the currency, with its resulting price in commodities, and the product of a banker's pen in a promise produced by writing another promise against it, with the price this fiction will create? If this latter were value, the wealth of the Indies would be attainable without labor and without cost.

Now, to apply this principle to our financial affairs in the autumn of 1857. We had in August of that year, a debt currency over and above the money in the country of $416,000,000; money, including the coin in banks and not in hoards, $200,000,000; total of currency in August, 1857, $616,000,000.

The portion of specie in the banks is, or may be considered, active, because its ownership circulates in the bank notes and credits. So far the bank debt is properly money, circulating with more portableness and facility than the coin, without abrasion, and without cost of transportation. There was about fifty-five millions in the banks, and one hundred and forty-five millions in the government treasury and in hands of the people, in August, 1857, of real money. Specie is the more sluggish portion of the currency, varying from the activity of the bank circulation, the small change in all the States, and of the money in the few States that have suppressed the notes below $5, to the sluggishness of the stocking deposit of the Dutch farmer and the confines of the hoard. Still, I think, there may have been $200,000,000 operative more or less as currency, much being among the immigrants in the West. The hoards, I think, cannot have amounted to much, but I will not attempt to estimate them, as they have no effect upon prices, or upon the currency or commerce of the country.

It is obviously one of the first effects of a financial crisis to alarm the owners of money; they call in their loans and the hoards temporarily increase. We may be sure, therefore, that there was no increase of specie in the currency from August, when the banks commenced the curtailment of the debt currency, till October, when they suspended payment, and we shall certainly be within bounds to estimate the curtailment upon the bank contraction for the whole currency.

The debt currency on the 1st January, 1858, was as follows—inscribed ledger credits called deposits		$185,932,049
Bank notes..	$155,208,344	
Deduct notes of other banks	22,497,436	
	132,710,908	
Due to banks, liable to check at sight............................ 51,169,875		
Total		$369,812,832
Deduct coin reported in the banks................................		$ 74,412,832
Total of debt currency January 1, 1858.................		$295,400,000

There had been a material revival and addition to the credit inscriptions, between the middle of October and the 1st of January. In New York City alone the increase amounted to nearly $20,000,000 from the date of suspension, 14th October, 1857, but this was a gain of specie from the rest of the country. There can be no doubt, however, that the debt currency, which amounted in the middle of August to $416,000,000, had fallen by the middle of October to $295,000,000; contraction in two months $121,000,000.

Now, I am well satisfied that this contraction plunged into bankruptcy or suspended payment among the debts of the whole country far and wide, and large and small, the enormous amount of twelve hundred and ten millions of dollars. No doubt this will seem incredible to those who have not investigated this matter, but a little reflection will make it plain. If the price embodied in a barrel of flour averaging $6.00 circulates ten times through our currency system, as I have assumed and think approximately correct, then that which six dollars of money would have paid for at the outset creates sixty dollars of debt. It is not at the barrel of flour itself in market that this operation commences, but back to the seed of the wheat sown by the Western producer. He bought the seed on credit, perhaps, and the product of the harvest passes through its various exchanges on credit, or by the medium of the bank debt which a counter debt must accompany to keep the bank alive, from producer to dealer and miller—then in flour to dealer after dealer until it reaches my grocer who sells it to me on 6 months' credit. During its travels from west to east it will pass through bank discounts and be represented by red-dog and wild-cat without perhaps the aid of any money at all; it may have been the means of creating a debt at every remove, and now, having brought me in debt, I must pay for it; and how? Why, I sell an ox hide to a dealer or a tanner for a six months' note, get the note discounted, and pay my grocer by transferring the debt from myself upon the bank, and now the hide must find its way back in sole leather and upper leather, by tanner and currier, and shoe manufacturer and dealer after dealer, through debt and discount many times repeated, to the planter of the West. At length the circuit is completed—the dollar of currency has gone its round, and what is accomplished? Simply this: I and my family are eating up the farmer's wheat, and he and his family are consuming my ox hide in the shoes upon their feet. It was not convenient for him to come to me with his wheat, nor for me to go to him with my ox hide; hence the numerous exchanges through debt to fulfill the infallible law that commodities pay for commodities. I have simply bartered with him an ox hide for five bushels of wheat comprised in a barrel of flour.

This, with some latitude of expression, may be called the orbital motion of currency, bearing a relation to the daily exchanges it accomplishes similar to the annual motion of the earth in relation to its rotary or diurnal motion. In its circuit it performs various exchanges of different commodities, which we assume to be in the ratio of $10 of property to $1 of currency.

We must remember that commodities pay for commodities; money is merely an instrument of transfer in effecting the exchange, and is never a finality, unless with the miser or the monomaniac. It is wholly immaterial what may be the volume of the currency if it be left to the operation of the natural law of value, for one-half the currency at present employed in this country would serve to transact the same business—would exchange equally well the same quantity of property, *and the same value,* only at one-half the price, as the whole sum exchanges now. But we could not keep it so; exchange on England would be fifty per cent below the true par; fifty cents would buy as much here as a dollar elsewhere. Obviously, the business of the country would spring into immense activity at once. Everything we could sell and produce would be demanded for export, and everybody would make money on the advancing prices, until we had sold commodities and imported money to the equation of international demand for both money and commodities. The exchange of commodities can, of course, be effected without money, and it is so effected when it is done by a promise to pay, whether that promise be pictured in a bank note, inscribed in a bank ledger, or passed by word of mouth from the producer through every remove; but, as money is capital and debt is not, and a certain proportion of currency is needful to facilitate business—money, the only description of currency that can be employed to effect exchanges without debt and embarrassment, is profitable to import. I do not overlook the fact that there are numerous exchanges made by direct barter of commodities without the intervention of currency or debt. Everyone will perceive that there is no capital in our debt currency of 400 millions of dollars; whatever may be its value to individuals, it must be left out of the account in estimating the aggregate wealth of the country; if it were to be annihilated tomorrow the capital of the country would not be reduced at all, but one man would gain what another would lose. If, however, the 200 millions of money were annihilated, a different result would follow—it would be an absolute loss of wealth to the nation.

I see no difficulty in finding tenfold the price of the flour added to the debt of the country by the operation I have detailed, which might have been prevented with profit by selling an extra barrel of flour for cash, and using the gold. Our wheat farmers will not long be in need of credit to any great extent when the policy of retaining and importing gold to form our currency shall prevail. It is what everybody desires, but what, by sustaining our present system, they blindly prevent—*the selling of goods for cash.*

But there is another method of reaching the same result, with respect to the enormous amount of bankruptcy in the autumn of 1857. Bad debts are never pleasant things to talk about; people disguise them if they can, and the amount falling among the traders of the interior, small in items but vast in aggregate, we never hear of. If the occasion had not been so full of sorrow, I should have been amused at the effort of the *Independent* to keep its bankrupt list veracious as the contraction progressed in 1857. It came at last to counting sands on the seashore, and they gave it up in despair. There was also, however, another reason for this. It was found by dear-bought experience that the publication of failures stopped the collections of the unfortunate creditors. This fact came home to the proprietor of the *Independent* in a practical and painful manner at last, and is said to have had much influence in putting a stop to the publication of the bankrupt list. The most reliable method of acquiring information on the point we are considering is to estimate upon general principles.

It is approximately correct, I think, and I have the estimate of the late J. C. Calhoun and others to confirm my opinion, that the currency in a commercial country like ours, which should be money, is as 1 to 25 of the whole property. In round numbers, then, with *six hundred millions* of currency we have *fifteen thousand millions* of property in and out of market.

It is an estimate of some economists that about half the capital of commercial countries is reproduced every year, and that half is nearly all consumed in the same year.* I am of opinion, in which I have good supporters, that we in this country add about five per cent of this reproduction of seven thousand five hundred millions to our capital annually, namely, three hundred and seventy-five millions, and the remainder of forty-five per cent is annually consumed. Now, in producing and consuming this immense amount, two-thirds of which at least must be exchanged with debt, that is, *five thousand millions,* because we have no money to exchange this portion with, according to the proportion of our currency, is it at all unreasonable to suppose that *twelve hundred and ten millions* of obligations, or about one-fourth of the amount exchanged through debt and credit, fell into bankruptcy or was

* This estimate of production would seem to be too high for many of the old countries; particularly for those often engaged in war, or generally in the maintainance of large armaments, and in the support of extensive privileged and idle classes, and an extravagant government; but I think it may not be too large for the United States, where unproductive labor and unproductive consumption are more limited than in any other country.

stopped in payment in the unparalleled revulsion of 1857? I think not.

In confirmation of the estimate of the ratio of 1 to 25 of currency to property, I find Secretary Guthrie estimated the value of the whole property of the United States in 1855 at $11,317,611,000. As the currency then stood it was not far from the same ratio of 1 to 25, but the estimate was a little too low, as he thought himself. I am so well satisfied with this ratio, after careful reflection, that if I would estimate the money value or price of the whole property of this country, I would first ascertain the volume of the currency—then multiply it by 25, and I would have a result more satisfactory than could be furnished by the most elaborate statistics otherwise prepared. It may be interesting to observe that an increase of $375,000,000 yearly, with the present value of the precious metals, would double our property in 20 years, but as each year's increase will produce its addition of 5 per cent, upon the principle of compound interest, we may upon this calculation expect our property to double in 15 years, even with our present population.

And in regard to the estimate of the relative activity of the circulation of currency and property as 10 to 1, it would seem to be confirmed by the ratio of failure to success in business in this country, according to the investigations of the late General H. S. Dearborn, of Massachusetts, who several years ago collected statistics relating to the matter. He concluded that about 95 of every 100 traders, great and small, fail once in life or die insolvent. The bankruptcy of 10 to 1 in trade would be the inevitable result of the bankruptcy principle of $10 to $1 in the currency, in its average operation.

Moreover, 10 of immediate liabilities to 1 of specie is the utmost point of inflation that is reached by the banks of any portion of the country by combined action. The New England banks combined, usually maintain this degree of expansion. There are weak districts included in the average that exceed it by leaning upon their neighbors; the Rhode Island banks, for example, often run down, by resting upon Boston and New York, to $4.50 of coin to $100 of immediate liabilities. They owed the Suffolk Bank in

Boston $700,000 at the general suspension in the fall of 1857, which they could not adjust till the present re-inflation had made considerable progress, and their notes were for several months at 15 per cent below par in Boston and New York. But it would seem that the New England banks, altogether, find 10 to 1 the outside limit of safety.

There are four essential points to be impressed upon the public mind in relation to our subject.

1st. That money and debt are antagonists by an irrepealable law; like fire and water in contact, one must expel or extinguish the other. To whatever extent we employ one of these in the currency, the other must leave; they cannot occupy the same space at the same time. Certificates of the ownership of coin, and the coin for the same, cannot be issued and employed as currency, and kept in the country together; *we cannot eat our cake and have it too.*

2d. And not less important is the one I have just endeavored to demonstrate, that debt, when converted into currency, creates *price* without *value,* which cannot be maintained, and obligations that can never be paid in the approximate ratio of 10 to 1 of the curtailment of the bank currency, when the curtailment is not replaced by specie, because value is necessary to discharge an obligation payable in value. The price must vanish with the currency that created it.

3d. There is a sharp distinction between value and price to be inculcated, by which people may be brought to see that whenever prices rise from an increase of currency there is no increase of value or wealth, but a fall in the value of money which checks home production and the export trade. Such fall in value must be calculated on the whole currency. Assuming the natural volume of our currency to be *six hundred millions of dollars,* an increase of one per cent of currency would be a fall in its value of six millions of dollars, and inevitably cause the export of gold and silver instead of merchandise to that amount, and if the increase be made by adding convertible bank debt to the currency, six millions of the capital of the country is totally lost thereby; it might as well be plunged into the sea. The most unprofitable business for any community is to manufacture currency, for its increase is exactly balanced by the degradation of its value. In the case supposed, 101 dollars, after the increase, will buy no more than 100 dollars bought before. Even to produce gold, as in California, is a poor business, for the constant cheapening of money thereby must keep the community there almost constantly in trouble with a glut of imports attracted by the high prices caused by cheap gold.

4th. The rate of interest is the indicator of the abnormal condition of the currency, showing the preponderance of debt in relation to the money it contains. Interest has nothing to do with the value of money, except that it is always high when the value of money is low. Debt in the currency has more effect in raising the rate of interest than debt anywhere else. It creates an increased want of money and capital by driving capital in money away. It is no capital itself, but a mortgage upon capital. As currency of that description increases, a divergence proceeds between the money and debt of the people; the rate of interest always rises of course, and, except in the frenzy of the change, as such currency decreases, the rate of interest falls. A rate of guaranty for the risk of bad debts, inseparable from the debt currency system, is always included in the rent of capital.

These are facts of great significance; they ought to be carefully investigated and widely published, that every man capable of mental exercise may investigate them for himself. They are philosophic truths, I believe, fully proven by experience, and nowhere else so distinctly marked as in this country, especially since the influx of gold from California furnished so wide a basis of bank inflation. The absurdity of our system is particularly manifest in the fact that the more gold we produce the more we have of debt, difficulty, and distress, and the higher is the rate of interest.

I have been asked why we may not keep our currency as it is, with debt incorporated therein, provided we can restrict its volume so as to keep it as valuable as the currencies of other commercial countries, which would prevent the export of specie. I reply, for the simple reason that every dollar of debt occupying the place of money in the currency obstructs the business of the country—prevents the production and export of precisely the same amount of our domestic merchandise, and leaves us in the unnecessary involvement of ten dollars of debt that may not be paid. There is no compromising a principle. We must have either money or debt in the currency. If we have money we have no debt; if debt, we have tenfold the same sum of debt in our exchanges; and the debt currency causes the absence of productive capital for its whole amount.

Another fact of momentous importance is that the sales on credit are made with a charge included for guaranty against bad debts, which with a specie currency would be saved. It is believed, as I have before stated, that commodities pass through five removes at wholesale and retail from producer to consumer, on the average, with an average charge of four per cent in each sale to cover this abnormal risk, so that articles reach consumers burdened with an extra and unnecessary cost of twenty per cent. This must be embodied in the cost of exportable commodities, and becomes an immense obstruction to our export trade. It is the fund upon which bankrupts are supported, and many a spendthrift and vagabond takes cover under their mantle of misfortune. This is another power of expulsion to our gold, checking the progress of the country in wealth. It falls on the producers in two ways, for it checks their production and sales, and then compels them to feed and clothe great numbers often without their knowledge or consent. Obviously this evil is not removed while debt remains in the currency, whether its volume be above or below the specie measure.

In France the debt currency makes but an indifferent progress since the wild patriotism of the revolution was gorged with the paper assignats and mandats. And French history, as well as many a family tradition, furnishes illustrative lessons from the paper exploitering of John Law with convertible currency in the early part of the last century. Charmed with the Bank of England, Law saw no reason why the whole fixed property of France should not be coined into paper currency, and he undertook little less than that magnificent exploit. In principle he was as right as the Bank of England; the whole can be paid as well as the part; the difficulty is that when it is made it must ruin somebody until it expels and occupies the precise place or rather volume of the expelled gold and silver, as it has done in England and here. But Law, with the help of French enthusiasm, extended the scale of its operations until its magnificence was seen and felt more distinctly in France than anywhere else. It worked there beautifully, as it does everywhere, until money was demanded for the bank debt; then the difficulty of balancing a promise with anything but the promise against which it was created, became as apparent in France as it was here in the autumn of 1857. On Law's grand scale it became quite obvious that the nation could not furnish a value or the equivalent of a value that never existed; and when the attempt was made to perform this impossibility, in the enthusiastic style in which the French do everything, ruin fell upon many of the best families and fortunes of France, and general bankruptcy and distress upon the nation.

The French have never liked the business since, and the sum of the debt currency of their empire rarely exceeds very much one hundred and ten millions of dollars; it was one hundred millions at the last accounts, exclusive, of course, of the specie in the Bank of France, which we all know is her only debt bank of issue; while the coin in France now exceeds one thousand millions of dollars.

The French, ever since the revolution, have kept money more valuable than any other nation of Europe. A note of the bank is seldom seen outside the large cities—the people do not believe in it; they are not in debt in the interior, and of course their business is done for cash, for they have plenty of money. France is now immensely opulent. If she but cultivated the arts of peace as she cultivates the art of war, I think she would subsidize all Europe with her policy of keeping her money and selling her merchandise. And what wars she has sustained, and what immense subsidies she has paid to foreign powers! The enormous sum of $307,500,000 was extorted from her by the allies for the expenses of the war which ended with the final subjugation of Napoleon, and 150,000 of the allied troops were quartered upon her for three to five years besides. It is astonishing that the example of France in commercial finance does not strike the minds of our commercial financiers.

I have a worthy friend, an old and accomplished gentleman, and a fine writer and thinker on political economy withal, who lived 15 years—1794 to 1809—in Morlaix, a French town on the British channel, having an active commercial intercourse with Spain, Portugal, and South America. It is a town of about fifteen thousand inhabitants. He says he never saw a bank note there, and not a failure occurred there while he was in the place. When shall we be able to say as much of any trading town of the same size in this country or in England? My friend says he found the use of coin for change much more agreeable than our small bank notes, and quite as convenient, and when an operation in money required more than his pocket expenses, he checked on his banker, and his banker made all his transfers. The bugbear of carrying gold and silver about is put forward here by men of decent intelligence in support of the present banking system, who ought to be ashamed of such nonsense.

Thus it is; France, with an indifferent agriculture compared with ours in most parts of the country—Wendell Phillips says in many parts of France and Italy the plow is unknown—with a population not superior to ours in physical strength, and decidedly inferior in education, intelligence, and inventive genius—with a most extravagant government—great army and great navy always, and frequently great wars; with a power of unproductive consumption that one would think should stop her advance, is vastly richer than we, and she is taking the most immense strides in opulence of any nation in Europe, simply by keeping her money worth more than her merchandise—keeping down the debt currency, notwithstanding many members of the government and any number of speculators want to increase it. But the good sense and wholesome recollections of the people have thus far prevailed, and the operations of the Bank of France in manufacturing currency are limited to Paris and a few only of the other large cities.

It is well known that almost every French cultivator, mechanic or trader, has a bag of coin always on hand, and it is the almost universal use of coin among the people that enables the government to collect the taxes with so much facility. They have no occasion to resort to debt and discount to pay bills of any kind.

Next to France, Holland has probably the most unadulterated currency in Europe, and we all know how almost entirely unscathed both these nations passed through the late commercial revulsion, notwithstanding heavy losses fell upon some of their merchants from the defalcations in this country and in England. Shall we forever ignore such manifest proofs of the superiority of a money currency?

It is proper for me to say in conclusion, and in addition to the matter presented to the Board of Currency, that I make no objection whatever to the "credit system," properly so called, either in the ordinary traffic of the country or in banking. I know the value and necessity of credit to young men without capital who have good heads, strong arms, and willing hearts, and it is precisely such men who would obtain credit and profit by it under the stable value of a sound currency system. If they get a *value* for each obligation they issue, it is all right; if they borrow *promises to pay* half a dozen Kohinoor diamonds, or any other value that was never created, it is all wrong. Let the banks borrow and lend *money* as individuals borrow and lend money or merchandise, and I have no objection to *credit* banking, a very different thing from debt banking. Then they would employ their credit in obtaining *money* at an existing value and at a low rate of interest, and they would lend no fiction; they would lend an existing value as they would rent a house, at a profit for the rent of capital. Now they lend evidences of *debt* for a multitude of ounces or dollars of the precious metals that they never possessed and never borrowed, issuing numerous promises to pay a specific thing that never existed; when the pinch comes they demand that specific thing of their debtors, and holding the best securities—evidences of *values* transferred and well indorsed—they *corner* almost all the traders in the country, and sometimes corner themselves by demanding and failing to receive a value in exchange for a fiction.

This is *debt banking*—the system of the Bank of England. It costs this country on the average about $50,000,000 yearly of solid capital in gold and silver, and an untold amount of wretchedness in the dissipation of the hard-earned fortunes of worthy and industrious men. It throws the intelligent and unequaled industry of this country into all the hazard of a game of chance. Without the least hostility to those engaged in the business, who are as much deluded by it as any other members of the community, I protest against the system. It needs investigation, sound thinking, and plain speaking, free from political bias and chronic prejudice, and the remedy lies in honest, unchartered, unequivocal *credit bullion banking.*

15

Attributes of Money*

I had sketched for publication in your magazine some thoughts on the Attributes of Money, when your May number came to hand, containing the strictures of your contributor "B.," on my article relating to Commercial Value, published in March last. Finding these thoughts pertinent to his questions, I will, with your leave, communicate them, along with a reply to him, in this article.

Patience is not only a qualification, but a necessity, in the prosecution of any science. I hope he will not get out of patience with political economy, because students are not yet well agreed in all points regarding its principles. Enough has already been developed to show that there must be a perfect consistency in its parts, and there can be no doubt that its conclusions will be established sooner or later with the unalterable precision of mathematics; they are irrefragable, like the principles of astronomy, however men have differed, and may differ, in their thoughts about them. Ptolemy taught astronomy as well as he knew; nevertheless the earth did not stand still, according to his teaching. "And yet it moves," notwithstanding the church, and its persecution of Galileo for saying so. Events are occurring that will give an impetus to the study of political economy, and its practical application to finance and trade, such as the world has never known before. The sudden and almost fabulous supply of gold, for example, has

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opened upon our abnormal banking system a power of expansion that must, in the nature of things, damage the interests of trade and of society, to a degree past all endurance. With nothing to check or control this system but the self-interest of men, who are authorized by law to issue promises to pay money they never possessed, and that never existed, filling the whole nation with obligations as impossible to comply with as promises to deliver the stars of heaven; with the competition of thousands of banks now, or soon to be, in getting interest on these fictions as money wherever a bank can be planted, we cannot fail of being punished by a commercial crisis every three or five years, that will convince our merchants that political economy is a science which has been neglected too long in connection with their business.

Double entry, which compels an even balance of debit and credit, in real as well as personal accounts, and the practical nature of the merchant's aims and habits of thought, render him more competent to investigate this branch of the subject than the closet student. Within a few days, in examining the attributes of money for this article, I have arrived at a startling conclusion, that I believe has never before been discovered or thought of, i.e., that one-half the amounts due on our debt-circulating property are, from the necessity of the case, in virtual bankruptcy; and, from a parity of reasoning, one-half the people concerned in it are hopelessly bankrupt all the time. I think this will be made plain to any experienced accountant in the following exposition.

I have assumed in a previous article that the currency of this country amounts to $600,000,000, and the whole property as 25 to 1 of the currency, or $15,000,000,000. Of this about two-fifths is in circulation, or $6,000,000,000, being 10 to 1 of the currency. The currency is $200,000,000 of money circulating, at 10 to 1, $2,000,000,000 of property; and $400,000,000 of bank debt circulating, at 10 to 1, $4,000,000,000 of property. These sums and proportions are as nearly correct as they can be estimated at this time in our actual business. Then we have $4,000,000,000 of property circulating through debt and credit, depending upon the $400,000,000 of debt currency for the adjustment of its obligations. In other words, somebody owes $4,000,000,000 on this property, and, as the debt must be balanced by credit, somebody is creditor for it all. The currency and property will mingle in all ways and in all proportions, but the average, or settlement, must come to this; there is $2,000,000,000 of property circulating in money without debt, $4,000,000,000 circulating in debt without money, and $9,000,000,000 not circulating; that is, not in market and not in debt. It follows that if anybody owns of the debt-circulating property more than he owes, somebody owes for the same just so much more than he owns, thus:—

A owes $20,000, and his assets are..	$30,000
B owes 40,000, and his assets are..	30,000
$60,000	$60,000

A being worth $10,000, B is bankrupt $10,000. The account must be held to the inexorable law of double entry.

This condition of things is in accordance with the nature of the currency by which it is produced, there being in this currency two obligations existing to pay one and the same value. The bank cannot pay until it is furnished with value by, or from, the discounted note to pay with, because it loans debt and not money. In fact, the bank debt is merely a portion of the general debt of the community, organized into currency, one-half fiction as to value, and circulating with the $4,000,000,000—part and parcel of the same thing, the element of value being absent on the bank side. Like parent, like child; the whole mass of obligations is therefore lame of one leg. It will be observed that the $400,000,000 of bank currency is in excess of the reserve of coin which performs its function in the money-circulating property.

The reader may at first suppose the debtor to have some interest in the money-circulating property, or in the property out of circulation, to alter this relation of debt and credit, but it is not so; the fact that he is a debtor makes him an exclusive partner in the debt-circulating property, and subject to all its embarrassments. It must be considered that the contraction of currency, which reduces the money value of the assets of debtors, does not reduce the sum of their obligations, and creditors gain the property that is lost by debtors in consequence of the contraction. A false price determined the sum of the obligation that is required to be paid in the appreciated value of a reduced currency. Sometimes it may require double the property, on the new valuation, to procure the dollars necessary to discharge the old obligation. He who owes nothing is not injured by the appreciation of the value of money which causes a general fall of prices, because his money is worth just so much more as his property is worth less than before. If I am bankrupt $10,000, it does not help my case that my neighbor is worth $10,000, and I see no way to relieve, or alter, the conclusion that about one-half the people concerned in the business transacted through the debt-banking system, embracing nearly all our merchants and manufacturers, are hopelessly bankrupt. Certainly this is curious and very lamentable if true. I am not disposed to assert it dogmatically, but present it as an open question for the investigation of merchants, bankers, and economists. If anyone can point out any fallacy in the argument, I will thank him kindly to present the figures in your pages; I cannot find it myself.

The popular and brilliant work of Buckle on Civilization, will, I think, have great influence in promoting the study of political economy. Ralph Waldo Emerson also gives it a prominent place in his admirable lectures, and I make no doubt teachers are yet to come in this country who will demonstrate the truth with more accuracy than the economists of England. I believe our greater rashness in banking will chasten us into knowledge through suffering; but as for Mr. Carey, I apprehend he is too much imbued with the old prejudice of partisan politics, and therefore looking for the truth in the wrong direction—in the laws of man and not in the laws of God.

Now, I hope your contributor "B.," who seems to be getting out of patience with all political economy but Mr. Carey's, will have patience with me if I remind him that the nine questions he propounds for my consideration seem to imply that he is groping in that ancient darkness of the science, into which Adam Smith cast illumination, and which, among European economists, he has the credit of having dispelled, namely, the belief that *money alone is wealth,* and things valuable only as they will exchange for money.

It is, I am sorry to say, far from being dispelled, and is still directing thousands of misguided men to fabled gold fields, through danger and suffering, to hopeless poverty, starvation, and untimely death.

I consider money to be the last thing we want; at the same time it should be the exclusive currency, because money alone will prevent debt and embarrassment. It is utterly impossible for an industrious community, pursuing the arts of peace with an open commerce, to have too little money; it will come without their seeking. They may substitute *debt* for *money* in the currency; then they will infallibly have debt in their general traffic beyond their means of payment—too much *debt* but not too little *money.* There must be always about ten dollars of debt created by, and depending upon, every one dollar of convertible debt currency, that without such currency could have no existence.

I have said that our banking system creates obligations impossible to fulfill; this statement will be comprehended on perusal of the following article, taken from the *Shoe and Leather Reporter,* published in New York and Boston simultaneously:—

LONG DEBTS AND BAD DEBTS

According to a Boston print, Edward Everett sums up the case of the financial crisis of 1857 in the one, short, expressive word DEBT. Doubtless he would sum up the case of a conflagration in the one, short, expressive word FIRE. If any other man should sum up in this way he would be considered no wiser than the rest of us. Debt, like fire, is a good servant sometimes, but always a bad master; it is well enough in its place, but very ill out of it. The cause of the crisis of 1857 was not legitimate *debt for value received,* but debt for that bastard thing, *the promise to pay a value that was never* RECEIVED *and never* CREATED, and which is accepted for *money*—a *fiction* occupying the place of a *value.* People do not comprehend that the promise to pay a thing that never existed is an obligation impossible to fulfill; they suppose there is an equivalent for every dollar, and they suppose rightly; there *is* an equivalent for every dollar that exists, but none for the dollar that does not exist. There can be no equivalent to fiction but fiction. Our bad debts are the consequence of this transparent blunder; dollars of debt are issued against dollars of debt, and when somebody demands dollars of money in exchange, there is a *crisis.* The simplest mind ought to discover this at a glance, yet people are thoroughly befogged with it.

I propose to make this matter plain by a simple illustration. There is one Kohinoor diamond in the world, and only one. What if we create a corporation to deal in Kohinoor diamonds, the one being put in for capital, with authority to issue ten different promises to deliver the diamond on demand? So long as the diamond remains on deposit, and people are satisfied they can get it by presenting the certificate of claim, the certificate may pass, and command an equivalent in commodities, and the promise to pay the diamond can be readily discharged, or, more properly, evaded, by presenting another promise against it of the same sort. All these promises make good "deposits." A checks upon B for one diamond, and B pays in the promise of C. The "grand confidence" of the public will thus make the community worth, apparently, ten Kohinoor diamonds, while they, and the world, possess but one; and that same confidence will pay interest in cloth, and corn, and wine, and other good things, to the diamond corporation, for their *sound currency, as good as diamonds.* But then somebody discovers that where diamonds are so plenty, the equivalent in commodities is much smaller than in Pekin or in London, where the lapidary finds a use for the article itself. He pays the equivalent for one of our diamond promises, walks into the office of the corporation, and walks out with the gem. Another, hearing the good report of the London market, walks in with another of these promises. Mr. Teller hands out the promise of C for the same thing.

"But, Mr. Teller, I want the diamond."

"Well, I give you C's promise, which is just as good; it commands the *equivalent* in market; anybody will take it for dry goods, or wet goods, or hardware, or software."

"Perhaps so, but I happen to want nothing dryer, or wetter, or harder, or softer, than a Kohinoor diamond for the London market. I have the promise of your corporation for the specific thing, and know no *equivalent.* You will please hand out the diamond."

At this point in the negotiation, the teller probably puts his finger to his eye, and, lifting the lid, replies, "Do you see anything green under there?"

This reply is no invention of mine; it was once made by the teller of a bank out West, and may be considered the improved Western method of declaring a *crisis.*

Perhaps the reader will think this trifling. There is no *perhaps* in my opinion of the matter; it *is* trifling, and to just such trifling is committed the vast business of this country—the hopes and aims of men, the happiness of families, and all the serious material purposes of life. It is precisely as impossible to discharge, with one dollar, obligations to pay ten dollars, as to discharge with one diamond obligations to pay ten diamonds. Once make the promises to pay a thing that never was, and exchange them against promises of the same sort, whether the original existing thing be one diamond or a million of them—one ounce or one dollar of gold or a million of them—and the opposite promises must discharge each other; each is the equivalent of the other, and there is no equivalent anywhere else. If anybody gets possession of one of these promises and demands the value—the thing itself—and withdraws it from circulation, there is a *corner* somewhere. It is exactly the cornering trick of the Stock Exchange, elaborated and extended over the whole country. There are engagements out to deliver more shares than were ever made, and settling day reveals the fact. But unhappily it is not usually the issuer who gets cornered; it is the honest man who has given value for the worthless promise. He is remote from the bank, and people do not see the finger of the bank in the transaction, but it is there, ordering the attachment and directing the execution. The man is aghast: he had worked hard and worked well—shows ten thousand dollars clear net estate upon his books—*upon his books,* but alas, not anywhere else; these dollars of his stock account are promises to pay as good as his own; there is a corner, and he is in it.

If the diamond corporation had loaned only the one diamond they possessed, instead of promises to pay nine more that nobody possessed, there would have been no corner, no impossibility in their contract, and none in the contracts depending upon it, because the diamond, or the equivalent to obtain it, would have passed in each transfer, and would repass back to the original lender—the corporation—who would thus obtain the diamond or their certificate for it, if they had loaned the certificate instead of the diamond itself. This is all we of the shoe trade need, and all that anybody needs, i.e., that an existing value, and not a promise to pay a value that never existed, shall pass in each transfer. If we buy or borrow from the bank, we want the thing we buy or borrow, as from an individual, and if we take a certificate, or a credit from it, the bank must hold the thing until the return of the certificate or presentation of our check, as ours, and subject to our order, precisely as a merchant would hold wheat, or beef, or leather on storage, as the property of the buyer after he had sold it; the certificate may pass fifty times from hand to hand, without embarrassing anybody. As it is, the banks lend the ownership of the thing several times over, when they never possessed the thing itself; and when called upon to pay, they have only promises to meet the demand; then they demand of their debtors a value they never loaned, and their debtors have only promises wherewith to respond. Of course there is a crisis. They may screw the thing from their debtors, so long as the debtors can obtain it by any sacrifice of their property, but there is a corner that cannot be passed—shares that cannot be delivered, because they were never made—dollars that cannot be paid, because they never existed.

It is among the marvels of the age that this business has continued so long, and that men accustomed to mental exercise, like Mr. Everett, should see only an accumulation of debt in the *corner* of 1857, and not the inevitable impossibility in the obligations of the community that was clearly developed in that crisis, and was its only cause. Nothing is so much needed as sound thinking and plain speaking on this subject, by and from men who have the ear of the town. Awaken the public to the facts of the case, and the abomination will be abated speedily, without injury to anybody, even to the banks themselves, who can easily change from the existing system to the legitimate business of borrowing and lending *money*. This would secure an immediate and great increase of commerce, and lasting benefit to the nation.

Debt of an abnormal character is the canker of this country, and we need a sound American political economy to remove it; yet it only embarrasses, it does not prevent, the aggregate accumulation of wealth here for more than the sum of the precious metals expelled by it, amounting, since the California gold reached its present magnitude of production, to just about the whole manifested supply received in the Atlantic States—say $50,000,000 yearly—with the accumulation that so much well-employed capital would yield in addition thereto.

It has nothing to do with the character of our commodities, whether agricultural or manufactured, that we of the Atlantic States either gain or lose the precious metals, but everything to do with the character and volume of our currency. I do not wish to controvert Mr. Carey's positions, but merely to state my own in reply to the questions of your contributor. I cannot avoid saying, however, that Mr. Carey repels simple students like myself by his involved and turbid manner of expressing very simple ideas. For example, we are told that he "demonstrates that *value is determined by the cost of reproduction;* that *the cost of reproduction is the only measure of value";* "that *value is the measure of the resistance to be overcome in obtaining those commodities or things required for our purposes—of the power of nature over man."* I really am not able to see anything in all this but the simple idea *labor,* which is no measure of value to me, more than any single commodity in which labor is embodied.

The first six questions of your correspondent may all be condensed into the first; there is but one idea in all of them, i.e.—"How is it that prices in Europe have not so increased within the last three centuries, as to have arrested long since the continuous, never ceasing flow of the precious metals from America thereto?"

The reply is, that they flow out of Europe as they flow in, according to their value, as measured by commodities. The precious metals move by a law as simple as that which governs the movement of all other commodities; they go *from* where they are produced *to* where they are worth the most, which is where they are the most employed; and they leave Europe as they find more employment elsewhere.

Your correspondent's questions would seem to imply that the precious metals have been embargoed in Europe for the last three centuries. They have often returned from Europe to the United States; they flow wide and everywhere as they are needed, and will not remain in any country beyond the true measure of relative value; as compared with other commodities, in all parts of the earth accessible to trade. The moment the currency of a nation, whether it be exclusively of *money,* or mixed with debt convertible into money, exceeds in volume the currency of another nation, in relation to commodities of general utility, the excess runs off. This cannot be prevented by any law of Congress, or policy of government, in a state of peace, and ought not to be if it could. At present the silver of Europe is flowing to Asia, because gold is falling in value in relation to silver, as well as to everything else. Gold spreads from its great sources of supply, in California and Australia, through America and Europe, where the legal relation of 15½ of silver to 1 of gold is still continued. Of course the silver coins are appreciating above their legal value in relation to gold; they command a premium in France and elsewhere, and are being rapidly transferred to Asia, where silver maintains its value because it is in use for currency almost exclusively, and gold is taking the place of silver in the currencies of Europe. M. Chevalier, in his recent work on "The Fall in the Value of Gold," very justly says that France has served temporarily as a parachute to retard the fall of gold, for France had an abundant supply of silver both in and out of her currency. Gold will be substituted for this before its depreciation, in relation to silver, will become very considerable in the world, but that depreciation is as certain to take place as any other occurrence depending upon the operation of natural law.

Your contributor's last three questions are:—

> 7th. In view of the phenomena presented in France, Northern Germany, Sweden, and Denmark, into which the precious metals have been, and still are, flowing, is it not probable, or even quite likely, that those metals possess some life-giving property? May it not be that they impart activity to the movements and the industrial pursuits of men? And would it not seem that their influx prevented other things from remaining in supply and demand as before?
>
> 8th. If they do not possess any such property, why is it that while they can be neither eaten, drunk, nor worn, they are held in more universal regard by man than any other commodity known to him?
>
> 9th. Why, if they have no grand and distinctive quality, is it that they have been thought worthy of so much legislation, and of so many disquisitions in State papers, books, magazines, and newspapers, by distinguished and thoughtful men?

These surely are very singular questions to put to me, who, of all men in the world, have persisted the most strongly on the utility of the precious metals as currency, and on maintaining their value by use. They might be more appropriately asked of his friend Carey, who is a paper currency theorist, and apparently expects by tariff legislation to dam the outflow of the precious metals, so that we can circulate certificates of the ownership of gold, and the gold for the same sum at one and the same time; that is, *eat our cake and have it too.* We have tried this for nearly eighty years, through much individual suffering; although the nation prospers in the general accumulation of wealth, and in general progress, far beyond either of those he names above, and notoriously beyond any other on the face of the earth, and why? Because we so generally go to school, keep at peace, and WORK.

If your correspondent's questions are designed to controvert any position or opinion of mine, it must be the one that the precious metals have no superiority to other commodities as wealth. I infer that he thinks they have some special superiority in forming the aggregate of wealth. As to their "grand and distinctive quality," I appreciate it more strongly than himself, without doubt. On this point I wish to present some thoughts that may be new to him and to your readers in general; he may be surprised to find that distinctive quality is the stronger and better with the smallest possible proportion of money to commodities.

More distinctly in reply to his questions, 8th and 9th, I would remark, that the "universal regard" in which the precious metals are held by man is owing to the almost universal delusion still prevailing that they are the only wealth, and the expression of value in money, which is mere price, the only value existing in property. It is a canard to say, as do the English economists, and John Stuart Mill in particular, that Adam Smith destroyed this fallacious idea, except in the minds of a few accomplished economists. Every State Legislature in this country acts upon the idea that the more dollars we have the more wealth we have, and, in their blind zeal to count dollars, they are utterly unable to distinguish between the fact and the fiction; they imagine that they make *money* out of promises to pay money that was never created, and cannot be made to comprehend that the money flies before the fiction as men flee from a pestilence.

Nearly all the members honestly believe the coin in our currency is all that belongs properly to our commerce, and the $400,-000,000 of debt, organized into currency, an absolute addition of so much *money* that we should not otherwise possess. Even a conspicuous Boston newspaper, claiming among its editors more culture and intelligence than their fellows in the same city, ridiculed Mr. Walker's assertion at the meeting of merchants there, to consider upon the suspension of specie payment in October, 1857, that the paper currency drove the coin out of the country, as *worthy only of a note of admiration!*

I except, however, the Legislature of Arkansas from the general charge of ignorance on this subject.

Money possesses two attributes, co-existent and inseparable, yet totally distinct in their functions; they are VALUE and PRICE. VALUE it derives from, and reciprocates with, the metal of which it is composed. If half the use of the precious metals is in currency in the world, as I suppose at present, then half their value is in currency; if half their use is in the arts, half their value is in the arts. Money, in this respect, being a metal, is a commodity—the product of labor—and its value will be greater or less in the compound ratio of its utility and scarcity, like that of every other commodity. This I carefully stated in the article cited by your correspondent. Double the supply of money upon the market, all other things remaining as before, and we must exchange two ounces or two dollars of gold for the thing which would have exchanged for one ounce or one dollar before; just as doubling the supply of wheat, other things remaining equal, will make it necessary to give two bushels for that which we had bought with one before.

This is its office as a commodity; its value is intrinsic, and *cannot be imparted to anything else,* but falls with an increase of volume and rises with a decrease, like oranges, or apples, or flour, or cotton. It is merely one of the commodities of commerce in general use, adopted by the common consent of the world as the medium of exchange.

The other attribute, PRICE, it derives from its office of the *medium of exchange,* or *currency.* In this respect it is not a commodity, but a vast public engine, or institution, of immense power, and, in its normal condition, of immense usefulness. This attribute *it imparts to all the property and labor of the world.*

Much as we see, and hear, and think of money, its function, or power, for good or evil as *currency*—not as a commodity—is almost wholly misapprehended. Our whole system of commercial finance is founded upon the misapprehension that *price* is *value,,* and that increasing prices increases values; so we increase dollars and fancy we are increasing wealth. It is all a mistake. The prices of wheat and iron, for example, may be increased to any extent by the increase of money, without increasing their value, except in relation to the commodity of money itself, which is thereby cheapened. The bushel of wheat, or ton of iron, will procure in exchange no more corn or wine, by reason of their enhanced prices, caused by the increase of money, to double its former volume, but the ounce or dollar of money will procure only half as much wheat, or iron, or corn, or wine, as before.

Now *money,* in its office of currency, with its attribute of *price,* is not alone; it has a cunning and bad partner, that, pretending to the attribute of *value,* which it does not possess, and assuming falsely the name of money, has managed to get possession of the business, and do infinite mischief. That partner is DEBT, dishonest in principle and destructive in practice.

Money as a commodity, with its attribute of *value,* is obviously wealth, and forms its relative portion of the capital of the country, but it is not by any means the best kind of wealth; because its metals are inferior in utility to iron and many other commodities. It depends mainly upon the element of scarcity for its value. Were either of the precious metals as plenty as iron it would no longer be precious; with all its beauty it would be less valuable than iron.

Money as *currency,* or *the medium of exchange,* with its attribute of *price,* is not wealth, for neither its increase nor decrease increases or diminishes the wealth of the community a single fraction; it is an institution whose power is increased by concentration, and it is an important function of sovereignty to establish and control it for the benefit of the whole people. With one-half or one-tenth the amount of currency we now possess we should have precisely as much wealth as now—the same property and the same *value* of property as at this moment, only at one-half or one-tenth the price. Precisely in the ratio of increase of its volume it falls in value, and precisely as it declines in volume it rises in value, other things remaining as before.

Such is the dual nature of money, but *price* being its greater and all-powerful attribute, it follows that the less we have of it, and the more property that is not money, the better, provided its metal pieces are not so diminutive as to slip through the fingers. Once having an organized currency, the less we have of it, in relation to our commodities, the greater will be its value, and the greater its power, and, could we maintain the relation of more commodities and less currency than any other nation, so long as we did so we should command the commerce of the world. This may be effected either by a decrease of currency or by a relative increase of merchandise and other property, but a decrease of the volume of currency would infallibly secure the increase of merchandise and property, because it would secure their production and their prompt exchange for money, with the nearest community having a more expanded and cheaper currency than our own.

Let us return to the hypothesis of 25 of property to 1 of currency, and the circulating property two-fifths of the whole, or 10 to 1. If we assume, for the sake of argument, three hundred millions of dollars as the sum of the currency, the whole property would be $7,500,000,000; then if we double the currency, without increasing the property, the *price* of the property increases to $15,000,000,000; but there is no more property than before; not a dime of value or wealth is added thereby. The result is a fall in the value of money, or currency, of one-half; two dollars of money being worth no more than one had been, because it will circulate no more property, nor supply any more wants than one had done before. This is the immense power of *price* in the currency, the addition of $300,000,000 of currency adding $7,500,000,000 of *price* to the property of the nation, without altering its *value* in the least degree, except in relation to the commodity of money, and the altered relation is in the money itself.

But only two-fifths, or 10 out of 25 of the property, is in circulation, on the average, against the whole currency; it follows that in estimating the power of the currency to increase prices, we must take the ratio of 10 to 1; thus, two-fifths of the whole property of $7,500,000,000 being $3,000,000,000, adding $300,000,000 of currency increases the price of the $3,000,000,000 to $6,000,000,000.

Now, I ask your correspondent to reflect upon this, and he will see why we part with the precious metals to Northern Europe and the ends of the earth, notwithstanding Mr. Carey's theory of value, or his notion of the movement of raw material and manufactured commodities. Every dollar of currency increased, whether in gold or in bank debt, adds ten dollars of price to our commodities in the aggregate. Assuming the original currency to be $300,000,000, and our values level with Europe, so that the commodities we produce the more advantageously go to Europe, and those Europe can produce more advantageously come here, in a normal, wholesome traffic; then let California add $50,000,000 in gold to our currency, and it will add 10 to 1, or $500,000,000 to our prices—our commodities will be too dear, and many that were before exportable cannot be exported; the average rise of price will be 16% per cent, and this rise will be shared by the imports. What law of Congress, except a declaration of war, or nonintercourse, can prevent this gold from being shared with the rest of the world? Certainly none other. There never was a statute framed in any country, though the thing has been often attempted, that prevented, or could prevent, *money*—the metal—from leaving the market where it is worth less for that where it is worth more, nor ever can be. It will flow to England, France, Northern Europe, and the ends of the earth, until it finds the market where money, gold and silver, is at the highest, and merchandise, relatively, at the largest value.

There is but one way, in a state of peace, for us to prevent this gold from leaving the United States except by contracting the currency, which is to produce an additional $500,000,000 in commodities, collaterally with the $50,000,000 of gold; nothing less will do it, but this will, for this will prevent any rise of prices, and of course any depreciation in the value of gold, and it will add $550,000,000 to the wealth of the nation, not in price, but in absolute value, for the whole is the clear product of labor, the value of the gold being maintained by the relative increase of 10 to 1 of commodities. But this must be an accumulation over and above the ordinary production of the country, which may or may not be possible. I am not quite certain either way, for the natural power of this nation has never yet been put to speed in the production of commodities. From the beginning of the century we have bought gold and silver, and instead of retaining it for money, by producing commodities and property, to maintain the relative value of the metals, we have gone to work industriously in producing dollars of debt in currency, as if the money burnt our fingers, and have thus cheapened and driven it out. I am not at all certain that we could not produce an extra $500,000,000 of commodities and fixed property yearly, and retain the California gold. Of course we should export $50,000,000 of additional commodities yearly, instead of the gold, and I think a still larger amount, depending, however, upon the degree of reduction of the other portions of the currency to which we might resort.

But one thing is entirely certain; we can retain the California gold by contracting the debt currency, and export $50,000,000 of commodities, instead of the gold, annually, until we displace the whole amount of the debt currency, whenever the national government choose to exercise the power expressly granted in the Constitution over this subject. Except in a period of inflation of the currency, which is expelling gold in large quantities, as now while I write, in the latter part of May, we can make this change, putting money in the place of debt in the currency, with a great increase of business, and without any appreciable fall of prices; for the moment the volume of our currency falls to the level of the currencies of Europe, we *must* sell merchandise and not money.

The more commodities of general utility a nation, or a community, can produce with the least currency, the greater will be their exports, the more active, sure, and prosperous their business, and the greater their wealth. It is strange that this transparent fact should be overlooked or ignored, as it is, by the merchants and legislators of this country. Where the dollar will buy the most there the dollar will go. If fifty cents will buy as much in New York as one dollar in Boston, who will take a dollar to

Boston? If ninety-nine cents will do the same, customers will not go to Boston; New York will do all the business. In my opinion this is the whole cause of the acknowledged gain by New York upon the distributing trade of Boston; it is the preposterous over-banking in Boston—a penchant for manufacturing dollars of debt and using them in the place of dollars of gold, instead of manufacturing commodities and increasing the business of the city and State by exchanging them for gold. Boston usually keeps her dollars as cheap and saleable as possible, and of course her commodities dear and unsaleable in proportion.

The same policy prevails throughout the State. In every small town, having any business pretensions, a bank is established, the favorite and profitable issue of which is the notes of the smallest denominations, and these are constantly hunting the money—the gold and silver—out of every hole and corner of the Commonwealth as fast as it comes in. People generally cannot be made to see that by this policy they are involving their neighborhood unnecessarily in debt; they see and feel the debt with all its embarrassments, and make pitiable complaint of the difficulty of getting money, but do not comprehend the cause, for they have not the remotest idea that the bank note is not money. For this reason it is quite impossible to get the Legislature of Massachusetts to consider the petitions that have been repeatedly presented of late years to restrain the circulation of bank notes below the denomination of five dollars. What can be more obvious than that getting the money to replace this circulation is equivalent to the production and sale of manufactures or other merchandise out of the State to the same amount? It is the selling of goods for cash, and the creation of so much absolute wealth. It is discreditable to the intelligence of the Massachusetts Legislature that they cannot comprehend a truth so plain and undeniable as this.

If the expansion of debt banking were as great in relation to the exchanges in New York as in Boston, New York would have 169 banks, instead of 54 as at present; or if it were as much condensed, relatively, in Boston as in New York, Boston would have only 14 banks, instead of 45 as now. It is like 169 men in Boston seeking subscribers for a work of no value, against 54 among the same number of people in New York; the 169 will get the most subscribers in the aggregate. All these are trying to find a cranny in the same amount of business into which they can stick a dollar of fiction to earn 6 or 10 per cent per annum from the credulity of the people, as effectually as a dollar of value would earn it from their good sense. Boston is ahead in this business, and customers having good dollars to sell are going where there are fewer dollars in proportion to commodities, of course where the dollar is worth the most. The law of value takes care of this sort of thing with lynx-eyed precision.

Your correspondent perhaps may think Boston could remedy this by establishing a tariff against New York, and she could, with the same propriety, and precisely as much effect, as the nation can remedy the same difficulty by the same means—a tariff—in our exchanges with Europe. There is no reason, that I can see, why the economical rule of the division of labor, according to soil, condition, education, taste, capacity, and all natural advantages, should not apply with equal force to nations, as to States, towns, families, or individuals, and it does so apply in spite of human statutes. I find no evidence in statistics that imports have ever been retarded, or exports accelerated, by our tariff laws. We always import with the inflation of the currency bubble, as we are doing now (in May), until we ruin so many merchants that we think it not worth while to proceed any farther in that direction, when we let down the currency and proceed to exporting merchandise again. Taxes could scarcely be collected more unequally, or unjustly, than by our tariff scheme; the rich man, who happens to be a bachelor or a small consumer, pays little, while the poor man with a large family pays much.

Taxes, to be equitable, should be assessed upon the property that government protects, or upon those who enjoy the property and have the means to pay. They should be laid, if at all, as lightly as possible upon the mere labor employed in producing the property that others enjoy. As a question of political economy, taxing consumption is taxing labor and not capital. It is taxing production and adding cost to commodities, thereby embarrassing our exports. "Protection" in this sense is a misnomer; it is re-active, and by raising the cost of commodities and general prices here, it protects or pays a premium to some special manufactures at the cost of the general production of the country, and thus becomes a bounty on imports.

The government should tax capital and not labor, erase the word smuggling from our vocabulary, put a stop to customhouse litigation, turn the customhouses to better uses, join in the expense of collection, and collect the National with the State taxes, and save the time and cost of much Congressional talking. The expense of collecting the revenue from customs is *three million dollars* annually, beside the cost of erecting new customhouses. A mere fraction of this sum would pay the expense of collecting it with the State taxes by a simple rule of *pro rata* assessment, without visiting any man's domicile. It would release an army of men to perform some better service for their country, and save a great amount of labor and of trouble to merchants. And it would produce a steady and properly increasing revenue.

The multiplication table cannot be changed, even by Omnipotence, because Omnipotence has made it a law unto himself; the Universe is its measure, and it measures the Universe. When twice two shall produce five, the multiplication table and its author will cease to be—the planets will fly from their orbits, and chaos come again. They who believed the sun stood any stiller at the command of Joshua than it had stood before, were false teachers, falsely taught, and it appears the world has not yet outlived the delusion. We cheat ourselves transparently when we fancy the law of gravitation and attraction to be suspended for an instant, and we are not less deceived in respect to the law of supply and demand, when we think we improve its operation by a law of Congress. Things will go and come where they are attracted by value, the prime element of which is use, and not where they are directed by legislation; they refuse to be mismanaged long.

True we have a margin of oscillation in our desires; we may accept an inferior in place of a superior commodity for any use, and if we do not desire the superior article we may save the employment, business, and creation of wealth that would be necessary to procure and retain it. We can create and accept debt for currency, with all the embarrassment and suffering that debt produces in the exchanges of commerce, and save the employment, and business, and the creation of wealth, necessary to procure and retain the *money* which alone will prevent the debt. We may live in caves like bears, or in hollow trees like owls, and have very little to do and less to enjoy, but if we would have good homes and escape barbarism we must work.

Money is one of the greatest engines of civilization; perhaps it is the greatest of them all; we can do without it, on condition of living in continual anxiety, with perpetually recurring bankruptcies, and occasional frenzies like those of 1814, '19, '37, and '57, but if we would have security in business, comfort in our dwellings, and prosperity in the State, we must have no extemporized and cheaply constructed currency; we must have no currency but *money,* that can only be procured and maintained by LABOR.

16

Congressional Movement in the Currency Question*

The greatest encouragement of trade, and the greatest hope for the general welfare of these United States, may be found in the present indications that Congress design to attend to the long neglected duty of controlling the currency of the nation. The Senate, it appears, is engaged in an effort to stop the circulation of bank notes in the District of Columbia, and Mr. Etheridge, of Tennessee, has presented a bill in the House of Representatives to provide for uniformity in the value of currency notes throughout the United States.

But this uniformity of value, let me say, cannot be obtained or secured by operating merely upon the bank notes, which are simple emanations from the "deposits," very much inferior in power and consequence thereto, but nevertheless, the same in nature and effect. It is to the constructive or theoretical "deposit," that legislation must be applied to be of any use whatever in regulating the value of money. In the matter of deposits, from which the bank bills and checks proceed, the banks, with the exception of a relatively insignificant sum of money—that is, of coin—*make as they go;* they lend nothing but promises, and receive nothing but promises in exchange therefor; the whole is a mere exchange of debt; the deposit is made out of nothing as to

* Reprinted from *Hunt's Merchants' Magazine and Commercial Review,* XLII (April, 1860), 443-47.

capital or value, because their liabilities are increased equally with the assets; whereas, if they loaned *money,* either their own or borrowed, there would be no increase of liabilities or assets in their loans; they would lend actual and pre-existing capital; it would be merely the loan of a *value* to be returned at the maturity of the discounted note, and no increase of the currency or of *price,* and, therefore, no degradation of the value of money. The difference is wide; it is between lending something and nothing.

Take one from one and nothing remains; so much is the money, capital, and value in the constructive deposit. But as soon as the deposit is created it becomes currency, and afterwards it is wholly immaterial whether it circulates in checks or bank bills, their nature and effect being the same; this is perfectly obvious and needs no further explanation. Yet this simple fact appears to be almost entirely overlooked in England, and legislation there for restricting the bank currency is applied solely to the bank notes. The bank charter act of 1844 has no other direction, and it amounts to nothing, for this cause, except that the suspension of the specie clause acts as a sort of mesmeric influence or power of the imagination; the patient imagines he feels better, and so he does feel better. It is the old story of the Frenchman who, having loaned a sum of money, and a financial pressure following, becomes concerned for the solvency of his debtor; forthwith he demands his money, but, finding his debtor in good condition, with plenty of money in bank, he says:—"Ah! if you have de money I do not want it." The limit of the issue of notes is beyond the sum required for circulation, until the deposits become reduced by the inevitable pressure, which is the consequence of the fallacious system of creating theoretical or constructive deposits; then, as the crisis reaches the culminating point, the cry is, "Suspend the restrictive clause and all will be well"; the clause is suspended, and nobody wants the notes. This is what is called the restoration of confidence; the confidence is misplaced which precedes the doubt, and we, in this country, ought to secure a system of banking and currency in which confidence can never be shaken. We have accepted our system unquestioned from England, and have tolerated it too long.

On a tolerably careful examination of Hansard's Parliamentary Debates, I do not find that any member reported in them understood the fictitious character of the deposit very clearly, excepting, perhaps, Mr. Hume, who, in the debates on the commercial distress in November, 1847, said in substance:—"The bank pretends to discount bills for bankers and merchants when it has not a shilling to do it with. The whole difficulty arises from having the bank founded on a wrong principle." But he does not show explicitly how this pretentious discount operates; this, I think, is better understood in this country than in England.

The "deposit," as I have already said, is created by the discount; it is not drawn from pre-existing funds, as most persons suppose; it is, of course, no deposit at all, but is an inscribed credit for money and capital having no existence. All the directors look at, in making the discount, is the specie they have, or can count upon from near sources, to meet their near liabilities. The deposit thus formed becomes *currency* equal in purchasing power to gold, and a clear addition of the element of *price* over and above all the *value,* capital, and money in the world. The *price* thus created is destitute of *value,* and is a mere degradation of the value of all previously existing money; local at first, but as the circulation of this "deposit," or its progeny of bank bills, extends, the degradation becomes general over the whole country, and, expelling coin as it proceeds, ultimately degrades the value of the money of the world, precisely as much as it adds to the volume of the world's currency.

Jean Baptiste Say, alluding to the decline in the value of the material of money, remarks:—"If the value of its material have declined, the nation will have lost upon its capital, existing under the form of money, just in the same way as a merchant would lose upon the fall of price of goods in his warehouse." And this is the result of our theoretical convertible "deposit"; it sinks the value of money precisely as much as if so much new gold were mined and added to the currency, and we lose the specie expelled thereby utterly. If we produced or procured the additional gold, the increased volume of money would make good the reduced value, and the nation would stand in aggregate capital and wealth just as before; but we get no capital or wealth in this "deposit"; we merely make it up in debt among ourselves, and when the gold is gone, we have nothing but debt to show for it; it goes off in the inflated price at which we retain our own products and buy those of other countries.

Now, this *price,* which is not *value,* never can be paid; the thing is impossible, for no such thing exists in value. We might as well enter into mutual obligations to deliver the dog star. True, the two original contracting parties, if they could keep their obligations out of the hands of a third person, might re-exchange promises, make a set-off, and settle up; but as this fictitious price is *currency,* it circulates its obligations through all the exchanges of property that would otherwise be made with money. I see no reason to alter the opinion I have expressed before in your pages, that this circulation in the exchanges averages 10 to 1; each dollar passing through ten hands or ten removals, in completing its circuit. If I am right, there must be ten dollars of debt resting upon the original bank dollar of price, that, when the bank withdraws the fictitious dollar in the curtailment of its loans, will inevitably sink in bankruptcy. No matter, however, what may be the proportion; of the principle I am sure; the wealth of the world cannot immediately furnish a thing that never existed, and all debtors under obligations to deliver it, when settling day comes round, of course must break.

The fallacy, therefore, and vice of our system, which is the Bank of England system, is in the fictitious, theoretical "deposit," which has no existence in value. These deposits, as they increase the currency, destroy the value of money dollar for dollar of their amount, and send abroad our gold for nothing, planting themselves in its place in the currency, and at the same time preventing the production and export of other commodities instead of gold. They impair the obligation of contracts, sink us in bankruptcy, and cripple our commerce continually.

There presses upon the bosom of our commerce to-day an incubus of probably 420 million dollars of this fictitious, theoretical currency—the returns not being completed at Washington, the exact amount is not known*—and yet, the whole volume of the currency does not now exceed the specie measure, for the exchanges of the world are in our favor. We could now, by reducing the bank debt currency as fast as the California gold arrives, secure the export of that additional amount of our other exportable products, without the slightest fall of general prices, or derangement of trade, and we could soon put 420 millions of absolute money capital in place of the 420 millions of the fictitious currency which expels so much money, and prevents so much traffic, and this sum would be permanently added to the capital and wealth of the nation.

This amount of the debt currency having now nearly or quite performed its evil mission of bankruptcy, and got itself fairly planted within the natural specie volume, there could be no more failing in bringing this thing about, except of such obligations as are still being renewed and running to maturity contracted on the more expanded volume of the currency and above the specie measure when the rate of exchange was against us.

Now, for the moment, our general exports are increasing fast, but these will soon be checked if our banks increase their loans, or even if they do not reduce them, because of the continued arrival of the California gold. We are liable also to a check from the contraction of the currency in England, which is already taking effect upon our foreign exchanges.

I consider the control of the common medium of exchange of the nation—the great wheel of circulation—as the chief function of sovereignty; without it the nation can never regulate its commerce, nor the value of money, nor command its resources for the common defence or the general welfare; all which is amply provided for in the Constitution of the United States, both in its powers and limitations, thus:—

* There has been a statement going the rounds of the newspapers recently, as to the condition of the banks nearest to January 1, 1860. It could not have been derived from the returns at Washington. It omits the balances due to and from banks, and is altogether unreliable as an exhibit of the state of the banks in connection with the currency of the nation.

Congress shall have power—

To pay the debts and provide for the common defence and general welfare of the United States.

To regulate commerce with foreign nations, and among the several States, and with the Indian tribes.

To coin money, *regulate the value thereof,* and of foreign coin.

To make all laws which shall be necessary and proper for carrying into execution the foregoing powers.

No State shall coin money, emit bills of credit, make anything but gold and silver coin a tender in payment of debts, or *pass any law impairing the obligation of contracts.*

This last prohibition I believe to be the most important provision, and it is most essentially violated by the constant tinkering of the currency by the States. I care not for the legal quibble that the nominal amount of the contract is not altered; the means of payment of every debtor are rapidly altered by the constant change in the value of money, caused by the expansion and contraction of the discounts, and the consequent increase and decrease of the fictitious "deposits," so that no man, much involved in debt and credit, can count upon collecting his "receivables," nor upon the means to meet his "payables" twelve months in advance. This is the great element of bankruptcy here.

I do not propose to interfere with free dealing in money. I ask only that, with respect to money, as to everything else, there shall be no interference with the natural law of value, for such interference can only result in bankruptcy and in loss of capital to the whole country. Let the State banks deal in *money* as freely as they please, but prohibit their making and destroying *currency;* for the making of this thing, as they make it, is not producing money; on the contrary, it is producing debts; it is a sure loss of money capital to the nation, dollar for dollar of its amount, and the destroying of it in the contraction of loans is sure bankruptcy, for about tenfold the sum destroyed, among the debts of the people. This is not a matter of opinion, but a scientific truth.

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Mr. Lowell vs. Mr. Hooper on Banking and Currency*

A pamphlet on "currency," by John A. Lowell, of Boston, has come into my hands, entitled "A Review of Mr. Hooper's Pamphlet on Specie Reserves." It is a curious work, and instructive also, as showing the dense fog in which the subject of money is enveloped among even educated men, by the system of creating fictitious or theoretical currency; the contrivance of the Bank of England—dollars of *price* and debt to be paid in dollars of *value* with no value created to pay them with. If this element of bankruptcy had never been contrived, the subject, in the public mind, would be under the dominion of common sense, where it certainly is not to-day.

Mr. Lowell is, doubtless, one of the most accomplished business-men in the United States, and a bank director withal. Surely he ought to understand the subject; but he and Mr. Hooper are widely at variance in their conclusions upon it.

Mr. Lowell says:—"No one in this country will deny the convenience of a mixed currency." I beg to dissent; it is denied by thousands. He says:—"The substitution of paper for the precious metals is a labor-saving machine." Very well. Is not the "labor-saving" quite as great with certificates of deposit for coin in reserve, dollar for dollar against them, without the mixed currency?

* Reprinted from *Hunt's Merchants' Magazine and Commercial Review,* XLII (May, 1860), 575-85.

Again he says:—"The issuing of coin, stamped with a known and invariable value, is a privilege reserved to the sovereign." What sovereign but the Almighty has this reserved privilege? What other sovereign can stamp an invariable value upon anything? The law of value is a natural law of compensation in the exchange of products, material and immaterial, as unchangeable as the law of gravitation; no earthly sovereign can determine an invariable *value,* and it follows that he cannot stamp *value* upon gold or any other commodity.

The sovereign may prevent monopoly, and any improper interference with the natural law of supply and demand, especially with respect to money, because he may prevent the unnatural production and destruction of currency, but he cannot alter the law of value, which in the nature of things is immutable. He may stamp quantity and quality upon coin, but not *value.*

The public inspector stamps a barrel of flour, by which the purchaser or receiver may understand that it contains 196 pounds of a certain grade or fineness; it is then considered a barrel of flour, and passes accordingly. The public assayer stamps a disk of gold, by which stamp the purchaser or receiver understands that it contains 25 ‰ grains of a certain fineness; it is then considered a dollar of gold. There is no difference in the effect of the inspection in these cases; neither determines the value in the slightest degree; that is relative always, varying with supply and demand. If the barrel of flour is worth five dollars, five dollars are worth a barrel of flour; and increasing the supply of either, will reduce the relative value of the increased commodity, while reducing the supply will increase the relative value of the scarcer commodity.

It should be noted, however, that an increase of flour is an increase of utility, because 200 barrels of flour will feed more people than 100 barrels; but an increase of money is not an increase of utility, because $200 will not transact any more business, when included in the general currency, than $100, the only effect being to double the price of things, by reducing the value of money one-half.

It is obvious, that if this increase and decline of the value of money takes place here and not elsewhere, it must increase the import of foreign goods, and diminish the export of domestic goods, and, to the same extent, money will be exported at the reduced value. If the currency created by debt, theoretically convertible, like our debt currency, which is convertible only because its conversion is not demanded, the money exported is lost capital; for the debt of the banks takes its place. So far as the bank currency exceeds the specie in reserve, it is nothing but debt balanced by an opposite discounted debt of the State or individuals, and contains neither capital nor value. The debt, public or private, of the nation, is no addition to national capital or wealth.

Now, this fictitious currency interferes as effectually with the prerogative of the sovereign, and with the value of money, as would an undetected counterfeit currency, whether of metal or paper, for it is equally in excess of all the capital, money, and value in the world; and when its nature is clearly understood by the leading minds of this country, it will be as rigorously suppressed as base coin. Its essence is in the constructive "deposit," from which the bank note is but an emanation. It creates *price* without *value,* and is made and, destroyed by the banks themselves.

It is a common error, even among bankers, to suppose that they always discount on their circulation and deposits, that is to say, <s>n previously existing funds, whereas, the discount creates the deposit, the discounted note forming the only fund out of which it is itself discounted, and the only question the bank needs to consider is, whether the reserve of coin is sufficient to meet the returning liabilities. Thus, A purchases goods to the amount of $20,000 on credit, and we may suppose, to avoid misconception, that he is a poor man, although whether rich or poor, makes no difference in the principle; he has now $20,000 of the aggregate property of the community in his possession, and no more; then he gives his notes for the same. Surely he does not create any property, or add $20,000 to the wealth of the community, by running in debt and making his notes for $20,000. There is only one value of $20,000, and that A holds in the goods. Now, A's creditors get his notes discounted in bank, and have, say $20,000 placed to their credit as "money deposited." If the bank transferred coin to a special deposit against this sum, it would be a real *deposit,* and in paying checks upon the same, it would deliver a *value* for A's notes, the transaction being perfectly legitimate and proper; the bank would *transfer,* but would not *create* a "deposit," and would then do what it is now supposed to do, namely, loan pre-existing funds; but now it does not do this; it inscribes a ledger credit, called "deposit," for money not deposited and for a value never created. Next A sells his goods, takes his customers' notes, gets them discounted, having $20,000 placed to *his* credit as "money deposited," and we may suppose this thing to be again repeated, another $20,000 of "deposit" being created in favor of the third sellers of the same goods. Here, then, is $60,000 of currency *created* virtually out of nothing, having all the purchasing power of gold coin, without a fraction of capital, value, or wealth in it. The distinction between the bank debt and the others is, that the others are for a *value received* and circulated in each transfer, which value provides the means of payment of each note within the measure of price of the existing currency; it is the ordinary circulation of property, perfectly normal and just. But the bank circulates no property in its debt over and above the coin in its coffers, and receives and exchanges no value more than would pass between two individuals, who should exchange accommodation notes, and re-exchange at their maturity, one debt always standing against the other until the time of set-off, in the contraction of loans, when both are extinguished, and if discounted in bank, so much *currency* is destroyed. The bank erects a mere obligation of debt into *currency,* which swells prices upon nothing. As money or value, this currency is as baseless as the fabric of a vision, for the value is not in A's discounted note, and of course there can be no value in the fabric of currency erected upon it; the value is in A's goods, with which the bank has nothing to do, and which he disposes of at his pleasure. The discount and "deposit" operation is abnormal and unjust, because it injures the community, both in the expulsion of capital, and in the creation of false prices, that infallibly produce inflated obligations impossible to fulfill. It is inevitable bankruptcy to somebody in the end.

Mr. Hooper appears to understand the nature and effect of this imaginary bank "deposit," with its progeny of bank notes, although he is unfortunate in applying to it the term "capital," which it is not. Mr. Lowell apparently has no conception of the fictitious and imaginary character of this thing, and this, with a total misapprehension of the nature of *value,* destroys the foundation of his argument; so that his superstructure, in my opinion, falls to the ground; it is the fatal defect of his book.

The rule for cooking a hare begins, I think, "First catch your hare"; this rule Mr. Hooper proposes to apply to banking. If the banks lend promises to pay dollars, he proposes that they shall have and keep one-third of the dollars they promise to pay; a very moderate proposition surely, and reasonable withal, although quite overlooked in our present system, except in Louisiana, Arkansas, Mississippi, and Texas. He does not *go the whole animal,* as I do; nevertheless, his movement is in the right direction, and his principle, carried out to its ultimate conclusion, requires the whole.

The principle stated by him that "a large amount of specie in the vaults of the banks is more profitable to their stockholders, and more beneficial to the community," Mr. Lowell dogmatically says is manifestly false. It seems to me irrefragable, although I differ with Mr. Hooper as to the method of getting and retraining it to cover the credits and issues of the bank.

Mr. Lowell says:—"Supposing a bank to keep specie equal in amount to its capital and liabilities, it could not loan one dollar, and would pay its rent, salaries, and expenses in dead loss."

This is an extreme statement, founded, I think, upon the common notion, that the holding of specie is a loss to the bank, which I will consider directly. On the plan of banking that I would advocate, however, it would be possible to loan the capital as well as the deposits, in credits and certificates, retain coin to any desired extent, and do a profitable business.

In the present system there is no interest paid on deposits by the banks, usually, and surely it would seem that the more specie they retain against their interest-drawing liabilities, on these easy terms, the greater should be their profits, because the expansion of loans must depend upon the stock of specie, and the greater the loans the greater the profits, of course.

To illustrate, let me present the following comparative statements on the New Orleans scale of one-third coin to liabilities:—

1,000,000 capital.
1,500,000 credits and circulation.

2,500,000 500,000 deduct coin for ¾ liabilities in reserve.

2,000,000 loan on discount and exchange, at 7 per cent____		$140,000
CONTRA		
Rent, $1,500; salaries, $9,000....................................	$10,500	
Bad debts, say one-fifth of 1 per ct., $4,000; contingencies, $3,500	7,500	
		18,000
Dividend, twelve-and-one-fifth per cent per annum		$122,000

Now suppose the reserve of coin to be doubled:—

1,000,000 capital.
3,000,000 credits and circulation.

4,000,000
1,000,000 deduct coin i/3 liabilities in reserve.

3,000,000 loan on discount and exchange, at 7 per cent		$210,000
CONTRA		
Rent, $1,500; salaries, $9,000	$10,500	
Bad debts, say one-fifth of 1 per ct., $6,000; contingencies, $3,500	9,500	
	--------	20,000
Dividend, 19 per cent per annum................................		$190,000

The question will occur here, can the bank obtain so much specie and retain it by its own working? This must depend upon the character of its patrons, and of the local currency. In a city of large capital, where floating balances require a safe depository, where bank issues are restrained, and there is much specie in circulation, absolute deposits may keep up the fund; but an institution established by borrowers, like many of our modern banks, with only debtors for customers, cannot do it, because their deposits are fictitious and not absolute. I am, however, only stating a principle, and it seems very clear to me, that the only limitation to bank loans is the want of cash means to expand. So long as the bank can command the specie without interest, there seems to be no limit to its ability to increase its loans and its profits.

The loans of the Boston banks on a capital of $36,000,000 are $60,000,000, or 66% per cent in excess of their capital, which is about the ratio for the State of Massachusetts at this time. The bank specie is only 11 per cent of the immediate liabilities in the whole State, which must be all reckoned together, as the banks out of the city lean upon the Boston banks for their specie funds. Can there be a doubt that the loans could and would be increased by an increase of specie?

Mr. Lowell quotes with approbation the English banker, Fullerton, who says of the country banks—and the rule, if good for anything, must apply to all the banks:—

> The amount of their issues is exclusively regulated by the extent of local dealing and expenditure in their respective districts, fluctuating with the fluctuations of production and price; and they neither can increase their issues beyond the limits which the range of such dealing and expenditure prescribes, nor diminish them, being at an almost equal certainty of the currency being filled up from some other source.

I am not unacquainted with this gentleman's opinions; they have been extensively quoted by J. S. Mill, and by many of the apologists of the Bank of England. He seems to be the chief modern authority for the notion, so prevalent in England and this country, that all public financial difficulties spring from overtrading, the bank being perfectly innocent and uninfluential in the matter. He was accordingly opposed to Sir Robert Peel's modification of the Bank Charter Act of 1844 to limit the issue of bank notes. His views probably suit his interest as a country banker, but in any opinion they are exceedingly fallacious.

In England, almost without exception, the "deposits" occupy in public opinion an anomalous position; they are not considered to be ordinary mercantile credits exactly, nor are they supposed to be currency; but they are by some process of reasoning generally placed in the same category as the ordinary book credits of merchants which arise from the transfer of an absolute value. The bank notes, however, are understood to be *currency;* thus Sir Robert Peel and Mr. Jones Lloyd—now Lord Overstone—supposed they were doing all that was necessary to control the currency and regulate the commerce of the kingdom, by restricting the issue of bank notes to £14,000,000, against an equal sum of government securities, the issues above that amount to be against coin held in reserve; but that restriction amounts to nothing, and is suspended by Parliament as soon as all the usually unemployed notes are issued. In the debate on the commercial distress in 1847, Sir Robert Peel expressed his disappointment at the operation of that act, but he and others found no other solution of the difficulty than the vast accumulation of debt in the kingdom, on an entirely insufficient basis of specie. Mr. Hume alone seemed to have an adequate conception of the truth of the case; he said:—"The bank pretends to discount bills for merchants and bankers, when it has not a shilling to do it with. The whole difficulty arises from having the bank founded on a wrong principle."

Mr. Fullerton seems to refer only to the bank notes, but when the "deposit," so called, is created, it is wholly immaterial whether its funds circulate in checks or notes; they are currency in either form, equally effective in degrading the value of money, and wasting the capital of the nation.

If 100 tons of gold, equal to $50,000,000, were thrown into the New York market to-day, in excess of the present supply, it would unquestionably cause an immediate and material decline in the local value of money there; by which I mean, its exchange value and not the rate of interest; transactions would be made, there would be much "local dealing and expenditure," prices would rise, imports would be attracted by the high prices, and merchandise exports would be prevented or checked by high prices, until that excess of money could be distributed to an equation of value with other cities and other nations; it would ultimately find its level of value over the whole commercial world.

Precisely the same result, as to the decline in value and distribution of money, would follow the precipitation of the same amount of convertible bank currency upon the market. Let it be known that the banks are prepared to furnish $50,000,000 by discounts, in addition to the present local volume of currency in New York, and a ruinously active business would soon take place in the creation of notes for discount, competition in prices, import of goods from other cities and other countries to be held at high rates, and largely *kited over* by bank accommodations. There would be plenty of speculation, which would be of no utility whatever in approximating goods to the consumers, but a ruinous tax upon their necessary consumption, until that sum of specie could be expelled, and the banks checked in their destructive course.

This is not altogether an imaginary case, but the practical lesson of the day. From January 1, 1858, to January 1, 1859, almost precisely $100,000,000 of these fictitious funds were added to the volume of our national currency, in the manner I have already described. For a time in the early part of 1858, people could not conceive the cause of the rapid increase of bank loans, when the business of the country was extremely dull with an abundance of gold, and, therefore, no need of any addition to the bank currency. It was this gold, and the opportunity it afforded to accumulate bank dividends, which caused the discounts and the increase of currency, and the expansion soon put things in a whirl again; imported goods rushed upon us; the Western products, which had begun to move rapidly outward in the winter of 1857-58, with the foreign exchanges in our favor, rose in price just enough to prevent their export, turn the exchanges against us, and of course turn the export demand upon gold; these products were piled up in New York until the warehouses broke down under their weight, while gold poured out of the country at the rate of two to five millions of dollars per week at last.

The bank currency continued to increase until May 1, 1859, when the banks found themselves obliged to resort to a sharp contraction, and thus destroyed the fiction they had created, to the amount of $35,000,000 by the middle of August, which checked the export of gold by bringing the foreign exchanges to par, broke down the debtors of the inflated West, and ruined the shoe trade and other industrial interests of the Northern States.

There are always circumstances to prevent an alteration in the value of money, and especially a sudden one, from operating equally upon all commodities and upon all parts of the country alike. Capitalists control some commodities, who can and who will by competition among themselves raise and maintain the price of their special merchandise, while other business, being more widely distributed among weaker men, falls into embarrassment, under any considerable appreciation of the value of money, directly. Such has been the difference between the hide and the shoe trade since the bank contraction from May to August last. And such a contraction and consequent appreciation of money will always fall with the most severity on that portion of the country where the inflation has been the greatest: this has been of late years our Northwestern States, while the South, once famous for expansion of banking, speculation, instability of prices, and bad debts, having avoided their old folly since 1845, and kept down their currency nearly or quite to the specie measure, have scarcely suffered at all.

The experience of the past three years in this country, like other periods of great change in the volume of currency and value of money, clearly disprove the doctrine of Mr. Fullerton and the other anti-bullionists of England. It would be as reasonable to say that the amount of the issues of gold in California is exclusively regulated by the extent of local dealing and expenditure there, and that such issues cannot be increased beyond the limits which the range of such dealing and expenditure prescribes. In one sense this is true, but in every sense I think it is sophistry.

How was it in France under the operation of Law's bank from 1716 to 1720? There can be no doubt that the local dealing and expenditure kept pace with the operations of the bank; there was prodigious activity for awhile and a prodigious advance of general prices; this advance of prices was nothing but a fall in the value of money, which consequently poured out of the kingdom in every shape and manner, open and disguised, in which it could be put over the borders, until the bank stopped payment and the true value of its issues was ascertained to be nothing; the nation lost a vast amount of capital by it at last. Mr. Fullerton's theory would make the mad speculations of that period the cause of the bank issues, and such has been the argument of all the paper currency advocates in every commercial revulsion in England and this country. It surely will not answer: they mistake effect for cause.

It is said to be a poor rule that will not work both ways. Is it a decline of "local dealing and expenditure" which causes the contraction of bank loans, or is it the contraction of the loans which causes the decline of the dealing and expenditure?

When any one bank creates anew any considerable amount of the fictitious currency, other banks find themselves in funds they scarcely know how; they are creditors, and having balances against the debtor bank, they also can manufacture currency; they become debtors in their turn, and can remain so very comfortably until the increase of currency has had sufficient time to make a general degradation of the value of money. This thing uniformly commences on our side of the Atlantic in New York, and it reaches the western prairies with the most cheering appearances of good times in the rise of prices and "local dealing and expenditure" which appear to be its cause, until at length we find ourselves suddenly called upon to meet engagements to deliver large sums of money that have been exported to Europe, which can only be recovered by the export of goods or reproduction of the capital necessary to buy the money. This is our constant experience, and it is surprising that the fictitious and imaginary "deposit" should not be recognized by Mr. Lowell as its cause.

"The nearer a bank comes in its specie reserves," he says, "to the amount of its capital and liabilities, the smaller will be its profits." As thus stated, this appears to be a mere truism which can hardly be worth attention, for the difference is precisely the sum of the loan, and of course the smaller the loan the smaller the profits. Mr. Hoopor cannot be at issue with him on this point, for it is too plain to be questioned. But I think Mr. Lowell means to convey the idea that the specie reserve is idle and earning nothing, and the greater its amount the smaller the profits of the bank. This is a very common opinion among bankers, and Mr. Lowell's statement will certainly convey this idea to readers in general; but it is incorrect, for it makes not a farthing's difference in the profits of the bank whether it retains a large or a small amount of specie within the limit of the loan.

The ownership of the specie is loaned in the bank notes and credits, and the coin is earning interest as effectually as if it were itself issued instead of the notes. So far as coin remains in reserve, the bank notes are certificates of deposit, and the credits are absolute deposits; so far the present system of banking is unobjectionable. The profits depend wholly upon the amount of the loan and the excess of the loan over the capital, not over the specie. This is easily demonstrated. Thus, suppose—

$1,000,000 capital. 1,111,111 credits and circulation.

2,111,111 111,111 deduct coin 1/10 of liabilities.

12,000,000 loan at 7 per cent $140,000

Now assume the New Orleans scale of ½ coin to liabilities:—

$1,000,000 capital. 1,500,000 credits and circulation.

2,500,000 500,000 deduct coin ½ of liabilities.

$2,000,000 loan at 7 per cent.. $140,000

According to the idea conveyed by Mr. Lowell, whether he intended it or not, the profits of the bank should be much smaller in the latter case than in the former, whereas it is plain that the increase of the specie reserve makes no difference in the profits, the only effect being to increase the liabilities in holding the coin, or decrease them in paying it out instead of the notes.

I am well aware that banks holding only one-tenth specie to liabilities cannot lend double their capital. It seems to me that the Massachusetts banks, with 11 per cent of specie to liabilities, are doing all they can in the way of expansion on this proportion of specie, by exceeding their capital two-thirds in their loan, and with any considerable adverse turn of the exchanges of the country, I think they are unsafe at that. With one-third specie to liabilities, I am satisfied they could lend double their capital safely, and these figures further illustrate the point raised by Mr. Hooper, in regard to the increased business, profits, and security of the banks and the public by holding the larger proportion of specie. Surely the banks can do business with more facility and security under the reduced pressure of debt relatively by holding $1 of coin to $3 of demand debt, than by holding only $1 of coin to $10 of the same.

If the loan must fall from $2,000,000 to $1,666,167 by reason of holding only 10 per cent of specie to liabilities, as I believe, and as our Massachusetts experience proves, then it is clear that the gross income must fall from $140,000 to $116,667, making a difference of $23,333, or 2% per cent in the dividends; and as it costs no more to hold $500,000 than $111,111 of specie, this 2% per cent is virtually a dead loss of profit by reason of the banks and the community being uselessly involved in debt in proportion to the real money or *value* which alone can discharge obligations without destroying a like sum of the currency. The banks can never contract their loans, that is to say, make a set-off between their debts and credits, without *destroying* so much currency, leaving no money in its place to maintain prices and the obligations of the community. Bankruptcy is the inevitable consequence of every general bank contraction.

But a point of the greatest importance, that both Mr. Hooper and Mr. Lowell fail to consider in this connection, is that the specie is *capital* earned by local production and dealing, and the more there is of it required and retained by the banks the greater must be the general business and the means of the people to support the banks.

At the general returns of the banks of Massachusetts early in February, 1860—the only returns I have at hand—the liabilities, including balances due to banks, amounted to $54,327,488; specie, $5,891,539, being $10.80 of specie to $100 liabilities. To increase the specie to the New Orleans proportion would require $12,-200,000 more of money capital in the State. This is not to be had like bank debt, by exchanging promises to pay; it must be the product of labor, and business, and increased exports, and the consequent local dealing would largely promote the interest of the community, as well as increase the means of the banks.

Nothing is plainer, to my mind, than that the employment of bank debt, which is not *capital,* in the currency has the effect of expelling and repelling money capital, which would otherwise be employed in place of the abnormal, useless, and bewildering bank debt, the nature of which few consider and almost nobody understands; and that the restriction of this currency must cause the reproduction of capital to furnish *money*—real money—to supply its place, and a wholesome activity of business to produce this result.

I consider Mr. Hooper's suggestion of the New Orleans scale of banking, with one-third specie to demand liabilities, good, as far as it goes. It was because of the more stable currency, in my opinion, that"cotton, the great staple in New Orleans, nearly escaped the effects of the crisis, and there was, in consequence, scarcely any panic there in 1857." Here, again, I think Mr. Lowell mistakes effect for cause, for he thinks the steady price of cotton maintained the stability of the currency in New Orleans. But we can do better for ourselves than to rest content with the example of New Orleans. There is no need of demand liabilities without 100 per cent of specie in reserve against them; with this reserve the loans are released from all restraint, and money, like every other commodity, will find its natural level, and be always in its normal condition of value by the natural law of demand and supply. Banking would be more profitable on this plan than on the present one of fiction.

The following *pro forma* account may serve to illustrate this method of banking:—

$1,000,000 proprietor's capital paid in specie. 5,000,000 deposits on stipulated time, or with due notice of withdrawal

6,000,000 loan at discount and in exchange dealing, say 7 per cent per annum....................................... $420,000

CONTRA

Interest on $5,000,000 deposits, at 5 per cent per annum	$250,000
Loss of interest on $40,000 specie in reserve, at 7 per cent..	2,800
Rent, $1,500; salaries, $9,000...............................	10,500
Bad debts, one-fifth of 1 per cent, say..................	12,000
Contingencies	4,700
	$280,000

Dividend on proprietor's capital, 14 per cent per annum $140,000

The loans must be so averaged as to time that the receipts shall always precede the demand for payment of the deposits. The operations of the savings banks without any capital at all show that deposits of $5,000,000 may be obtained with such ample capital as above stated to protect and give entire confidence to depositors, or, with less capital, deposits of less amount may be maintained at five times the sum of the capital. This bank may be called a "Trust Company" or a "Savings Bank"—the name is of no consequence; but the loans should be made on commercial paper and active securities, so that the money would be constantly employed in the currency, either in coin, or in checks, or certificates of deposit, with coin in reserve, dollar for dollar, against the demand liabilities. Such reserve would be on special deposit without interest.

In regard to the security of such business paper as is discounted by well-managed city banks, it is very perfect; the risk of loss on such paper is almost nothing: one-tenth of one per cent will cover the average loss by bad debts on such paper and leave a margin of gain besides. On this point there is a ridiculous inconsistency in the public mind. Bank stocks are the favorite securities, and savings banks invest in them largely. What security do they afford better than the business paper in which the banks invest their means? And yet the savings banks take the stockholder's risk—the very worst risk of the banks of issue, for their circulation and "deposits" must be first paid, and the stockholders get only what remains.

Here would be no fiction of a "deposit"—no fiction of currency created. The institution, by whatever name, would be an honest "bullion bank" dealing in *capital*—getting money before loaning it—and it would cause a reproduction of some $6,000,000 of actual capital to be exchanged for money and employed in the currency, displacing an equal amount of the present fluctuating and damaging bank debt.

The truth is, the only agency that performs any real service in the exchanges and in the circulation of property is *capital;* the debt currency only hinders its prompt application, postpones the settlement, and embarrasses the business. One hundred barrels of flour buys one hundred yards of broadcloth, and the broadcloth buys the flour; commodities pay for commodities, always, and the more directly the exchange can be made the better. If we have a currency of capital—that is, of money—there is an exchange of capital through the merchant in effecting the transfer; the business is settled at once, bringing nobody in debt.

But the present currency system interposes an obstacle to this prompt exchange; it repels the money, and debt must be contracted to maintain the banks. The flour and the cloth must be sold on credit; notes are made; the flour seller runs in debt, say $500, for the cloth he wants, and the cloth seller $500 for the flour; there is probably a middleman between them—the merchant—who grants his notes to both parties; all these notes are discounted in bank; the bank runs in debt $2,000 for the notes, and now, with all this accounting and complication, what is effected? Simply an exchange of the flour and cloth, which might have been exchanged without any debt or complication at all. The interests of all these parties, the bank included, are suspended upon the wings of paper currency, and subject, unnecessarily, to the fluctuations in price and value of their means to discharge the notes till their maturity.

And what capital does the business? Just the flour and the cloth; there is not another dime concerned in or about it. The banking system merely *unsettles* it and postpones the adjustment to a future day, taking, however, a dividend out of it for the profitless service.

Shadow will not do the work of substance. Substance does all the work and pays all the costs. Shadow serves only to bewilder, and they who rely upon it, as is the almost universal custom in this country, are very sure to be left at last without any substance at all. Such is the painful experience of nearly all our businessmen.

18

Financial Heresies*

To the Editor of the Merchants' Magazine:—

The English papers, in commenting upon the recent failures in the hide and leather trade, are quite emphatic in denouncing "accommodation" notes as the cause of the disturbance. This is an old cry of the Bank of England—it is the cry of "wolf" by the wolf, or "stop thief" by the thief himself—in which other banks have joined, both in England and this country. All.of them seem to have a dread of what is called "accommodation paper," as a peculiar sort of *kiting* which they suppose to possess some especial power of inflation, productive of disaster in monetary affairs. This is mere financial superstition; it is a holy horror of the element of their own existence, condemning their own cherished principle of doing business. All promissory notes and bills are *accommodation paper,* precisely one and the same thing; and when discounted in bank, unless the proceeds are paid in real money at once, they are exchanged for the *accommodation paper* or debt of the bank; they are converted into *debt currency,* which, as it exceeds, when created, the natural volume of currency, is mere *kiting* that degrades the value of money, locally, causing a loss in the capital of the community invested in money, precisely like the loss to a merchant by the fall of price of the goods in his warehouses. The

* Reprinted from *Hunt's Merchants' Magazine and Commercial Review,* XLIII (Sept., 1860), 317-21.

bank exchanges notes with its customer; no value passes; it is nothing but *kiting.*

The hide dealer buys 1,000 hides, amounting to $5,000, and gives his note for the same. What then? The hides and the note do not form separate values; they do not make $10,000 of property. The dealer's note is as independent of the hides, and as much in excess of them, as of any other portion of his property; and his hides are no more bound to pay the note to its possessor, whether bank or individual, than his cattle, or his corn, or any other capital he may possess. He creates no value by making his note, and there is no value in it; the value is solely in the property he holds to pay it with, and without which the note is but the defacement of the paper on which it is written. When the property passes into the hands of the holder of the note, the note is extinguished, but the value remains. The bank, therefore, holds no value or property in holding the note; it must part with the note to get possession of the *value.*

All debt exceeds value, capital, and wealth, both of the individual and of the community; and its quality depends upon the property in the possession or at the command of the debtor to provide the means of payment, whether the property was acquired when the note was given, or months or years before. The hide dealer may have no other property than the 1,000 hides to pay his note. What if the warehouse takes fire, and his hides are consumed? What becomes of the *reality* of the note, and where is its value then? It is the integrity and ability of the debtor which gives the sort of reality to a note that a bank or a creditor should desire; it is a lien upon his property none the less because of the length of time the property has been in his possession. Obviously the so-called "real" note of the hide dealer for $5,000, with nothing but the 1,000 hides to furnish the means of payment, is no more *real* than, and surely not as good as, the so-called "accommodation" note of the individual who holds $100,000 worth of property behind it; and the individual who grants an "accommodation note," so-called, holding a previously acquired property to protect it, does no more to increase debt or cause trouble or embarrassment in financial affairs than he who grants his note for property obtained at the moment. There is no harm done by either note, if held to maturity or exchanged at any time for honest *money;* it is the operation of the bank that does the mischief, in putting mere debt into the office of money; in making a fresh creation of a currency of *price,* without the attribute of *value,* by giving bank debt instead of real money for the note. Promissory notes, given for goods purchased, merely postpone the payment and the use of currency or money; requiring it some months hence instead of to-day; and then, at the maturity of the obligation, the demand for money or currency, so far as this transaction is concerned, is just the same as it would have been to-day if the commodity had been exchanged for cash, and the business settled at once.

The party essentially accommodated in this business is the bank that gives its promise to pay on demand in exchange for the dealer's note, pretending thus to convert it into *money,* and making its whole support and profit out of the forbearance of the people —its creditors—who do not call for their pay, but hold pieces of paper, or bank balances at their credit, and *innocently pay,* instead of *receiving,* interest thereon for the indulgence they grant the bank. When its creditors demand their *money,* its debtors are called upon to pay *money* the bank never loaned, never had to loan, and necessarily has not on hand to meet its running demand liabilities: then comes the *crisis* that many writers call a "panic." It is such a panic as the wasted sufferer feels whose lungs are losing their power of inflation; it is no *panic;* it is the inevitable *crisis* of *death.*

It is therefore only the "accommodation" notes and debt of the bank, now deluding the easy credulity of the public, that need to be repudiated. The capitalist has no occasion to pry into the concerns of the honest trader to learn the origin of his "bills receivable." The dishonest trader may sell goods backwards and forwards, with or without removal, and present bills as vouchers, apparently as real as truth, that are as unreal as falsehood or a vision of the night; he merely deceives the devil if the bank believes him; for there can be nothing more unreal in its pretensions than the debt currency itself—this is speaking of the principle of the system, and not accusing its managers, who are no more responsible for its evils than the rest of the public who sustain it. The capitalist, or the bank, needs only to know the integrity and ability of the sureties for the loan. Whether the paper presented for the same be obtained for goods immediately delivered, or is merely borrowed for the purpose of obtaining the loan, makes not a particle of difference in the extent of the obligations, or in the financial affairs of the community; the only unreal thing being the fictitious currency created from debt without labor and without value. So much for the much-abused but innocent *accommodation paper*.

The second *heresy* is the notion that the bank compounds interest, and gains more by discounting short than long dated paper. That this notion should prevail among intelligent people, and even among bank directors, as it does, is peculiar evidence of the manner in which everything is taken for granted, without reflection, in this important business of creating and destroying currency and·altering the value of money, which, more than any other business, needs the most careful investigation. It does not require even a slate and pencil to refute this weak notion. The bank deducts, in round numbers, $60 discount on $1,000 loaned for twelve months; this sum of $60 is reinvested as cash, which gains $3.60 more in discount for the year. Obviously it produces the same result to discount six notes at two months each for the sum of $1,000, making $10, and reinvesting 60 cents each time, only with much more accounting and trouble. It is not to be supposed that no accomplished merchants and bank directors understand this simple matter, but it is a very prevalent heresy, notwithstanding.

In exchange dealing, of course, the case is altered: if the bank can gain by charging exchange on each discount transaction, the shorter the paper and more frequent the transactions, the better it is for the bank, and the worse for the people.

The third *heresy* is not so obvious, and requires closer examination. It is that when the banks of any city discount notes and bills due and belonging to another city, the course of exchange turns against the former, and specie flows to the latter, *because the money owned in the former is loaned to the latter*. We have a case in point at this moment. The Boston banks aver that the unprecedented expansion of their loans arises from discounting paper for New York that is owned and payable in New York, and *that* alone is the reason why Boston is sending specie to New York almost daily at this time, July 21st. This is very plausible, and at the first glance seems very reasonable, but nevertheless it is not quite true. The delusion is in the total misapprehension of the nature of money. Money is merely a portion of capital, like any other commodity, and goes, like other things, from where its value is less to where it is more; it is a claim upon capital, and not specially or merely money, that Boston has been lending to New York; money will not go to New York in consequence, unless it is cheaper in Boston than in New York; it follows the law of value in this, like every other thing possessing value in exchange. Hides or hemp or cotton goods or capital in any other form will go to New York when the commodity is cheapened in Boston, so as to be worth more in New York, and capital thus transferred constitutes a fund to be drawn upon in making the bank loan to New York. Accordingly, we see that the Boston bank loans have been increasing during a dull business, locally, for a year past; and, especially during the last six months, the dullest of all, they have increased $5,000,000; but specie was not transferred to New York as the loan advanced; the reason is obvious; because specie was as valuable here as in New York, and capital, in some other and cheaper form, had directly or indirectly placed Boston funds in New York to supply the loan. It may have been received in returns on Boston account from foreign ports, or from the south or west of our own country, as well as in goods forwarded directly from Boston to New York.

But additional local currency has been created by the Boston bank loans; money has been thereby cheapened in its exchange value, and driven abroad, or it has been prevented from coming in. The value of all consumable things is maintained by consumption, under an enlarged supply, to a very great degree, because as their value declines, their consumption increases; so that their value or price never falls in proportion to the increased supply. But money is not a consumable commodity, and it is therefore uniformly cheapened by an increased supply; unless about tenfold the equivalent value of other things is produced, simultaneously with the money, so that the relative exchangeable power of money and property may be steadily maintained, which is absolutely impossible with the vast supply of money, and the fitful addition of debt currency now flowing upon the commercial world. This debt currency is produced instantly, and without labor, by issuing a promise to pay; property cannot be produced without time and labor. As nearly all commercial transactions are made through debt and credit, the fictitious addition to the currency must have time to percolate through the exchanges before the effect is felt. As a purgative requires time to change the gastric juices and become digested, this unwholesome dose of fiction is at length ejecting money from Boston rapidly; not because of any loan to New York, more than to Boston dealers; but because the increase of bank loans has been proportionally greater in Boston, and cheapened money below its relative exchange value in New York. Money, therefore, must continue to flow to New York in excess of its receipt in Boston, until one of four things takes place; either Boston must reduce her loans, or New York must increase hers; or Boston must supply more goods, or New York less goods to the common market, proportionally. The value of money being always relative to something against which it is exchanged, there must be more currency or less goods in New York to cheapen money there; or there must be less currency or more goods in Boston to enhance the value of money in Boston. Either of these four things will, after awhile, bring about an equation of exchange between the two cities, by equalizing the value of money, and nothing else will.

Whether the Boston banks possess very accurate information of the amount of Boston paper discounted in New York, so as to judge that they have loaned an excess to that city, is rather problematical; for there is a continual cross firing of this sort between the two cities; but it matters not; exchange will turn against Boston, and specie will be forced to New York, just as soon, and as inevitably, by discounting Boston paper in Boston, as by discounting the paper of New York. Similar *kiting* is common between the bankers and merchants of England and the United

States, with of course the same result. If the banks of New York, Boston, Philadelphia, Sec, increase their loans in domestic paper, they will as effectually turn the course of exchange against this country, and compel the shipment of specie, as by discounting bills owned and payable in London itself.

The fourth *heresy* is that the banks lose interest on their reserve of specie, and that the holding of specie is therefore unprofitable; so that they make a greater profit by holding only 10 or 12 per cent of specie to their demand liabilities, as is usual in Massachusetts, than 33% per cent, the ratio fixed by law in Louisiana. This mistake Mr. Hooper pointed out in his recent pamphlet, and I demonstrated the same in figures in your May issue of this year. It is sufficient, therefore, to repeat, that the ownership of the specie is loaned in the bank notes and inscribed credits, and the bank gains interest on the same, accordingly. It is even more profitable to hold the larger proportion of specie, because the loans can be thereby maintained at higher figures, and consequently producing a larger income without additional cost.

There is no science that bears so immediately and so powerfully upon both the material and moral interests of society, as political economy, and no branch of this is so important as commercial finance; yet nothing is more crowded and obscured with error, and nothing is so utterly neglected by businessmen. The trouble with the hide and leather and shoe trade, both in England and this country, is not "accommodation notes," merely, but *converting debt into currency,* the destructive and ridiculous artificial *cheapening of money,* with the consequent *price* above *value* that can never stand.

19

Currency of the United States*

The currency of the United States consists of all the metallic money not in absolute hoards, and the sum of the immediate liabilities of the banks, except the coin in their coffers. The sum total of currency in money and bank debt is *permanently* the same as would be present in the nation and be offered, or in readiness to be offered, in gold and silver, in exchange for commodities and property, and in the payment of debts. When it exceeds this, the course of exchange is against us, and money runs away. Buried treasure, or money so absolutely withdrawn from business and from circulation, as to have no influence upon the owner's mind in directing his expenditure, is not currency; it is an absolute hoard, having no more effect upon prices or upon business than if it did not exist. But we must not confound this miserly store with the stocking deposit of the Dutch farmer, for example; which, although a reserve fund, influences his expenditure, and, as there is more or less of it, induces him to hold his commodity at a higher, or sell it for a lower price. The proportion of money thus at rest, in relation to the volume of currency, is not greater than the proportion of commodities at rest, in relation to the whole circulating property which necessarily remains on hand waiting the right customer or a satisfactory price; and the line between the currency and the hoard is not more imperfectly defined than that between the property in and out of circulation. There is al-

* Reprinted from *Hunt's Merchants' Magazine and Commercial Review,* XLIII (Nov., 1860), 574-83.

ways a considerable quantity of property not in circulation, that is to say, not offered for sale, that some large price would tempt the owner to part with, and there is about the same proportion of money in idleness that may be tempted into action by offering for it a sufficient quantity of property. These two opposite exchangeable values neutralize each other.

We have, then, a controlling measure of price in the volume of currency, the public instrument of exchange. As that volume increases in relation to the circulating property, the value of money falls in a general or average rise of prices; and as it decreases in relation to the circulating property, the value of money rises in a general or average fall of prices. So far as price is concerned, of course the effect is the same if the circulating property increases or diminishes in relation to the volume of currency; for as it increases in quantity its price falls, and as it diminishes in quantity its price rises; but it is not by any means the same in regard to value or wealth; for the variation in the volume of currency merely alters the value of money, it does not affect the absolute value of other property, and the nation is just as rich with little money and low prices, as with much money and high prices; but when the property of the country diminishes in quantity, the public wealth declines, although prices rise; and when the property increases in quantity, the public wealth increases, although prices fall. This is more apparent in an isolated community or nation, such for example as Japan has been for two centuries past. Every nation is quite as well off with little money as with much; but a commercial nation or community, such as Japan has now become, is vastly better off with the less money or more limited currency. Japan, with a limited currency, having a plenty of circulating property, has now the most valuable money in the world; it is valuable because of the quantity of property it will exchange for, and nothing but war or nonintercourse can prevent her from becoming an immense exporting nation. I think Europe and America will be astounded at the extent of production, activity of business, and increase of wealth, in Japan in a very few years, if the empire escapes internal dissension and external war.

It is the quantity and quality of cultivated land, dwellings, warehouses, ships, steamers, factories, schools, utilities of all kinds, and everything that contributes to human enjoyment, which constitute wealth; this wealth is the same in value at any price; it is not, therefore, of the least importance what volume of currency we possess, so that the coins are not too diminutive or too large for convenient use, excepting the less currency the better for the convenience of handling, and because where there is the least currency relatively, money will buy the most, and where money will buy the most, business will go. As with individuals so with nations; where the best bargains are to be had, customers are plentiest and make the largest purchases. What we want, then, is to increase our stock in trade and not our currency; for money itself will come fast enough by the increase of commodities; no earthly power and no contrivance can keep it out of the country, excepting this that we employ, of cheapening it with an admixture of fiction. The little child, soon as he learns the meaning of a cent, knows enough to go to the shop where he can get the most taffy for his money; and when he grows to manhood he pursues the same simple principle in buying goods; but the sophistication of the currency system blinds him to the fact that the increase of currency and cheapening of money locally by his community, more than elsewhere, adds cost to his goods, enhances their price without increasing their value, and drives his customers into other shops, in other cities, or in other countries. The cheapening of money is a local loss of business and wealth, infallibly.

The effect of change in the volume of the currency follows an immutable law, however delayed by longer or shorter maturing credits, or however obscured to the mind of the unpracticed observer. It is therefore a matter of the greatest importance to know what the currency is and where to look for it.

We must look for it precisely where it would rest if the whole were exclusively metallic, to which volume it must ultimately return from every aberration; the true money or specie measure being determined and marked by the par of exchange on London of 9½ per cent, or $4.8665 to the pound sterling. It will be observed, that with a pure metallic currency, the banks could not be under demand liabilities, either to the public or to each other, without coin in hand dollar for dollar against them; each debtor bank must therefore hold the coin; so that the balances due *to* banks, as well as *to* individuals, are *currency* occupying the place of coin, and the balances due *from* banks, as well as *from* individuals, are loans. Thus, taking the returns at Washington, with an approximate estimate of the amount of specie in circulation outside of the banks, I find the national currency, with a proper nomenclature, as follows, nearest to January 1, 1860:—

Bank notes in circulation	$207,102,477	
Bank credits inscribed for discounts without money	170,207,562	
Bankers' credits in California inscribed for discounts without money, estimate. .	2,000,000	
Balances due to banks	55,932,918	
Total of *debt currency,* that is, currency exceeding the money in the nation		$435,242,957
Bank deposits absolute in specie	$83,594,567	
Government treasury, including balances at credit of disbursing officers, specie	10,160,000	
In circulation among the people including bankers in California, estimate . . .	84,002,476	
Total of money in the currency		177,757,043
Total currency of the nation		$613,000,000

IMMEDIATE LIABILITIES OF THE BANKS

Debt currency, as above		$435,242,957
Absolute deposits, as above	$83,594,567	
Absolute deposits with California bankers, say	2,000,000	
Money in banks		85,594,567
Total of immediate liabilities		$520,837,524

It follows that the ratio of their money to their immediate liabilities is as 16.43 to 100. The ratio of money, outside of the hoards, to the total currency of the nation, is as 29 to 100; and this indicates the method of doing business; the exchanges at wholesale and retail being effected approximately with money 29 per cent, and debt 71 per cent; besides some that are made by the direct barter of commodity for commodity, without the intervention of debt or money. Obviously debt must be created and discounted to bring the debt currency into existence, and it is kept alive by continued renewal or *kiting* of the notes and bills of customers, against the notes and inscribed credits of the banks. The bank debt is, therefore, merely a portion of the circulating debt of the community, which compels the exchanges to pass through a circuit of debt and credit, by removing so much money from the country, which circuit would otherwise be made with money. This circuit is made by the transfers of raw material, and articles partially and wholly finished, through the hands of manufacturers and tradesmen to the consumers, and the return of the consumers' commodity or produce to close the transaction, when the two, producers and consumers, are mutually paid. Approximately these transfers are five each way; so that we cannot be far wrong in estimating *ten* exchanges to the circuit. Consequently we maintain a commercial debt upon the above figures of $4,352,000,000, or tenfold the sum of the *debt currency,* that need not and could not exist with a currency exclusively of money. Every merchant's stock of goods greatly exceeds the sum of currency he retains on hand; and this law of the exchanges in the circuit of money seems to determine the ratio of goods offered for sale, with other circulating property, to be approximately as 10 to 1 of the currency throughout the country.

So completely has the idea of money in the debt currency taken possession of the public mind, that it is difficult for people to comprehend how the above incubus of debt is created, or why there is any more of it than would exist with a money currency. But money is a value purchased with another value in goods, and comes in return for merchandise sold to California and to other countries; debt has no part in its creation. The debt currency is not a value; it is a fiction of money manufactured virtually out of nothing, and is, when created, like every other debt, in excess of all the money and property in the world. An illustration will show how this worse than useless load of debt and embarrassment is entailed upon us. You have 100 yards of cloth for sale at $5 per yard that I want; and I have 2,500 pounds of wool for sale at 20 cents per pound that you want; either commodity amounting to $500. Simple barter would effect the exchange in the most economical manner, and satisfy us both, without debt or embarrassment; but we do not know each other's wants, and do not meet in the market: a middleman or merchant is therefore necessary to us both. If he has $500 of money, as he would have under a money currency, to pay for your cloth that you can pay for my wool, the exchange may be effected without debt or delay of settlement. It is triangular barter; gold, a third commodity of value, being employed as a medium of exchange; but, by the present system, we expel the gold, and thence comes the necessity of debt to create the debt currency and maintain the banks. A merchant gives his note for your cloth, and the same or another gives his note for my wool; then, according to the present custom of making the utmost possible use of banking, you give your note for the wool, and I give my note for the cloth; and now the bank is ready to *accommodate* all parties in accommodating itself. You and I get the merchant's notes discounted; he gets our notes discounted, and the bank gives in exchange—what? Certainly not money, for that yields no profit; it must lend what has no existence, and make a currency of its debt, over and above its money and capital, on which to charge interest as money, to make dividends; of course, it lends its debt in the form of notes or inscribed credit. You and I now owe $500 each; the merchant owes $1,000, and the bank owes $2,000; and here, on $1,000 of value, by reason of the absence of $500 of money in the currency, is $4,000 of debt created, more useless and unnecessary than a fifth wheel to a coach; $2,000 of it is *debt currency* which infallibly drives from the country $2,000 of gold, and compels the next traders to go through the same operation of running in debt to effect their exchanges. And what capital is employed in these transactions? Clearly not a dime but yours and mine; your cloth and my wool: our capital maintains the merchant and the bank, and all their clerks and rent and charges; we are entangled in a useless debt, with the fluctuating values of a currency continually expanding and contracting to accommodate the cupidity or necessities of the bank, and we run the risk of bankruptcy, out of the proceeds of our own labor, which, under a money currency, would have been exchanged without any risk whatever. Every time the cloth or the wool is exchanged in its progress to the consumer, more debt and more currency of the same sort are created, and an oppressive mass of debt is thus built up and maintained to expel money, postpone payments, and embarrass everybody.

There is no objection to the merchant in this business; he is a necessary and economical agent in finding and opening markets and effecting exchanges, securing to the producer uninterrupted employment at home; and, in transferring a commodity from where it is of less, to where it is of greater, value, he performs a service equivalent to the production of so much value; employing labor and tools of wood, iron, wind, steam, &c, differing in form but not in principle from those employed by the producer himself. Indeed, it is to the merchant we owe the variety and increase of employments that maintain labor and produce wealth; but to the bank of the debt system we owe nothing but obstruction to labor, loss of national capital, bankruptcy, and distress. It is the system, and not the banks, that I condemn, and it is the people, not especially the bankers, who are responsible for it; but it is most especially the duty of the economist and the legislator to speak plainly, and put public opinion right upon this momentous subject.

I have taken occasion to say in these pages repeatedly that commerce consists of an exchange of material and immaterial products upon the simple principle of barter; commodity pays for commodity, and service for service, and the nearer we come to a direct exchange the less is the tax upon both producer and consumer, and the better it is for the community. Merchants and money are necessary to an economical accomplishment of exchanges, but not mere speculators nor a currency of debt. If the natural law of value be not interfered with, business will provide the true and necessary volume of currency for itself in real money; less we cannot have permanently, and more we cannot permanently retain; the debt currency does nothing but sink the value of money, and drive so much money away; it is a false intruder of the most damaging character.

The population of the United States has been estimated of late at 32,000,000; on this estimate the currency as above would be $19.16 per capita; but the progress of the census of 1860 thus far seems to indicate that this is an overestimate of the population; probably the currency at the beginning of the year was $20 for each inhabitant, approximately.

The estimate of $84,000,000 of specie outside of the banks is, I am aware, very much below that of other writers, but I feel very confident there is not over $200,000,000 of money in the whole nation, including the California currency and the hoards. Estimates in round numbers very generally exceed the truth, and are often wild. In the inveterate paper-currency States, like those of New England, where one-dollar notes are in circulation, it is rather difficult to find change for a dollar in the hands of any family; the omnipotent bank note of one to five dollars is everywhere, and is counted upon to buy the smallest commodity; there is a constant running about for change from house to house, and the till of the retailer is poorly supplied. There seems to be a penchant for *shin plasters* in New England, and money flees from them as from a pestilence. I doubt if there is an average of three dollars of real *money* to a family in the State of Massachusetts outside of the banks, including the money drawers of the shops, sums in the hands of money dealers, and all reserves outside of the hoards; of hoards, there are a few among the foreign population. In the South, and of course in those States where the circulation of bank bills below the denomination of five dollars is prohibited, there is some money to be found; but I defer considerably to official estimates in placing the average so high as *fifteen* dollars to each family in the nation, deducting the slaves, and make no doubt it is an overestimate sufficient to counterbalance any amount the slaves may have in possession.

Supposing we have a free population of 28,000,000—an extravagant estimate, I think—and allowing five members to each family, there are 5,000,000 families, to whom I assign $15 each, making $84,000,000. There must be large reserves—not hoards—somewhere, and large sums in the hands of money dealers, travelers, and immigrants, to make up so large an amount as this, outside of the banks; for there is a bank wherever a bank can be planted throughout the country, to gather all the money in its neighborhood. The New York *Journal of Commerce* ciphers up $283,000,000 in the whole country. I cannot conceive where they find it; but I believe Mr. Snowden of the Mint thinks with me, that $200,000,000 is a large estimate. At any rate, I do not think the *money* in the *currency* can exceed the sum I have named. With such a leak as there is in the course of exchange, that we keep almost constantly adverse to ourselves, which is neither more nor less than keeping money cheaper here than elsewhere, specie must run out in ways that cannot be discovered, or brought within the range of statistical investigation.

Some writers have placed promissory notes and bills of exchange in the category of currency, but it is altogether a mistake; their affinity is with circulating property, not with money. They may be exchanged for property, and so might the property upon which they are drawn; and if offered for sale for money they are still more like property; they are exchanged against money, and are more likely to have the effect of increasing the exchange value of money than of reducing it, as they would if they were of the nature of currency. They are, however, neither money, nor currency, nor property, but mere records of an unfinished bargain; the purchase money is not paid, and these are memoranda or written evidences of what the debtor is to do to complete the contract. One species of property exchanges for another; this is barter, the fundamental principle of trade; and when promissory notes and bills of exchange are exchanged for money, they take the position of property as essentially different from money as the goods that were delivered for them, or for the fund upon which they are drawn.

We must clearly understand, and I therefore repeat, that the currency is that, and only that, which ought to be money, and would be if not interfered with by an abnormal legislation that authorizes debt to take its place. The public mind should be disabused as to the existence of capital or value in promissory notes and bills of exchange; then people would comprehend that there is neither money, capital, nor value in the debt currency erected upon them, or into which they are converted, nor in the so-called "bank capital," which stands upon no other foundation. He who buys 1,000 barrels of flour for $5,000, holds the capital in the flour; and i£ he pays for it in gold, it is an exchange of capital; he has so much more of one commodity, and so much less of another—more flour and less gold—while the flour seller has so much less flour and more gold. If, instead of paying money, the buyer gives his note for the flour, it is preposterous to say or suppose that he creates a value of $5,000, and that the community are in possession of $10,000 of capital because he has run in debt $5,000, and made his note for the same. And now, if the note be exchanged for gold, or hemp, or cloth, or any other property, there is only a legitimate use of credit in the transaction; it may be exchanged fifty times for value received in each transfer without affecting the value of money, or doing any harm; the payee or original holder of the note simply receives gold, or hemp, or cloth, or some other property in exchange for his flour; the note is all the while nothing but a written evidence of the debtor's verbal promise; adding nothing to the volume of gold, or of currency equivalent in use to gold, or to property of any kind. In effect, the whole is legitimate barter; flour being exchanged for gold, and gold for hemp, and hemp for cloth, etc., through the entire circuit of exchanges. I wish to direct attention particularly to this point, and ask for it the most careful consideration, that there is not in this note an increase of anything but debt; there is nothing in it of the nature of an increase of money, currency, or property, and the transfers effected, as I have described, are merely transfers of pre-existing money or property.

But now let us suppose that the note is discounted in bank, and the bank, instead of delivering the material equivalent, money, that is, gold or silver, for the proceeds of the discount, issues its notes, or inscribes a credit to be checked upon as money in excess of the money in its coffers; it is then a very different thing; the act is the creation of *debt currency,* for which there is no material equivalent; there is no such money or value in existence as the bank promises to pay; and, therefore, although it receives an obligation to return something for nothing, at the ultimate settling day the thing cannot be done; if the bank gets the material equivalent, it belongs to some other obligation that it is required to meet, and somebody must break for it when the bank can no longer maintain the fiction in circulation. The continued existence of this fiction in the currency is absolutely necessary to maintain the price it created in the circulating property, and support the obligations of debt in the circuit of exchanges made by and resting upon it. Its withdrawal by a set-off between the two debtors, the bank and its customer, in the contraction of loans, is inevitable bankruptcy to all these obligations that must fall somewhere upon wholesale or retail dealers within the circuit of its operation, for it is the annihilation of so much currency. But when it is created, being accepted without bargain or question as money, it degrades the value of all the capital of the community invested in money, precisely as much as it adds to the volume of the currency; this is the sure effect of an increase of bank loans. Obviously, if the bank loan is not increased by the discount; if it be merely relending a fund previously in the currency and just paid in, there is neither an increase of currency nor degradation of the value of money in the discount transaction; but I am treating of the principle of the thing, the construction of the debt currency, and I aver that we might as well make a free gift of so much gold to some other portion of the world, as to organize this note into a currency equivalent in use to money, without a special reserve of coin in the bank, dollar for dollar, against the sum placed at the disposal of the party obtaining the discount; it is converting fiction into a currency of *price* that is not *value,* and is a dead loss of capital to the nation, excepting so far as it adds to the price of our products in foreign countries, which is inappreciable, as the expelled coin flows into the great ocean of the currency of the world. Its effect is entirely adverse to ourselves, because, by raising general local prices, it checks our production and exports, and brings returns in foreign goods with precisely the whole amount of the fiction of money added to their price, which we must pay in the solid value of gold and silver. Your constant readers will excuse the repetition of this truth, which I have presented in previous numbers of this magazine; it must be repeated, "line upon line and precept upon precept," until our people are fully awakened to its vast importance. It is the absence of money and value in the currency, and of capital thus expelled from the country, that is the cause of the cruel bankruptcy that cankers the life of our businessmen.

With 613 millions of currency at the beginning of the year, sterling exchange was at par, or somewhat in our favor; we were shipping products but no money. Now, late in August, sterling exchange rules against us, and we are shipping money, twice as much as we receive. Are we short of exportable produce? Certainly not; there is an abundance of it that we want to sell; but we have expanded the currency and cheapened money; 613 millions is no longer the volume of the currency. The city banks of New York and Boston alone have since increased their loans $11,000,000, and the Northwestern States are breeding red dogs and wild cats as fast as possible; new banks are going into operation in all directions, and there is a general expansion of the debt currency, with the single exception of New Orleans, while the increase of gold would expand the currency more than fast enough. There is now currency enough to maintain the prices of many exportable products above the exporters' limits, and to turn the export demand to that extent upon gold and silver—just enough of currency to sink the value of money for the amount of the export of specie. The volume of currency is now above the specie measure, and no human statute, unless by destroying a portion of the debt currency in the contraction of loans, can prevent the excess from being exported in solid money. Who does not see, if we exported merchandise to the amount of $50,000,000 instead of gold, that we should have room for the reproduction of 50 millions more of merchandise; and that we *should* reproduce it, leaving the money in the currency and so much more capital in the nation, than we shall have by the present destructive policy at the close of the year? We want the business of exporting this 50 millions and of producing 50 millions more of merchandise, and the relief from debt that would come with the accession of so much capital.

But the so-called *balance of trade* is now against us. The "balance of trade" is a chimera; money is cheapened by an increased supply like beef, and is exported like beef when it is cheaper here than in the foreign market. It is perfectly in the power of a few gentlemen who control the New York City banks, to turn the so-called balance of trade in favor of the United States in six weeks, and, if judiciously managed, without any considerable disturbance of prices; excepting perhaps among the fancy stocks in Wall Street. The clear reduction of six or seven millions of bank loans would reduce the volume of currency one per cent, and general or average prices one per cent, but for the continued supply of California gold; and even with that, a reduction of seven millions in six weeks would so enhance the exchange value of money as to reduce sterling exchange below the par rate of 9½ per cent. This is not a mere conjecture, but a matter in which the country has had practical and ample experience, and which intelligent bank directors understand perfectly well; then the "balance of trade" would be in our favor, and we *must* export merchandise instead of money.

The vast power of regulating the value of money, and thence the commerce of the United States, is very properly delegated by the States to Congress in the Constitution; it is the chief function of sovereignty, without which, the stipulation for regulating commerce, as well as that for maintaining the inviolability of contracts, is an utter nullity.* But, by reason of the neglect of Congress, this great function is given over to the cupidity of the banks; and to suit first their profits and then their necessities, the value of money is first degraded, then enhanced; the import of foreign goods is, by the same process, first stimulated, then checked; the production, as well as the export, of our domestic merchandise, is first diminished, then increased, inversely as the increase and diminution of the currency; the government revenue is first over-

* Strictly speaking, no human government can regulate the value of money, excepting by restraint upon any interference with it. Money may be diverted from its true course, or obstructed in its natural flow, like the current of a river; and it is vitally important in the matter of money that government shall prevent such diversion and obstruction. It can have no other power to regulate the value of money. Coinage is simply inspection.

supplied to a surfeit, then depleted to starvation; the people are first thrown into debt for a huge sum in *price,* and then compelled, by the inevitable fall in the money value of their assets, to settle the whole sum of *price* in their obligations, above *value,* in bankruptcy. Indeed, the chief object of the business of the nation, or of its conduct, seems to be first to make dividends for the banks, and then save them from the consequences of their cupidity in the suspension of specie payment; while the prosperity and happiness of the people are of secondary consideration, or of none at all. This mighty power over the public welfare is now practically exercised by a few gentlemen who control the discounts of the leading banks of the city of New York, the creditor city and center of the exchanges of the nation.

It would be no hardship to the banks of issue to be converted into "savings banks," and compelled to borrow all they lend in excess of their capital, paying interest on deposits, and making their support and profit out of the difference between the interest they pay and the exchange and interest they receive; because there would then be no limit to the loans in excess of their capital; then they would get *money* without creating a fictitious currency. I presented a statement of this principle of banking in your issue of May last, showing its practicability and profit. The public would be protected in this principle by the bank capital, of which there is none in the present savings banks; and the capital would be *real,* which, to a very great extent, it is not in the present banks of issue. It is in effect *bullion banking,* although the circulation may be in checks and certificates, the deposits being borrowed on stipulated time, and the loans being carefully averaged to be returned before the deposits fall due. There could be no contraction of the currency in this principle of banking; on the contrary, there would be a continual and normal increase of the currency by and with the increase of circulating property; the only way in which it can be steadily or profitably increased. The banks would be under no immediate liabilities without coin in reserve, dollar for dollar, to meet them; for the undrawn loans would be retained on special deposit, with the fund belonging to the circulating certificates, in coin not to be loaned again, while its ownership exists in the loans and certificates. It puts an end to the present unjust and ruinous principle of lending the same dollar several times over, upon which the banks now make their support and profit, and which is absolutely necessary to their existence under the present system.

Finally, it would soon add $450,000,000 *of real money to our working capital; make the United States, in excess of imports, the greatest exporting nation on the globe: put an end to our "panics" and commercial revulsions, and New York would infallibly become the center of the exchanges and the leading city of the commercial world.*

Such is the vast importance of this currency question. I£ Congress should think that existing charters, which completely override the constitutional power of regulating commerce and the value of money, are still too sacred to be annulled, they can at least put a stop to their further extension, and to the creation of any more debt currency, by prescribing a limit to the bank loans of each State, and prohibiting the establishment of any more banks to create a fiction of money and lend what has no existence.

I trust the government will never again attempt to be concerned in the business of banking; but, in the exercise of their constitutional control over commerce and the currency, Congress can further the business of bullion banking, which is the only means of regulating, and the only security for both, by establishing a safe depository for coin in the hands of commissioners, independent of the treasury, and beyond the control of the treasury officers, with authority to issue certificates therefor of convenient denominations to furnish a portable, secure, and convenient national currency, to save the loss by abrasion and other cost of handling and of transporting gold. The government must be responsible for the safekeeping of the coin, dollar for dollar, against all outstanding certificates, with a positive restriction of its power to remove the deposits from the custody of the commissioners. The certificates should be payable only where the deposit for the same is made, leaving to bankers and merchants the business of removing the coin on presentation of the certificates, when the same shall be required. But the bullion or coin must be *kept,* at any cost of vaults and bolts and responsible custodians, while its ownership circulates; otherwise it is utterly lost to the nation.

This important subject needs a leading mind in Congress. Is there not some member who will make it his specialty and attend to it? In no other way can he do his country such essential service.

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Financial Economy*

Among teachers of political economy there is too much of books and too little of practical observation. Truth, in the abstract, passes too easily and too generally for truth in the concrete, and an abnormal principle is supposed to be immediate in its operation and results, which, like intemperance, requires time to develop its power of demoralization. This is conspicuously true of the doctrine that convertible bank notes and liabilities, payable on demand, cannot be issued in excess, because of the reflux upon the banks for specie. In its ultimate effect this is perfectly certain; but the effect may be postponed for months and years, according to circumstances. A vast expansion of currency, with its depreciation of money, in the issue of notes by banks or government, is perfectly practicable among a credulous people, or where, from the popularity of the issuer, or, in the case of the government, from patriotic motives, the public are disposed to grant an easy confidence, and encourage the issue, before this inevitable reflux will demonstrate the fact of the overissue and consequent depreciation of the value of money. Nevertheless, the depreciation is immediate in the rise of price of something, however unobserved, by the issue of the first dollar, and it costs the nation a dollar of capital in the end infallibly. It is the operation of a fixed principle, and not a matter of caprice or of choice on the part of buyer or seller.

* Reprinted from *Hunt's Merchants' Magazine and Commercial Review,* XLVI (May, 1862), 424-28.

Adam Smith was the first to discover and announce the truth, that the currency cannot be permanently increased by the operations of banking; but he did not discover the more important truth, that the temporary increase is a loss of capital to the community which permits it. On the contrary, he supposed the paper substitute to be a gain, by saving the use and cost of gold and silver in the currency. There was never a greater mistake in any science, and never one so fatal to the stability of property and the well-being of society. It is simply an exchange of solid capital for nothing, or for a piece of paper worth nothing—the worth being only in the property appropriated to its payment—because there cannot be two values in the same item of capital; one in the commodity, and another in the obligation to deliver it; one in money, and another in the promise to pay it. The paper promise, being merely a memorandum of an unfulfilled contract, and not the thing promised, must be an addition to the currency when issued, and therefore a false measure, unless the money promised is reserved against it, when it is a certificate of deposit, useful and desirable for any sum that would be inconveniently handled in gold or silver.

Adam Smith says:

> The whole paper money of every kind which can *easily* circulate in any country, never can exceed the value of the gold and silver, of which it supplies the place, or which (the commerce being supposed the same) would circulate there if there was no paper money...........
>
> Should the circulating paper at any time exceed that sum, as the excess could neither be sent abroad nor be employed in the circulation of the country, it must immediately return upon the banks to be exchanged for gold and silver.

This statement is utterly delusive, and wrong in its practical application to daily business, although true as to the ultimate result. It is surprising that Doctor Smith should have made it, when he had the example of John Law's banking in France to refer to—sixty years in history, before he wrote his "Wealth of Nations." It is a thorough refutation of Doctor Smith's theory, that Law issued bank notes, almost without limit, for nearly four years before the reflux of notes put the bank to any serious inconvenience. They were convertible all this time, of course, and specie, in dead loss, was running out of the country in payment for imported goods, at the fictitious prices created by the fictitious currency, moderately for a time, as its value gradually declined, but violently at last, with the accelerated loss of value, until the bank broke. It was afterwards ascertained that its notes in circulation amounted to 2,700,000,000 livres, about $540,000,000.

Doctor Smith qualifies his rule with the word *easily;* otherwise he makes it absolute. But the truth is, Law's bank notes did circulate *easily* and eagerly, greatly in excess of the gold and silver, of which they supplied the place. The rise of prices they occasioned threw all France, excepting the Chancellor D'Auguesseau and the refractory Parliament, into an ecstasy of delight. A Plutus had come among them, and enraptured the nation with his skill in creating debt, and converting it into *money.* Prices rose fourfold in the four years, from May, 1716, to the commencement of the year 1720. The distinction between price and value being unknown, this wonderful rise of prices was supposed to be an increase of value and of wealth. The bank notes commanded gold on presentation at the bank. Were they not as good as gold? Who doubted it? Few suspected that this rise of prices was merely a depreciation of the value of money, and that the currency of the kingdom had fallen in value the exact equivalent of the rise of prices; but such was the fact; the livre had lost so much of its purchasing power, and other nations were taking the gold and silver of France for nothing. Precisely as many livres as were added to the currency in paper were added to the price of things, over and above the true money value; and neighboring nations poured their commodities into the kingdom, to be exchanged for the precious metals upon these terms, profitable to themselves, but ruinous to France.

Such is the law of the case; consumers make their own prices with their local currency, and pay them, however much they may exceed the natural money value; but they cannot put their fictitious prices upon their own productions, and realize them from other nations. They can keep their own goods, and buy and sell at home at false prices, and flatter themselves with the possession of wealth at the false measure; but they cannot sell them abroad, unless at prices measured by the foreign currency, and the means of foreign consumers. If one should make a fictitious measure of price for his own family dealings higher than that of his neighbors', paying ten or fifty per cent more than they for all his purchases, and holding his surplus domestic products ten or fifty per cent above the market price, until compelled to sell from the necessity of the case, either to save perishable stock or to procure indispensable supplies, he would be justly considered a poor economist and a foolish trader. Yet, with superior soil for cultivation, specially adapted to the production of certain valuable commodities in universal demand, superior skill and hard work in his family, tasking the utmost strength of the willing members in peaceful industry, while other families are wasting time and labor in frivolity and wrangling, his family might save more than they spend, and accumulate considerable property in spite of his preposterous politico-domestic economy. This we believe to be a plain and proper illustration of the economy and condition of the United States in the management of business and the currency. Other nations get the advantage of us accordingly in the accumulation of capital.

We have repeatedly augmented the currency by simply running in debt, and have inflated the prices of grain and provisions and other exportable commodities above the shipping point, with a large surplus on hand beyond our domestic wants, even crippling our domestic consumption by the unnatural and extravagant prices. Farmers and dealers are encouraged and *accommodated* by the banks to hold overlarge stocks from year to year, for higher prices, checking reproduction, accumulating sour flour, with perishable commodities, in general perishing in the hands of holders; a great portion of the trading community meanwhile becoming irretrievably embarrassed, until, at length, shipments of specie force a curtailment of bank currency, throwing the hoarded stocks of merchandise upon a ruined market, and nearly all debtors into insolvency.

Among the later writers upon this subject, Professor Bowen, of Harvard University, adopts Adam Smith's theory, without even Adam Smith's qualification, and says: "Those who fear an excessive issue of convertible bank bills might as well apprehend that Lake Erie would overflow its banks and flood the surrounding country, because it is constantly receiving the surplus waters of the three upper lakes and of innumerable tributary streams." If the professor had taken his metaphor from the Mississippi River, he would have come nearer the truth. The periodical swelling of that mighty stream, with the devastating crevasse, illustrates the inflation of our currency, with the inevitable revulsion. But the professor limits his argument, with respect to inflation, to bank bills. They are but a portion of the bank debt which mingles with gold and silver in the currency, and the least important portion. The bills are but emanations from the inscribed credits called "deposits." The so-called deposits and balances due to banks are the more powerful and mischievous portions of the currency, because employed in all the heaviest operations of business. It is in them, or through them, that the fictitious currency is created, and through them the inflation and contraction take place. It is not, however, of the least importance what portion of the debt of the bank may be represented in notes or in book credits. The Bank of England originally issued notes for all her discounts. It is all the same, in effect, whether I hold a bank note in my pocket or the same sum in a bank credit; and the transfer in note or check is equally a transfer of my claim upon the bank, and equally an operation with currency. It is the balance at debit of the trader's cash account that comprises the currency he uses. The power of money upon prices, and, necessarily, the power of the currency upon the value of money, is exercised by this balance. It is this with which he buys and measures the price he can pay. In his mind, it is money, without distinction of its several parts, and it occupies precisely the channel of circulation that otherwise would be filled with money.

Why it is that the lessons of experience, the practical operations of business, are so little studied in reference to the currency, it is difficult to conceive. But so it is; the inflation of the currency, high prices and the high rate of interest that necessarily attend? the increase of debt which forms the staple of the debt currenr are uniformly hailed as evidences of national thrift and prospei until the moment of the explosion of the bubble; and that which is really a loss to the community is supposed to be a gain. We are never benefited by high prices from any cause originating among ourselves. Short crops or short supplies of our commodities among wealthy nations who are our customers, or inflated prices proceeding from an expanded currency among them, may be to our advantage, because we may then sell freely of our home products at high prices and large profits; but short crops or short supplies, and an expanded currency to produce high prices among ourselves, are precisely what we do not want; they lead in the direction of poverty and insolvency, not of wealth and prosperity, with infallible certainty.

Were it possible for us to possess but half as much money or currency as England, for example, in relation to circulating capital, obviously general prices here would be only one-half as great as in England. We would then manufacture cheaper than England, furnish cargoes at half the English cost, to all the world, realize double the profit, and sweep her commerce from the seas. Our imports would necessarily amount to double the sum of our exports. What then? Does anyone in his senses deplore the excess of his income over his expenditure? The *balance of trade,* that has occupied so extensively the thoughts of politicians, is a chimera. The *balance of profit* is in our favor only when our return cargoes exceed the outward in value; in other words, when our imports exceed our exports. And having supplied our home consumption and customers, all the value that we are induced to create in surplus products to supply a foreign customer, who returns an equivalent value, which would not be created but for his acquaintance and the opportunity of exchange, is manifestly a clear gain of national capital, to the full value of the amount returned, be it more or less.

Wealth is *value,* not *price.* It is a thing, and not a name. It consists of utilities, and not the name in money or currency that we exchange them by. Without a dime of money, all our gold and silver being wrought into ornaments or utensils, we should, it is true, be reduced to the inconvenience of direct barter, value for value, but we should be in possession of *value* the same as now—the same capital and the same wealth. Price would be abolished, the common measure of value would be unknown, but its absence would be merely a question of convenience, and nothing else. And as to a currency that is not money, it is unmingled evil.

With the present war on hand, and enormous government expenditure, it is of vast importance that the currency should be restricted to the lowest possible volume, because the more limited it is, the more we must produce and export advantageously of merchandise, the more we must import on money, the greater will be the supply of capital, the lower the rate of interest, the easier will government obtain the means to prosecute the war, and the less will be the amount and the oppression of the public debt. We should take no lesson from England upon this subject, except to avoid her preposterous policy of creating war loans, and the atrocious perpetual funding system which that policy inaugurated.

It is a ruinous policy for us to add to the pre-existing mixed currency the demand notes of the government. By this unwise policy the revolted States are defeating themselves. They are creating *price* and debt that they cannot pay. From this cause, and not from a deficiency of capital, it begins to be doubtful if they can much longer keep an army in the field. Let us not follow them in this wretched plan of financiering. Nevertheless, if we must have a debt currency, let it be the debt of the government, and not the debt of the banks. We can lend our capital on United States demand notes for government use, without taxation thereon; whereas, to lend it on bank notes or bank credits, kited into existence against government stock, is simply submitting to needless taxation on our own capital for the benefit of the banks. This is the absurd English system of taxing labor for the benefit of privileged classes, who lend only promises to pay. The people are the lenders of capital, and the interest is paid on government stock to the wrong men.

I propose to Congress, therefore, to tax the bank currency out of existence, and relieve the banks themselves from the operation of their present false system, which does not permit their loans to reach double the amount of their capital without forcing them to a suspension of payment; whereas, freed from the crippling effect of their debt currency, they would lend at least tenfold their capital, at a profit of one per cent per annum difference of interest, or ten per cent per annum in all, on their deposits, with ease and safety to themselves, and benefit to the government and the whole people. But this needs further explication, that must be postponed to a future opportunity.

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The Monetary Unit and Financial Economy*

Notwithstanding the numerous pages I have contributed to your magazine on the subject of political economy, I have never given you my ideal of the true system of national finance. Dealing with things as they are, and opposing the factitious principles and arrangements of a false economy, I have scarcely thought it worth while to present views that may be deemed abstractions, however desirable may be their attainment. But it is clear to my mind that an entire change in our system of currency is inaugurated by the necessity on the part of the Government of providing a circulating medium in obtaining a loan of capital from the people. Common sense at once discovers the sophistry of the old system by contrast with the new. The people see that the capital they are now lending without interest on Government notes, they have all along been lending on bank notes, not only without interest, but that they have been needlessly and very absurdly paying interest on their own capital thus loaned to bring the bank notes into being—a system which has compelled the sale of goods on credit and covered the traders of the country with embarrassment. In this way they have been under the necessity of lending capital when

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they have no capital to lend—when their normal and necessary condition is that of borrowers.

With this knowledge, and the manifest advantage of *cash* sales, consequent upon a pre-existing circulating medium in the place of so much bank debt, besides the saving of taxes needlessly imposed for the benefit of fundholders on so much public stock that would otherwise be created, the public will surely give to the bank debt currency system leave to withdraw. I consider it to be already virtually dead, requiring only an act of taxation to bury it beyond resurrection. Whatever good there is to follow will depend upon the aggregate truth and faithfulness to honest principle and real science in the ideas of the people. I wish, therefore, to present mine, however impracticable they may seem, as a contribution to the fund of general intelligence on which our future currency and financial economy must be founded.

It is not the proper business of traders in merchandise to lend capital. It is the business of banks and bankers to deal in loanable capital, and of traders generally to buy and sell goods, and borrow capital of banks and bankers when necessary or desirable. In this natural and proper way of doing business, the loans of the banks would be vastly increased, in being limited only by the amount of capital they could borrow. When we reflect on the great amount of merchandise sold on credit in this country, all of which is somebody's capital loaned and borrowed, we may form some conception of the vast business that would flow through the banks if they would give it freedom from the crippling operation of their debt currency in demand liabilities for debt against debt—for fiction against fiction.

My ideal of the true system of finance is that everything unreal, factitious, and difficult of comprehension, in respect to it, should be discarded. I would, therefore, discard the unstable dollar to begin with, and adopt the troy ounce of gold as the unit of price and value; for the dollar is almost a myth, it means everything and nothing, in common apprehension, and is really a mysterious thing to some intelligent minds. It is silver, of various weights and various degrees of purity; it is of gold, or it is of paper, according to the notions that happen to prevail in any country where it is adopted as a medium or instrument of exchange. Nobody knows where it came from, nor when it first appeared on the face of the earth. Its authentic written history dates back to the beginning of the sixteenth century, when it became known in Bohemia as an ounce of silver of a certain purity and accuracy of coinage, which made it a reliable equivalent and instrument of exchange. Now it has shrunk in that country to 14 dwts. and 6½ grs., alloyed one-fourth; it is the "thaler," worth about 70 cents by our gold measure. In Italy, it is the "talavo," weighing 18 dwts. and 22 grs., alloyed 40 per cent, worth about 71 ½ cents. In Spain, it weighs 17 dwts. and 8 grs., and would be worth here as bullion $1.06, payable in gold, and as a foreign coin it would fetch $1.09 or $1.10 for export to China. Our old silver dollar, coined prior to 1834, weighed 17 dwts. and 10 grs., and would now exchange as bullion for $l.O6½ of gold. Recently, our dollar was of gold, alloyed one-tenth, weighing 25.8 grs., worth 100 cents; to-day it is of paper, and the gold dollar is worth 156 or 157 cents. The legal paper dollar cannot be said to be worth anything—the worth it relates to being in our property, which the Government may take by taxation to pay it when necessary; it is not in the paper and in the property also, but we can borrow on the paper dollar 64 cents in gold. The passing of a paper dollar is merely borrowing capital on the credit of the promisor; it pays nothing. Thus we see the dollar is just about as uncertain a thing as can be contrived for an instrument of exchange; and the man who says it is always worth a hundred cents does not know what he is talking about. It is a staggering thing, thoroughly demoralized, that cheats one-half of the community, and more than nine-tenths of the traders, out of their just earnings. I would abolish it altogether.

I would have an established weight, a known reality, something plain to the commonest apprehension, as the unit of price and equivalent of other values. I would adopt the troy ounce of gold of the present standard purity, and coin the same in both a decimal and an octave division of numbers. There could be no mistake about this, and the government could make nothing else of it but an ounce of gold. It would put at rest the fallacy that government fixes the value of money by establishing the weight and purity of coin. Very few people comprehend that the act of the government in coining is simply an act of inspection, like determining the quality and weight of a barrel of flour, and that the value depends, not upon the stamp, but upon the supply and demand in the one case as in the other. More gold cheapens gold, as more flour cheapens flour, and it could scarce fail to be seen, if bankers put upon the markets promises to deliver ounces of gold when they have none to deliver, that the promises being accepted as gold must produce a factitious increase of currency and local depreciation of gold in the market, and infallibly a loss to the community, dealing in such promises, of their whole amount. We cannot teach this truth to unpracticed thinkers upon the subject, because of the mysterious character of the dollar. It is an unequal fraction of the troy ounce, liable to alteration in character and quantity by the government—everything by turns and nothing long—until people have come to consider it an artificial and temporary contrivance that anybody can make out of any sort of metal, or out of paper, as good as the best, with Governmental sanction.

An operation of this kind in wheat has recently been developed in Chicago, which illustrates, perfectly, the principle and effect of our fictitious currency. The warehousemen, seeing that their warehouses are replenished as fast as they are emptied, put upon the market warehouse certificates of wheat for delivery on demand, on their own account, when there was no such wheat; but they thought they could—and they generally could—meet the certificates without danger of defalcation. The consequence was that there was constantly more wheat offered for sale in Chicago than had any existence.

A rudimental lesson in political economy was here plainly and practically taught. The owners of the wheat found its market price depressed to correspond with the apparent increase of quantity, and that they were competing against their own capital in the hands of the warehousemen for the sale of their own wheat. By the law of value, in supply and demand, they were losing, in the degradation of the value of wheat, as much as the fictitious certificates amounted to, and having acuteness enough to discover this in their special traffic, they procured the passage and enforcement of a law which put a stop to the damaging and abnormal business. Why had they not—why has not every man of common sense—acuteness enough to discover the same damaging principle in our fictitious currency? The owners of money, or of capital invested in the currency, are competitors against their own capital, precisely in the same way, and with the same result. Their warehousemen are the banks who issue on their own account certificates and credits for dollars of money, when there is no such money belonging either to themselves or others. The whole currency is depreciated by the imaginary dollars thus circulating in the market; but the depreciation is in *value,* not in *price,* because the dollar is the unit and measure of price. The dollars of money lose so much of their exchange value, or purchasing power, precisely like the bushels of wheat, by the offering in market of money that has no existence.

This simple truth is obscured by the mysterious character of the dollar; but as every person comprehends that an ounce of gold, like an ounce of anything else, may rise or fall in value, the adoption of the ounce as the unit of price would put an end to the sophistication by which the country is plundered of its capital in dealing with other countries, in paying a fictitious price of our own creation for imported commodities, while our exportable commodities must be sold to meet the foreign demand, in accordance with the measure of price of foreign markets, or remain at home. And it would abolish the iniquity by which individuals are plunged into bankruptcy and ruin, in making obligations to the banks and to each other to deliver dollars, or their equivalent in capital, never created, and which, consequently, can have no existence.

With the ounce for our unit in place of the dollar, the nomenclature of the inferior coins should be preseved of dime, cent, and mill. The following is a schedule of the proposed coins, with their equivalent values under our present gold dollar system:

1 ounce	of gold—	10 dimes, or	100 cents, or	1,000 mills—	equal to	$18.60
½ “	“	5 “	50 “	500 “	“	9.30
¼ “	“	2½ “	25 “	250 “	“	4.65
⅛ “	“	1¼ “	12½ “	125 “	“	2.3250
1 dime	“		10 “	100 “	“	1.86
½ “	“		5 “	50 “	“	0.93
¼ “	“		2½ “	25 “	“	0.3650
1 cent of silver				10 “	“	0.1860
½ “	“			5 “	“	0.0930
¼ “	“			2½ “	“	0.0465
1 mill of nickel					“	0.0186
½ “	“				“	0.0093

The fractions of the dime, and, indeed, the dime itself, should be coined in the ring form, to avoid the diminutive size of the disk that would be unavoidable otherwise, in coins of such small weights. It would be better, for the sake of uniformity, to coin the fractions of the dime of gold than silver, which latter would be appropriated to the cent and its fractions, even if there should be some inconvenience in the diminutive size of the gold coins. Besides, gold is our staple product, rather than silver, and the greater the use we make of it the higher is its local value, and the more value we must obtain for it in international exchanges. The schedule, altogether, comprises precisely the same number of pieces as our existing coins. I think there would be no difficulty in expanding the diameter of the ring to avoid the inconvenience of diminutive size in any of the coins, and if the ounce, with its fractions, were coined solid, while the dime, with its fractions, were coined in a ring, the arrangement would be doubtless as convenient and as perfect as any that could be devised. Another, and perhaps weightier, argument in favor of the most extensive use of gold is that it is our standard, and the closer we adhere to it in the coinage the more accurate are our values.

No one accustomed to the use of a decimal currency doubts its superiority to a system of vulgar fractions and duodecimals, like that of Great Britain. But no system is perfect that does not admit of a ready division of the unit into eight parts, without remainder, to measure price by halves, quarters, and eighths, to correspond with the natural division of quantities. We do not buy the tenth of a bushel, or of a pound, or of a yard, of anything; we buy square quantities, and have square prices to pay for them; we need coins in square numbers to harmonize with this natural division of things. The currency of France is so inconvenient in this respect that French writers have proposed to abandon it for an octave system to measure price by eighths. But the diminutive nature of the French unit—the franc—is a still greater objection to it, because of the long array of figures required to express any considerable aggregate of prices. Our dollar is, in this respect, too small. The ounce, as here proposed, obviates this objection, while it provides a combination of decimal and octave numbers perfect for all purposes relating to the currency.

Troy weight is the most ancient of the weights used in Great Britain. It is the standard weight of the kingdom, and of course is referred to for the verification of all other weights. It has, from the earliest records of English commerce and science, been employed for the compounding of medicines, for the weighing of gold and silver and jewels, and for all experiments in chemistry and natural philosophy. It is, therefore, perfectly familiar to commerce and science, and while we employ it in weighing the precious metals the troy ounce seems to be the most natural as well as convenient weight for the unit of our money. It would be an effectual aid to the government, in recovering its constitutional control of the currency of the nation, thus to change the nomenclature and the weight of the coins. We could the more readily distinguish the currency furnished by the government from that created by the banks—accept the former, and discard the latter.

We should have, for a period, the trifling inconvenience of using the affix, *new,* for the new coins below the denomination of the ounce. We should say, the *new* dime, the *new* cent, and the *new* mill, until the old pieces were recoined or passed out of circulation; but this inconvenience would be no greater than we have already experienced in getting rid of the old silver dollars, and the old copper cents, which differ essentially in their value from the new ones. The process of changing the old currency to the new would be a very simple matter, which any schoolboy would at once comprehend. It would require merely to divide the sum of dollars and cents by the number of 18.6; the quotient would be ounces and decimals of the ounce.

In the next place, I would recover the capital, that is, the money, belonging to our currency; an amount equal to about one-tenth the sum of our circulating capital, or one twenty-fifth part of the whole property of the nation, which is now deficient, by gradually, if not rapidly, converting the paper into money; because it would be a gain of business, as well as of individual and national wealth, at every step. Our people must produce commodities to exchange for gold and silver to recover this capital, or they must produce the gold or silver itself. In either case, they acquire so much capital individually, and, at the same time, augment by so much the wealth of the nation; for the wealth of the nation is but the wealth of individuals.

If you owe me and I owe you $1,000, our assets and liabilities are so far alike, and so far neither of us is worth anything; a re-exchange of obligations annihilates the debt. This is the principle of our debt currency, whether created by the banks or the government; there is nothing in it, and when the kiting is no longer agreeable or possible to either or both parties, a set-off annihilates so much currency and so much *price* along with it. The element of the debt currency of the government is unassessed taxation; individuals owe the government, and government owes individuals an equal sum, the adjustment of which leaves just nothing at all. There is no wealth, therefore, in the government debt; the wealth is in the property of the people that is bound to pay it; we cannot double the wealth by adding the debt to the capital or property that is bound for it. Obviously, were all the debt of the government and the people instantly annihilated it would make no difference in the aggregate wealth of the nation. But if you or I owe $1,000 of gold, it is so much capital that the government may borrow on its Treasury notes, over and above anything it can have if the gold is not here, and a debt currency occupies its place; it is so much individual and national capital and wealth. I say, therefore, I would recover this capital to the currency and to the nation which is now repelled by the demand notes and credits of the banks, and by the notes of the government. I would have the money flow into the national treasury, or currency bureau, naturally, and either retire the notes, as convenient, by paying out coin instead of the notes, or I would retain coin and bullion in reserve, ounce for ounce, against the outstanding notes, and thus convert them into certificates of deposit. It is the most preposterous nonsense in the world to suppose that money and the promise to pay it can both be kept in circulation together and made available as capital, and that we can thus eat our cake and have it too. If we circulate the promise, without reserving the money against it, we must part with the money and lose so much capital, absolutely, by the depreciation of the value of money to correspond with the factitious increase of the currency. If we circulate the money, or the certificate of deposit with the money in reserve against it, we possess so much the more capital or working wealth for the prosecution of war or the arts of peace.

Nothing can be more certain than the fact that there is never a deficiency of currency in this country when we are exporting gold and silver, and the heavy exports of these metals now taking place from New York and direct from California, with the large and increasing premium on gold, demonstrate a depreciation of its value, from a plethora of debt currency, which can only be accounted for by extreme ignorance of the first principles of political economy on the part of those who manage the fiscal concerns of the nation.

To check, for the present, this ruinous course of debt, depreciation, and loss of capital, the government should authorize the chartered banks and individual bankers, who hold the purse strings of the nation, to borrow capital already invested in their bank notes and pre-existing "deposits" by the people, as well as the capital invested in the demand notes of the government. This fund would be paid into the banks by its lenders, in the pre-existing circulating medium, and loaned to the government by the banks without augmenting the currency or depreciating the value of money at all. The same funds, having been distributed by the disbursements of the government, would return to the banks in the deposits of the people in a very few days or weeks, on the average, when they would be loaned again; and they might thus be returned and reloaned fifty times without expanding the currency or doing any harm to the capital of the country.

There is an abundance of capital for this purpose in the hands of the people of the loyal States; it is increasing faster than it is being consumed; the consumption of the war only stimulates production so much the more in excess of the demand. Two wars like the present would not diminish the aggregate capital of the Northern and Western States a fraction, since our power of production exceeds any demand that can be brought upon it. Never since the nation was born has its general business been so active and profitable and its aggregate wealth increasing so fast as now.

But the government is embarrassing itself and the nation by creating currency in the fictitious credits of banks, instead of borrowing capital loaned on the precreated currency of these institutions and on its own precreated notes. When loanable capital was going a-begging at 4 per cent per annum in 1861, and the Secretary of the Treasury was authorized to pay 7‰ per cent, with the currency reduced below the specie measure, the exchanges of the world consequently in our favor, and specie flowing into the country from all directions, he should have borrowed capital through their agency, and paid them a fair profit for it; instead of which he and they *kited* into existence a fictitious credit of $150,000,000, increasing their demand liabilities from $427,000,000 to about $577,000,000 against $87,000,000 of coin which they held, and thus created $150,000,000, or thereabouts, of fictitious currency. Of course this depreciated our money, turned the foreign exchanges against the country, brought upon the banks a demand for specie which they could not meet, because they and all the other debtors of the country were being called upon to pay a spurious price of $150,000,000, for which no equivalent value was ever created. When it comes to *paying* debt, instead of *kiting* it, a *value* must be produced and tendered—the product of capital and labor; the spurious price created by a debt currency declines with the decline of the volume of currency that makes it, and cannot be paid. An operation of this nature was taking effect in the fall of 1861. Money was being demanded to be taken out of the country for the $150,000,000 of spurious currency, because enough of it had been put in circulation to exceed the natural money measure of the currency, to which extent it could not be paid; and the only alternative was a general suspension of money payments.

When gold and silver are mixed, and circulated as currency, there is a depreciation of their value, but there is a perfect compensation in the increase of capital. It is the same with wheat; an increase of quantity reduces its value, but it is an increase of capital and wealth, notwithstanding. The miner who produces gold, although the production reduces the value of gold, improves his fortune and increases the capital of the nation precisely as much as the miner who produces copper, or lead, or iron to an equivalent value; any surplus will be exported in exchange for other capital in either case. But he who produces a debt currency depreciates the value of gold and silver and expels so much capital in dead loss to the nation. There is no compensation, because there is no equivalent augmentation of capital to exchange for other capital. The wealth of the nation consists of *value,* not of *price.* It is well said by John Stuart Mill, "If values remain the same, what becomes of price is immaterial, since the remuneration of producers does not depend upon how much money, **but** upon how much of consumable articles they obtain for their goods."

But to return to my ideal of the true system of financial economy. To recover the capital belonging to our currency, I would tax the debt currency of the banks out of existence, and restrain the paper issues of the government, constantly, within the sum necessary to keep the foreign exchanges in favor of the United States, until the reserves should equal the circulating notes—a matter perfectly easy of accomplishment whenever the government chooses to control the currency. The criterion of the natural money measure of our national currency is the nominal premium on sterling exchange of 9½ per cent, because London is the great clearinghouse or center of the exchanges of the commercial world. It is the purest folly in the world to permit this nominal premium to be exceeded while there is a dollar of paper or of bank balance of currency in existence, and the specie exported in consequence, as it is being exported now, is so much national capital thrown away.

I would have the government issue no new notes payable to bearer, and none whatever of a less denomination than *two ounces* —equal to $37.20 of our present currency—for general circulation, that the people may become accustomed to the use of *money,* and familiar with the truth that all the gold and silver we get is capital, which comes by the employment of labor, to the increase of business and of public and private wealth; while paper currency can be made by the ream or the bushel, without augmenting the business or the wealth of the nation a single fraction. It is only creating a false price and destroying so much paper in the production of moonshine. But I would have the government institute a system of post-office orders, by which, in exchange for coin, all persons could be accommodated with small orders for any fractional part of an ounce or of two ounces, payable to order, drawn by one postmaster on another in any part of the United States, charging some small fee to cover the cost of transporting gold to maintain this system of money orders. This would be necessary to accommodate the poorer classes with a safe and convenient method of remittance, and all classes with the means of paying small bills at a distance, such as newspaper subscriptions and the like. But all the larger operations in exchange should be left to bankers—the government drawing only to collect its balances and suit its own convenience. Let the government provide the currency, and bank and bankers attend to legitimate banking and the general business of dealing in exchange.

The circulating notes, without exception, should be drawn to order, that they may be endorsed from hand to hand when required, and, like the notes of the Bank of England, they should never be reissued. These provisions are for security against counterfeiting. Two ounces would be a sufficient magnitude of value to induce careful inspection, and place the notes in the hands of traders and bankers who have more or less skill as well as experience in the examination of currency notes; and their constant renewal at the office of issue would place them under the frequent observation of the issuers and of the experts of the office. Between the retailer and the consumer, as it is now in England, there should be no circulating medium but coin.

The rapid progress in the arts, it is apparent to everybody, is not confined to honest purposes, and the art of counterfeiting circulating notes is quite as forward as any other. I have seen bank notes, spurious beyond question, and struck from a counterfeit plate, that, although accustomed to careful scrutiny of bank notes, I could not distinguish from the genuine, nor could anyone but the engraver of the genuine plate, without whose aid the bank would never have known which note to repudiate and which to pay. An almost boundless field of operation for counterfeiters is now opened in the immense issue of Treasury demand notes; and the recent act provides an issue of small denominations to circulate among the poor and ignorant, and generally between retailer and consumer, where no paper currency should ever be employed. There is no point of redemption—no place where the notes are necessarily subject to the scrutiny of an expert, and the signatures are engraved, not written. Under these circumstances, can anyone doubt that counterfeits will be abundant, and pass in the interior, if not in the large cities, as well as the genuine? It appears to me there is great danger that the Government, by and by, will not know its own issue; that our currency will be disorganized, and the whole financial system of the country demoralized and broken down by the unfortunate policy of relying upon and expanding paper currency issues for the conduct of the war.

If it be objected that coin can also be counterfeited, I reply that it is difficult to put together the conditions that will prevent the detection of a piece of counterfeit money. There are, I think, only two metals that will resist acids and combine to produce the specific gravity of gold, i.e., platina and silver, the former being heavier and the latter lighter than gold. But platina is very difficult to work in coining. 'It is so impossible that no considerable portion of it can be melted by the strongest heats of our furnaces," and it is the most costly metal, next to gold, that could be mingled in coin, being five or six times as valuable as silver and nearly half as valuable as gold. The amalgam of platina and silver cannot, I think, be colored to resemble gold; it could be used for loading the coin, that is, the amalgam could be plated with gold; but the ring, in any event, would be very different from that of a piece of gold coin, and as the production would be troublesome and costly, I think the danger of counterfeiting with that admixture is not very imminent, although the most so, undoubtedly, of any, because of its quality of resisting acids and the possibly exact similitude in specific gravity. As to any other admixture, the general use of a specie currency would soon furnish every trade with experience and skill enough to detect the spurious coin. There is a well-known instrument—a small balance—so contrived as to furnish the three measures necessary to determine the specific gravity of every piece of coin with much accuracy, namely, the weight, the circumference, and the thickness; so that with the application of acids also, there are more means of detecting false coin than false notes, and such as any proper degree of scrutiny would render effectual.

The charge of the currency, including the mint, should be given to a board of currency, with a bureau entirely separate from the Treasury, with offices of issue and redemption in most or all of the chief cities, and these should be loan offices also, where public loans may be negotiated and the money collected, and where the principal and interest would be paid. The currency notes should be paid only at the office where issued, and where the necessary proportion of coin would be kept in reserve; otherwise their circulation, I think, could not easily be maintained, if at all, especially at the West; because New York being the creditor city, the notes would command a premium at the West, and rush to the New York office continually for redemption. The gold, it seems to me, would be in one part of the country and the notes in another, or the government would be put to unnecessary trouble and cost in transporting gold to provide for this tendency or condition of the exchanges. But the chief advantage of the separation from the Treasury would be the division of labor and of risk. The business of attending to the details of the currency, in addition to managing the great fiscal concerns of the nation, is too much for one man; and if the Secretary of the Treasury should happen to be a rebel, or a thief (an occurrence that has befallen us already), immense disaster would be likely to result from his command of the treasure and entire financial resources of the government. I would have him deal with the bureau of currency as with a national bank, and restricted to the command of his own balances provided according to law. To have the bullion reserves all massed in one deposit at a central office would be too great a temptation to disorder, especially since rebellion has weakened the bonds of loyalty in the nation, and given us one unprincipled Secretary of the Treasury as an example which other bad men might follow.

In conclusion, I have to say that, although objecting to its financial policy, I am not an opponent of the existing administration. On the contrary, I desire to do everything in my power to promote the success of the Government, especially in the prosecution of the present righteous war—the result of a rebellion as causeless as it is wicked. Nor do I entertain any doubt of the purity of intention or patriotism of the present Secretary of the National Treasury. I only wish that his political economy may be as sound and intelligent as his politics. I believe that the plan herein proposed would tend effectually to check the unnatural and unnecessary increase of the public debt, which, in a false price, created by a false measure, is rolling up frightfully in obligations to be paid in real value; an unequal and improper charge upon the industry of the country, for the benefit of capitalists and the makers of spurious currency. And, finally, I believe that this plan, faithfully executed, would restore to the nation, through its constituted authorities, the normal power and command, which it does not now possess, of its industry and capital in war or peace for all future time.

22

Congress and the Currency*

In his report to Congress, December 9, 1861, Secretary Chase says:—"It is too clear to be reasonably disputed that Congress, under its constitutional powers to lay taxes, to regulate commerce, and to regulate the value of coin, possesses ample authority to control the credit circulation which enters so largely into the transactions of commerce and affects in so many ways the value of coin."

The nation is under obligations to Mr. Chase for his clear and unqualified assertion of the authority of Congress in this matter. There can be no doubt of the authority, but it has needed authoritative assertion; it is self-evident; without it there can be no adequate sovereignty in the government; no way of commanding or of protecting the resources of the nation. A currency of debt made by corporations, the creatures of State legislation, who make the more profit the more they issue, will infallibly cause the mixed currency to exceed the natural volume at which money maintains its normal value. It will strip the nation of coin by depreciating its value and making it cheaper than merchandise to the exporter, and thus control the general imports and exports of merchandise in spite of the government. It will determine whether money shall be imported or exported; whether commerce shall be active or depressed; whether men shall pay their debts or be plunged into insolvency; and defeat the very purposes of society

* Reprinted from *Hunt's Merchants' Magazine and Commercial Review,* LI (July, 1864), 30-35.

and government by impairing the obligation of contracts, rendering property insecure, and individuals poor and wretched. It becomes, in spite of the indisputable constitutional powers of Congress, the disturber of commerce and of the value of money by destroying all regulation, obstructing the operation of the natural laws of trade, expelling capital in pure loss, and crippling the power of the government to provide for the common defence and general welfare.

But the constitutional powers here rightly claimed by Secretary Chase have no necessary connection with, or relation to, banking; they grant no authority to the national government to enter into the banking business, or to authorize individuals to enter into it; nor do they grant any authority to interfere with banking under State law. They have nothing to do with banking, but everything to do with currency-making; because currency-making interferes with the regulation of commerce, with the value of money, and with the chief ends of national government. Unquestionably they give to Congress full control of the currency throughout the United States. This is the point to which the attention of Congress should be earnestly directed.

When the obvious distinction between banking and currency-making shall be comprehended in Congress, there will be an end of the prattle about the interference of the national government with State rights in the matter of banking, for it is not banking that is interfered with in controlling the national currency. No matter how or when the business of creating currency was assumed by banks, it is not banking, but a function of national sovereignty with which the States have no rightful or constitutional concern whatever. There is, therefore, no necessary collision between the State and national governments in reference to it, and Congress has as plain a right to suppress it as to suppress the levying of duties on imports by the State authorities.

Banking is dealing in money and loanable capital. Currency-making is producing money, and credits to pass for money, whether inscribed in book account, and circulated by checks, or certified and circulated in bank or government notes. We are not now considering the right or expediency on the part of the government of circulating its debt as currency, which may well be doubted. Everything belonging to a running cash account is alike currency, embracing, of course, every item debited to the cash account of every trader, bank, banker, or government. Under an exclusively metallic or money currency it is obvious that every such item would be money, or covered dollar for dollar by money on deposit, and circulated in certificates of deposit or in checks.* But the term "deposit," applied to a mere bank credit payable on demand, without money in reserve against it, is, in plain Saxon, a *lie.* The French term "account current," applied to the bank credit, is more honest and more appropriate, although a fiction still so far as it exceeds the money in bank, and is subject to check at sight.

The State governments may very properly authorize corporate banking to any extent they please; but no constitutional power remains with them to authorize the creation of currency in any form whatever; and there is no more reason why bankers should issue fictitious credits, whether in handbooks under the name of "deposit," or in notes, than that an insurance office, or a trust company, or pawnbroker, or any individual trader should do the same thing. Whenever a bank discounts a bill or security that forms the fund out of which it is itself discounted, the transaction is not banking but currency-making; and it is a cheat, for there is no such value in existence as such currency pretends to be or to represent. It is simply a fictitious credit, and it makes not a particle of difference in principle or effect whether the credit thus created is circulated in checks, or notes, or in money itself. For instance, suppose A obtains a credit of this character from his bank for $10,000; he has then $10,000 of theoretical "money" more than he had before at the debit of his cash account, and the bank holds so much the more of theoretical "deposit." If he draws the whole sum in specie, the net liabilities of the bank contain the augmentation, its assets and liabilities being reduced alike—and, unless the specie is exported, the volume of national currency also contains

* "The term *money,* with respect to the civilized commercial world, means gold and silver; with respect to any particular nation, it means that nation's current coin."—Robert Torrens, *Essay on the Production of Wealth* (London, 1821), p. 305.

the augmentation of $10,000; it will appear probably on deposit in other banks. If this check is answered in bank notes, the effect will be the same; the deposit will appear in other banks; or, if he merely passes his check to another bank, it goes to somebody's credit and there as an additional deposit. In any event but that of exporting the coin the national currency is augmented; and if the bank currency be convertible at par, the local value of money is degraded $10,000 by the fictitious deposit, whether it appear in the accounts of banks or in the hands of the people or the government. Or, if it be convertible at a discount, the net sum that can be obtained for it in gold is the measure of the degradation of the value of money.

This is the whole explanation of the general suspension of money payments in December, 1861. The government had issued $20,000,000 of "greenbacks," and obtained a fictitious credit at the banks for $150,000,000, less the bank discount. No precreated currency, and, consequently, no invested capital was borrowed or loaned for any portion of this in advance of its issue, as in the case of the five-twenty loan negotiated through Jay, Cook & Co., and other private bankers. It was purely a creation of currency, on which those who received it subsequently loaned their capital to the government, not to the banks. To the extent of the bank credit the government loaned the banks as much as the banks loaned the government, which was nothing at all; it was simply an exchange of promises to pay between the negotiating parties. The banks neither borrowed nor loaned any capital or value in this transaction; but the people subsequently loaned their capital to the government, by giving credit to the bank promises, while the banks held the security in government bonds. As to the greenbacks, of course the loan was made directly to the government by those who gave value in exchange for them. In round numbers, $170,000,000 went to the debit of the government Treasurer's cash account in these two transactions, and $150,000,000 was added to the bank "deposits." Is anyone so dull as to suppose there was a dime of money or of capital in the country afterwards more than before by reason of these currency operations? Yet there was $170,000,000 more currency than before, to increase prices, check the exports, and stimulate the imports of merchandise; in other words, to depreciate the value of money, make it cheaper than merchandise, and compel its shipment in the place of merchandise. Enough of it had got into general circulation, and taken effect upon general prices, to accomplish this untoward result in December, 1861.

That the banks paid specie for the drafts of Secretary Chase on this fictitious credit, made no difference to them or to him—added nothing to and deducted nothing from their debt currency, because it reduced their assets and liabilities alike, leaving their demand liabilities in excess of their specie reserves precisely the same as if they had answered his checks in bank notes, or in checks on other banks. Nor did it make the slightest difference in the volume of national currency, which, being inflated by the "greenbacks" and bank credit above the normal proportion of money to capital, could not maintain its convertibility and remain in the country. The foreign exchanges necessarily became adverse; the excess of currency was demanded in money for shipment, which the banks could not pay, and they broke, as everyone who thoroughly understood the transaction knew they would when they took the loan upon that false principle.

It is, therefore, futile for Congress to legislate against bank notes; they must repress the fictitious credit, which is the prime evil, or original sin; the bank note being, like the check, a mere emanation from the so-called "deposit," and an instrument of its circulation.

There is a self-delusion among bank officers in relation to this matter; they fancy that they discount on their deposits and circulation in all cases. This is never true when the deposits or circulation and the loan are increased by the same operation. It is true only when one person deposits currency and another borrows it; then the discount is made on deposits of currency after the manner of the Savings Banks; and whatever unconstitutional power may have been exercised, whatever mischief may have been done by creating currency before, this transaction does no additional harm, because it does not increase the volume or depreciate the value of the currency. It adds nothing to pre-existing prices; it is then *banking,* not currency-making; it is dealing in loanable capital, the capital having been loaned upon the precreated currency of banks or government, or invested in coin at the price formed by the mixed currency of debt and money, and transferred thereby to and from the bank. Then the bill is not the fund out of which it is itself discounted, and the business is like that of the Rothschild's, or Baring's, or Brown's, or Peabody, or other legitimate bankers, in which immense estates have been accumulated, without injury to the currency or capital of any nation, or of anybody. Corporate banking must be confined to this legitimate business to be honest in principle or useful to the community, and, thus conducted, it would be found in the long run, and on the average, more profitable to its proprietors than the present system of currency-making, which is continually crippled in its loans by its abnormal demand liabilities, and by insolvency of its own making.

Capital may be transferred from one owner to another through debt perfectly well, without money; but this does not make capital of the debt. Debt may be organized into currency by government or the banks, and serve as a common medium of exchange, but this does not make it money, nor supply the missing capital of which it occupies the place; because it lacks the power of payment —the element of value and wealth. You only change your debtor in accepting for an individual obligation the obligation of the government or a bank, and are as much unpaid as you were before. In either case you lend your capital on an obligation, which is a very different thing from being in possession of money that you own and no one owes. A debt currency possesses only the power to borrow capital, less the wealth in money it displaces, and individuals and the nation are so much the poorer for its presence; there is so much the less capital in the country for individual and for general use in production or trade, consumption or enjoyment—so much the less means for prosecuting war or the arts of peace.

One thousand bushels of wheat may be sold on credit at one dollar per bushel five times over, and produce five thousand dollars of promissory notes, all of which may be discounted in bank and converted into so-called "deposits," amounting in round numbers to five thousand dollars more. This will make ten thousand dollars of debt erected upon one thousand dollars of value, but in all this debt there is not a dime of capital; the capital being in the wheat and nowhere else. In the schedule of national wealth there would be found in all these figures but one thousand dollars of capital or value; the ten thousand dollars of debt would be nowhere. Bankers thus run in debt by making a discount, and then fancy that debt to be money or capital in a "deposit," on which they can discount again. It is to be regretted that our language furnishes only a cant word to express the nature of such transactions, namely, *kiting*—simply an exchange of memorandums of immature contracts—paper statements of contracts unfulfilled.

But the spurious currency thus created, creates price as if it were money; it creates price without value. As it furnishes no value to export in exchange for an equivalent value in the imports, the value necessarily exported in money to make room for it in the currency is sent abroad in pure loss; it is an exhaustion of so much precreated capital, leaving only paper memorandums of debt in its place. Whereas, if the increase of currency were in money, whether mined or imported, it would furnish a value to export in exchange for an equivalent value in the imports, and instead of being a loss it would be a gain of national wealth; precisely like an increase of wheat or corn or beef or any other commodity the excess of which is exported in exchange for other capital that is in less supply and greater demand, and, therefore, of higher value.

It is the difference of international value alone which determines whether money shall be exported or imported. California exports money because it is cheap from an excess of supply, precisely as Illinois exports wheat; it continually exceeds the natural volume of currency required by her circulating capital; and California grows rich by producing and exporting money, as Illinois grows rich by producing and exporting wheat, and exchanging it for other capital more needed, and consequently of higher local value. The so-called "balance of trade" must be always against California and Australia while they produce money in excess of the equivalent value required by their capital for its circulating medium, and their general prices must be always high enough to attract imports to dispose of their surplus money. By the same rule the "balance of trade" in wheat is against Illinois, and by the same rule the "balance of trade" in money is against any state or nation while the volume of its currency is convertible at par, or at a discount, in excess of the normal money measure, in spite of tariffs, or prohibitory laws of every description. A tariff, such as Congress has just enacted, raising the rate of duties fifty per cent, will check the exports and imports of merchandise alike; it will simply cripple commerce, leaving the export demand for gold precisely as before, depending upon the volume of currency convertible in relation to our circulating capital. It is the simplest rule in the world that sellers must be buyers to the same extent. If the imports exceed the exports in value, the balance is obviously profit. If, on the other hand, the exports exceed the imports, the balance is loss, gold and silver being included either way. Just so far as we cease to be buyers we must cease to be producers and sellers, for men will not produce what they can neither sell nor use; and just so far we limit our capital and cheapen money.

It follows from these considerations that the difference to the wealth of the nation between producing a currency of money and a currency of debt is double the convertible amount of the debt currency, like the difference to a merchant between making or losing one thousand dollars, which is two thousand dollars in his stock account. Adam Smith's theory of the economy of the precious metals by the use of a currency of debt in their stead, which is adopted by nearly every European economist, including John Stuart Mill, is the most remarkable and the most mischievous heresy that ever found an advocate in any science.

The fallacy consists in the supposition that the normal value of the gold and silver displaced by the debt currency, or "paper money," is returned in the imports; whereas, they are exported only by reason of the abnormal predepreciation of their value in the paper increase and adulteration of the currency. The value returned, therefore, is not the natural value like that of money, from its natural increase, but the degraded value produced or caused by the spurious currency—the returns being in price and not in value. The practical effect is to raise the price of imports but not of exports. We cannot, with our spurious currency, make a price for other nations to pay, except for commodities of which we have virtually the monopoly of production; and, with regard to them, every unnatural rise of price is a damage to ourselves, because it limits consumption and accordingly production.

Wealth consists of value, not of price—of utilities and quantities at low prices, not of scarcity at high prices. The lower the prices by the increase of supplies the greater is the national wealth. Temporarily an increase of currency raises the price of exportable products and causes the export of gold in their place; but when their supply permanently exceeds the quantity required for home consumption their price must fall to meet the demand and price of foreign markets; and then the price of imports rises still higher to absorb the fictitious currency and price that is no longer employed by the exportable commodities held above the shipping price. As our exports fall in price, unless by reason of an increase of quantity, the imports must rise to fill up the measure of the currency.

Every merchant is familiar with the manner in which the holders of flour, grain and provisions frequently keep their commodities above the shipping price by obtaining funds through discounts at bank. These discounts cost the owners of the commodities interest for the benefit of bank stockholders, while they create the currency, with its false price that stops the sale of the commodities, turning the foreign exchanges against the country, and the export demand upon gold in pure loss.

At this moment—May, 1864—our cheap currency is stimulating imports in immense quantities at enormous *real* prices in gold value, while we hold a large excess of grain, provisions and other exportable commodities unsold, and are shipping gold at the rate of one to four millions of dollars per week. It is all being paid away in the prices created by the fictitious currency for the benefit of foreign producers. It will be observed that this money goes directly into the hands of the producers of our imports to raise their prices against ourselves, while the effect it has upon our exports beyond our own borders is inappreciable. The nation might as well plunge so much money and capital into the middle of the Atlantic Ocean.

23

National Finance with Legal Tender*

PROFESSOR GOLD WIN SMITH,
LONDON, ENGLAND.

Sir:—I have read in the newspapers of New York a letter of yours on the Finances of the United States, copied from the London *Daily News*, that I trust will attract the attention of our people and Government, coming, as it does, from one so conspicuous in science and so friendly to our nation as yourself. Without doubt you are correct in your conviction that the financial administration is the weak point in this country. It was the weak point prior to the rebellion, and has been ever since the birth of the nation. Some of us have long been aware of this, and have taken every convenient opportunity to impress the truth upon government and people; but truth in political economy is of unaccountably slow growth everywhere; and here, especially, it is thoroughly opposed and kept down by an unreasoning and unconquerable prejudice in favor of what is absurdly called "paper money," as if the promise to pay a thing could be the thing itself. You think the root of the mischief here is the Legal Tender Act. Pardon me for differing with you on this point. It seems to me the Legal Tender Act is neither root nor trunk, but a mere offshoot

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of a false principle, having its root or source on your side of the water, in the pet bank of your country, the Bank of England. I mean no disrespect to you or your opinions in this statement, but I wish to place the responsibility for the false system, under which not only the finances of this country but of the commercial world are suffering, where I think it belongs. The establishment of that Bank was the opening of an era of debt in the world that is needless, endless, and boundless, and our nation is but fulfilling the financial destiny assigned to it by that institution.

It was, as you are aware, the beginning of the public debt of Great Britain; a debt that was paid, paradoxical as it may appear, in the capital of the nation when the same was contracted. No other capital but that of Great Britain paid the cost of the war in which it was consumed, and the delivery of the capital was its payment. But the sophistical scheme of false banking re-established the debt for the benefit of mere currency-makers, men who loaned no capital to the Government at all, but added so much *price* to the *value* which the Government received and agreed to pay for their currency obligations. It is a scheme that transmutes from money into debt all the exchanges it touches, and piles upon commercial communities a huge mass of needless individual indebtedness, over and above the sum of the false currency it manufactures. Value pays for value, and service for service, but a debt currency pays for nothing; it merely postpones the payment needlessly that with a currency of money would be made at once.

No one is paid for his goods or his services in a bank note or check; one simply gives credit to the promise of a bank instead of the promise of some other debtor, and gets his pay by parting with the promise for value received. It is a false principle that discards capital, which is the object of exchange in money, its element of payment and of wealth, to substitute therefor mere debt as the medium of exchange, which, in the dual nature of money, is precisely that element which of itself makes no payment and is no wealth. A medium of exchange may be made of promises or of paper or iron or copper tokens, but so far as it lacks intrinsic value it is not the object of exchange, and so far it is poverty in the place of wealth.

The false principle is the formation of a "deposit" in pretended banking by discounting a debt out of itself; creating so much additional debt and making it currency. The credit given by a bank to its customer, which is not the transfer of a prior credit, but which increases the loan and the "deposits" in one and the same transaction, is no deposit, and no banking; there is no value received; it is currency-making out of debt, and, to the extent of its convertibility into coin, it depreciates the value of money, and expels an equal sum of capital from the community that originates it in pure loss.

None but a wealthy or thriving community ever did, or *ever* can maintain this costly and wasteful system of currency-making. Strangely enough, the industry, wealth, and general prosperity which support the system are supposed to be its results; but it has never been introduced in any of our new States or frontier settlements, where capital was scarce, without crippling the energy and industry of the people, and bringing about in the end almost universal bankruptcy. True, the credits it has created have enabled individuals to purchase goods at inflated prices on credit from the Atlantic cities, which they could not pay for, and this, by a sort of involuntary robbery, has transferred some capital from the older cities to the interior States and outlying settlements; but this has been but a wretched pittance of compensation for the suspension of business, check of production, confusion and violation of contracts, broken fortunes and broken hearts, that have followed its operations with the certainty of death. It would be instructive to trace its history in the experience of nearly all our Western States, but especially of Illinois and Arkansas.

Banking is a very proper, honest, and useful business; it is dealing in money and exchange, and in loanable capital. There cannot be too much of it because it will regulate itself. It is borrowing of those who have capital to lend, and lending to those who have capital to borrow. But currency-making is another thing; it is not a proper, necessary, or useful business; it is unnecessary, and as unprofitable to any community as counterfeiting, because it creates *price* without *value,* and the false price must be paid in precreated value for imports, while it checks the exports of merchandise, forcing money abroad instead, until the excess of the supplies of merchandise at length compels the holders to yield to the price and demand of foreign markets. Beyond our own borders it does not raise the price of our exportable commodities a dime, while its irresistible effect is to raise the price of imports, stimulate increased supplies, and, as I have said, drive our money abroad in dead loss, because of its degraded value.

Now, the immediate cause of the suspension of money payments, and of the present ridiculous condition of our currency, with the expansion of debt under false prices, was, and is, the operation of this false principle following the negotiation of the so-called $7\frac{3}{40}$ loan with the corporate banks in the autumn of 1861.

The approach of the rebellion, evident in 1860, with the repudiation of Southern debts, which broke the merchants of the North, and the open rupture in the attack on Fort Sumter, in April, 1861, had so destroyed general confidence in credits and in trade, and reduced the available assets of the banks and their liabilities, that the currency of the loyal States fell below the natural money measure. This appreciated the value of money and depreciated the relative value of merchandise, until money became more valuable than merchandise. The foreign exchanges were turned thereby largely in favor of this country, so that we gained probably $80,000,000 of gold and silver in the year 1861. The banks were thus placed in a condition, not merely of ease as to their liabilities, but of anxiety to lend their credit and maintain their dividends. They had what they call money to lend, although those of the loyal States, to whom alone my argument applies, owed, payable on demand in gold and silver, the sum of $420,-000,000, with probably $80,000,000 on hand to pay it with.

No official statement of the condition of the banks having been made at Washington, since January, 1861, it is not easy to determine what portion of the large excess of specie imported and mined here in that year went into their coffers, as applicable to the payment of their liabilities; but the general distrust caused private hoarding among those who were unfamiliar with banks, and, among the friends and customers of those institutions, the transfer of large sums from general to special deposits, which amount to the same thing, so it is not probable that the specie reserves available for their demand liabilities of $420,000,000 exceeded $80,000,000, to which should be added, say $80,000,000 of coin outside of the banks and free of hoards, making the whole circulating medium to consist of a debt currency of $340,000,000, and money $160,000,000 ($500,000,000), this sum of five hundred millions being less than belonged to our capital in real money, as is evident from the state of the exchanges, with the rapid influx of specie and the rapid efflux of merchandise in exchange. I need not inform you that money goes where it has the most exchange value, with no more reference to the so-called "balance of trade" than iron, or wheat, or any other exchangeable commodity.

Because of this reduction of currency and excess of unemployed capital, the rent of capital was low, and loanable capital and bank debt were begging customers at 3 to 4 per cent per annum. In this condition of financial affairs the government came into the market for a loan of $150,000,000, offering 7‰ per cent interest per annum. Can you doubt that the banks could have borrowed this sum for the government at a much lower rate than this? But to have done so would have produced less profit to them immediately; they were for grasping the whole 7‰ per cent at once, and the want of scientific knowledge, with the indolence of those having charge of the negotiation on the part of the government, threw the whole matter into the hands of the managers of the chartered banks upon their own terms. Accordingly, without borrowing a dime of capital, they undertook to lend the government one hundred and fifty millions of dollars when they had not one hundred and fifty cents to do it with.

As I have said, they already owed a demand debt of $420,000,000, with only $80,000,000 of money on hand to pay it. They were the custodians of this money, not its owners. It belonged to their prior creditors, whose forbearance was due to the favorable condition of the foreign exchanges, and consequent absence of any export demand for money. Creditors for nearly five times its amount were authorized to check upon it at sight when the banks authorized the government Treasurer to check upon it nearly twice over again, besides; and they maintained that they were not increasing the currency because they paid the Treasurer's checks in gold. You will see the fallacy of this statement in the fact that their demand liabilities, which constitute the bank currency, were raised from $420,000,000 to $570,000,000, against the same sum of money in reserve as before.

The government bonds thus granted to the banks formed the fund out of which they were themselves discounted; debt was increased by debt, not by capital transferred, and the "deposits" thus created, say in round numbers $150,000,000, to the credit of the government Treasurer, was so much currency over and above all the pre-existing currency, money, capital, and wealth of the country; in a word, it was so much fiction. It matters not in what form or by what instrument a bank deposit circulates, whether in note or check or money itself, it forms part of the fund offered like money in exchange against the whole circulating capital of the country, which determines the relative value of money and of other capital.

Doubtless some portion of the loan was retaken by capitalists who checked upon their own pre-existing deposits without increasing the currency, but more of it was taken by persons who obtained bank discounts for the purpose; besides, the government had issued directly from the Treasury $20,000,000 of its own notes—greenbacks—so I am quite sure that the sum of $150,000,000 was added to the currency of the country without capital by the financial operations of the banks and the government in the summer and autumn of 1861. No one can be so dull as to suppose there was any more capital in the country because of this currency-making.

The money demanded as the equivalent for circulating the capital of the country is never a fixed amount; it must vary with the aggregate of capital offered in exchange against it; an approximate estimate is all that we can obtain from the best statistics; but when sterling exchange remains for any considerable period at $4.8666 to the pound, i.e., 9½ per cent premium on the Spanish dollar valuation of $4.4444, which nominal premium is the true par, if we can then know the amount of the bank liabilities, we can determine the natural volume of the currency with considerable accuracy.

I suppose the natural volume of the currency of the loyal States to have been something more than $500,000,000 in the fall of 1861, but if we assume $500,000,000 to have been the true amount, the $150,000,000 then added depreciated the value of money here 23 per cent, equal to a premium on the gold dollar of 30 per cent. To have maintained the equation of international values it would have been necessary for us to export $150,000,000 of gold and silver. As soon, therefore, as that fictitious credit to the government began to circulate and act upon prices, our exports of merchandise were checked and our imports stimulated; of course a foreign demand for specie took place, which it was obvious the banks could not meet, and they broke, as every intelligent bullionist knew they would when they undertook the government loan upon this false principle, for they were being called upon to pay $150,000,000 of *value* that nobody ever possessed.

Now this principle is the system of the Bank of England, and whenever that bank aids or influences the creation of credits, used as money, in excess of the true money measure, it either breaks to save the debtors of the kingdom, or the debtors break to save it, and you have in England the "commercial crisis."

One may read Adam Smith's account of that bank, Francis' history, and nearly every other history, without discovering this principle in its formation; in other words, without discovering that it was formed by making a spurious currency, and without capital, except perhaps £72,000 which may or may not have been expended when the bank went into operation. A simple balance sheet presented in Lawson's history of banking will show the truth of this statement to any tyro in accounts beyond a peradventure.

Two years after its establishment the bank failed, the real cause of the failure being plausibly concealed by the recoinage of the silver of the kingdom to which it was attributed, no one caring to notice that the bank notes had expelled an equal amount of coin, which was sent to Flanders, leaving so much additional debt to pay and so much less money to pay it with—so much embarrassment in the place of so much wealth, a double power of bankruptcy to which the advocates of this system are persistently blind. One who has nothing is poor, but one who has nothing and is in debt besides is doubly poor, which latter condition is the currency principle of the Bank of England. Such a currency cannot exist without plundering individuals of so much capital in the payment of the fictitious price it creates for imports, and leaving them in debt an equal amount besides.

Here is the balance sheet that I find in Lawson's history. It was presented at the bar of the House of Commons, December, 1696, by order of the House, the bank being then under suspension of payment, as I have just said, two years after its establishment:

DEBTOR	£.	s.	d.
To sundry persons for sealed bills standing out . .	893,800	0	0
To sundry persons on notes for running cash	764,196	10	6
To moneys borrowed in Holland	300,000	0	0
To interest due on bank bills standing out............	17,876	0	0
To balance	125,315	2	11
Total..	2,101,187	13	5
CREDITOR			
By tallies in several parliamentary funds.................	1,784,576	16	5
By one-half year's deficit of fund of £100,000 per annum	50,000	0	0
By mortgages, pawns, and securities..........................	230,946	15	2
By cash..	35,664	1	10
Total	2,101,187	13	5

The youngest clerk who ever balanced a set of books will see at a glance that the bank owed the whole sum of its assets except the balance of £125,315 2s. lid. This covered its whole capital and contingent fund. For two years it had done an extremely profitable business, paying eight per cent per annum dividends. It is very possible that the whole £72,000 paid in was expended in procuring the charter, the granting of which was strongly opposed in Parliament, where bribery, it is said, was not unknown, so that it began without a penny of capital, and after paying dividends had accumulated the balance above mentioned. Yet the bank boasted of having loaned to the government and paid into the exchequer, before the time stipulated in the charter, a capital of £1,200,000. He must possess a necromantic skill in accounts who can discover any such capital in these figures. Why this balance sheet is not produced by Francis in his apparently exhaustive history of the Bank of England, and why he should say that *twenty-five per cent* of the subscription was paid down, leaving it to be understood that the payment was on account of the £1,200,000 of capital, it is difficult to conceive. The subscribers, however, were to advance to the government £1,500,000, of which £300,000 was to be returned, having nothing to do with the capital of the institution, and this without doubt is the "moneys borrowed in Holland" according to the balance sheet. Francis may have mistaken it for a payment on account of the capital.

Michael Godfrey, the first Deputy-Governor, sets this matter of capital at rest. Writing in 1695, he says:

> Some find fault with the bank because they have not taken in the whole £1,200,000 which was subscribed, for they have called in but £72,000, which is more than they now have occasion for. But, however, they have paid into the exchequer the whole £1,200,000 before the time appointed by act of Parliament, and the less money they have taken in to do it with so much the more they have served the public, for the rest is left to circulate in trade, to be lent on land, or otherwise disposed of for the nation's service.

This is a precious piece of sophistry which sets at naught the teaching of the nursery, that one cannot eat his cake and have it too. Its acceptance as truth then and now is a remarkable evidence of the depth of credulity among intelligent men. The truth is the bank had no capital, unless the £72,000 was unexpended after procuring the charter. The government loaned the bank as much as the bank loaned the government, which was nothing at all. The bank handed into the exchequer its own notes in exchange for tallies—mere memorandums of unfulfilled contracts—paper and notched faggots exchanged against each other. The scheme was a manufacture of currency virtually out of nothing, that is, without value received. The effect upon prices was exactly the same as if so much gold had been produced and thrown upon the market, but here was no gold or other value produced, and the price it created was therefore paid out of pre-existing gold and silver, the precreated money capital of the nation.

The bank borrowed no capital and loaned no capital; it simply loaned memorandums of indebtedness on which the people subsequently loaned their capital to the government, and paid interest, or £100,000 annuity, on their own capital thus loaned for the benefit of the Bank of England. The people, not the bank, loaned the capital to the government, but the bank held all the securities and took all the profits.

Adam Smith supposed that an excess of convertible paper currency could not be circulated, because the excess would at once return upon its issuers for redemption. This is one of his errors, and the more surprising because of the experience of France with Law's banking sixty years before the "Wealth of Nations" was written. For four years the inflation continued there, until general prices advanced fourfold, indicating a fourfold expansion of the currency, and yet the currency did not return upon the bank for redemption to any inconvenient extent until a few weeks before its doors were closed in hopeless insolvency, although money was rushing out of the country all the time. It is a question of confidence on the part of the people; if they prefer the paper to money, and do not call upon the bank for payment, there is no difference in effect between an inconvertible and a so-called convertible currency, and, as we see in the example of France, it is easily possible to press upon a credulous community as much convertible as an intelligent people will bear of an inconvertible currency. We have not yet, at any time, with our inconvertible currency reached the degree of inflation that existed in France with their convertible currency in 1719-20, after three to four years' operation of Law's, and the Royal Bank, which failed in 1720.

The philosophic action of this spurious currency is to degrade the value of the whole volume of money or currency to the extent of its increase. The whole convertible sum of this increase and degradation then runs away, and brings returns in *price,* not in *value.* In other words, the excess of currency thus thrown off is wholly absorbed in the false price of imports, because the exports will command only the price determined by the demand measured by the currency of foreign countries. Adam Smith overlooked this inevitable result of local inflation, and supposed that the specie expelled by what he calls "paper money" was sent abroad at its normal value, and necessarily commanded an equivalent value in the imports, but it is never so. The reason of the shipment of money is because it is cheaper than merchandise to the exporter, and when it is cheapened naturally by an excess of production, the excess is a clear addition to the wealth of the country in the capital it commands in the imports, precisely like an excess of wheat, or beef, or copper, or any other form of capital that can only be exported when it is cheapened by supply to an exportable value. But when money is cheapened to an exportable value without any excess of production, in other words, by making "paper money," the gold and silver sent abroad is taken from precreated capital, and might as well be plunged into the sea so far as any benefit accrues to the nation that exports the money, simply because it is sold and exported at the degraded, and not the natural, value. You will observe it is the whole volume of the currency that is degraded in value, and only the amount of the degradation that is expelled, so that the whole amount of specie thus exported is lost in the abnormal price of imports.

Now the people of the United States are thorough dupes of the Bank of England; they believe in "paper money" more than they believe in democracy, and so favor privileged legislation in the matter of currency. It makes no difference to them who or what issues the note; if it is handsomely engraved and "convertible," they circulate it in preference to gold, having no conception that they are lending their capital upon it for nothing, and, in the case of bank notes and bank credits, paying interest on their own capital thus loaned for the benefit of bank stockholders into the bargain. Virtually every bank note, or bank debt on account, payable on demand, is a legal tender; the man who should refuse to accept it would be ostracized—sent to Coventry; he could do no business unless the note were discredited by some competent authority. It is a forced loan even from myself and others who see through the iniquity and falsehood of the thing; we cannot help ourselves; we must accept and circulate bank notes, pay interest on our own capital, and deal with the banks upon their own terms, or do nothing.

The notes issued directly by the national Treasury—greenbacks that form two-thirds of the legal tender—have the advantage of costing no interest to the public, but the public know nothing and care nothing for the advantage. There is not intelligence enough upon the subject in Congress to see the saving to the industrious classes, and the National Bank Act, which is a copy essentially of the principle of the Bank of England, imposes a needless cost of interest upon the public for the currency it authorizes. Public writers and professors are busy here writing down the "greenbacks," that the banks may have the profit of the circulation in their place. It is doubtful if they know who pays it.

There is an important advantage in all the national currency, whether furnished directly by the Treasury or through National Banks, as compared with that furnished by the State Banks, namely this: the national currency being public debt, directly or indirectly, forms a fund with which goods are bought and sold as for cash, relieving a vast amount of embarrassment in individual indebtedness. Whereas the State Bank currency requires to be fed with individual indebtedness. Goods must be sold on credit to make notes for the banks to discount into currency, and their system accordingly forces nearly the whole traffic of the country through debt and credit. But this again is unheeded; people care nothing about it.

The one idea here is that without a paper currency we should have no money and do no business. It is a common remark that there is not gold and silver enough in the world to do the business of the United States; and the notion prevails that "paper money" is capital, so that the more we have of it the more business we have. Accordingly it has come to be considered a sort of patriotic duty for everyone to encourage the utmost extension and circulation of bank and government notes, and of bank credits. If there be such a thing as blind ignorance here upon any subject, it is the most dense upon this subject of "paper money"; and if there be an unpopular man in the nation it is the bullionist. Thus we drive away capital, the only employer of industry, and substitute debt, the embarrassment of capital and industry, in its place. But we work hard and cover our foolish losses with a surplus still.

Under these circumstances you may readily conceive that the Legal Tender Act is a matter of small practical importance. Theoretically it is an act in violation of contracts; it is ex post facto, unconstitutional, and the essence of injustice; but its repeal would make no practical difference in our currency, or in the condition of the national finances. Even in satisfaction of a judgment and execution no court or individual declines to accept a check or current bank notes. Legal tender is seldom thought of, and never demanded except in bank settlements at the clearing-house, and the repeal of the act could tend only to a further inflation of the currency by removing all check upon bank discounts and currency-making. There is a possible ultimate restraint upon the making of fictitious credits by banks, in the legal tender requirement, but as the legal tenders amount to three times as much as the specie by which the currency was formerly regulated, we must expect three times as much currency as under the specie requirement before the restraint can operate. Still it is something, and better perhaps than no restraint at all.

The Bank of England system enlists the strongest motive to human exertion—self-interest—in the business of damaging the capital of the country by expanding the currency and degrading the value of money. The more mischief of this sort they can do, the greater is the profit of the corporators. Instead of furnishing capital to the people, as the people generally suppose, it is using their capital and charging them interest upon it, their money capital meanwhile being forced abroad in pure loss to them for the benefit of foreign producers. But our people like it, and exhibit a democratic spirit of independence in ignoring the science which teaches the folly of it.

Asia gets the benefit of this folly of America and Europe, and the precious metals are driven to the East nearly as fast as they are taken from the bowels of the earth, because there they escape the contact and depreciation of "paper money." If America and Europe obtained an equivalent value in return, the benefit would be mutual, but it is not so.

Thankful for your friendship to my country, and for your earnest support of the democratic principle in its present terrible conflict with barbarism here, I am glad of the opportunity to contribute something to your knowledge of our institutions, and to explain to you the evil nature of our financial system, which is one of the two greatest evils and antagonisms that the democratic principle has yet to deal with in this country. The other is the tariff system of "protective" duties on imports, which by checking imports checks our exports to the same extent, and cripples the commerce and the industry that the energy and enterprise of our people would otherwise develop into much additional and enduring wealth. Both are creatures of class or privileged legislation that are out of place in the institutions of the United States.

But we are a young nation. England is old. And we follow England with a weak subservience that our self-styled democrats are too ignorant to see, or too conceited to acknowledge. We did once set up for ourselves in politics in establishing a republican government, and did well; but we take no step in political economy until England pioneers and points out the road. From her we received our great antidemocratic institutions of slavery, protective tariff, and privileged banking for the manufacture of a currency of debt. From her we have learned to hate slavery and abolish it, and we expect to follow her lead already taken in establishing free trade. But until she moves to protect her capital against the encroachments of "paper money," we shall doubtless continue as blind as we are now, and know nothing of the difference in currency between capital and debt, and we shall go on sinking our capital by putting debt into its place.

If I could induce you to lend your pen and your influence to persuade your government to change its great financial institution from a *debt-factory* to an honest bank, with the simple privilege of every honest banker to borrow and lend capital without limit, it would be something to repay me for much careful thought upon this subject, and I should feel that I had taken a step to benefit England and my own country, and the commercial world. With the highest regard, permit me to subscribe myself, your friend,

CHARLES H. CARROLL.

West Newton, Mass., February, 1865.

24

Of the Balance of Trade*

In our zeal to maintain the principle of human freedom, we must not overlook important errors which are being extensively advocated, and bid fair to become permanently a part of the government policy. One of these is the doctrine of the "balance of trade" teaching that an excess in the currency value of exports over imports is an aggregate of commercial balances of account against foreign countries; while an excess of imports over exports is an aggregate of commercial balances in favor of foreign countries. The former, it is argued, should be increased, and the latter prevented as much as possible by legislation. Hence we find a high tariff maintained with the view of checking imports.

Yet, if this method of calculating increasing wealth is reliable for a nation, why is it not equally reliable for an individual? If the nation gets rich by parting with more value than it receives, why should not the individual get rich whose expenditure exceeds his income? The philosophy of the balance of trade, as set forth by its advocates, comes to this ridiculous conclusion, that a cargo exported, costing $100,000 according to the customhouse records, which returns only $80,000 in the imports, gives a national gain of $20,000. What does the merchant owner think about it? By the same rule, were the cargo sunk in the ocean, it being an excess of exports altogether, it must be reckoned as $100,000 clear profit to the country!

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One of the advocates of this doctrine states that he finds the balance of trade in favor of the United States in the excess of exports for a series of years to be as follows:

	Total Exports	Total Imports	Excess of Exports
1854-55	$275,156,846	$261,468,520	$13,688,326
1855-56	326,964,908	314,639,942	12,324,966
1856-57	302,960,682	360,890,141	2,070,541
1857-58	324,644,421	282,613,150	42,031,271
1858-59	356,789,462	338,768,130	18,021,332
1859-60	400,122,296	362,163,941	37,958,355
1860-61	410,856,818	352,075,535	58,881,283
1861-62	229,790,280	205,819,823	23,970,457
1862-63	331,809,459	252,187,587	79,621,872
Total excess of exports			$288,568,403

After giving this table, the writer encourages the country with the consideration that "the scale of excess of exports established in 1854-55, rises gradually and steadily to 1863. Its average for the last two years, the worst of the war, is $51,800,000 each year. Its average for the two years preceding the war, 1858-59 and 1859-60, was $28,000,000 each year only." This statement includes the mutual exchanges of gold. And, being desirous to make the largest admissible exhibit of the excess of exports, he repudiates the idea that the paper prices of exports affect the result, and furthermore maintains that the export commerce is habitually returned short; the inference being that if strict accuracy were obtained, the "favorable balance of trade" would be considerably more than the above figures.

To all such reasoners the question should be put, when, where and how is this continually extending balance of trade to be collected and discharged. Is it sufficient for the nation to have it constantly accumulating, and never get anything for it?

In England the account and the argument are directly the other way. For example, the British imports in 1854 amounted to £152,380,053; exports £115,821,092, the excess of imports being £36,567,961. In 1860 the imports were £233,626,830; exports £191,-

205,421; excess of imports £42,421,418. In 1863 the imports were £248,980,942; exports £146,602,409; excess of imports £102,278,-533, while in 1864 the imports were £269,246,000, and the exports £160,809,698, making an excess of £108,809,698 of imports. Thus in these four years there is an excess of imports amounting to about twenty hundred millions of dollars; or about five times the total of the exports in any one year from the United States to all the world.

Now can anyone be so mentally blind as to suppose that Great Britain is running in debt to other countries at this rate, or that she is pursuing her foreign commerce at a prodigious loss? A more probable argument might seem to be that Great Britain imports raw material to a great amount, augments its value by her industry, exports the manufactured article, and finds her profit in the returns.

Thus we see that this whole matter of the balance of trade is very much of a delusion, as it is generally presented and understood. Its significance is in the international value of money and in restraints upon commerce. Cheap money means high prices. Duties on imports operate in the same direction, and the nation afflicted with these disabilities works to a disadvantage, except in the case of money cheapened by mining, which, being capital, is exported (when in natural excess) in exchange for other capital, and is thus a source of national wealth like everything else produced cheap for foreign commerce, that is to say, in excess of the home demand. California and Australia produce money cheap because of their natural advantages for its production; and as cheap capital they supply their wants with the excess of money as our Western States supply their wants with their cheap capital in the excess of wheat. The great affair is to produce cheap capital of the most desirable and exchangeable character. It matters little whether it be money or merchandise.

The community possessing the most capital in relation to population will have the cheapest capital, and the lowest general prices, unless their value is disorganized by a false currency, or artificial arrangement and restrictions of trade, and they will have the advantages of all the rest of the world in foreign commerce. With lower general prices they will produce cheaper than other communities; their foreign adventures will cost less, and bring greater profits; and these profits will appear in an excess of imports. This is the true balance of trade; it is no debt, but a balance of profits; an accumulation of capital in foreign trade.

England has this "balance of trade" in her favor; hence her continued excess of imports, and this excess will continue to increase under the free trade system and limited currency; while under our high tariff exclusive system and expanded currency we shall have the "balance of trade" the wrong way in excess of exports, giving England the advantage in international commerce continually.

A relative of the writer travelling in Europe at this time says he has purchased four suits of clothes for ninety dollars in London which would have cost him two hundred dollars in New York or Boston, as he took particular pains to ascertain the prices here before he left home. This, allowing 50 per cent for the premium on gold, is obtaining a value of one hundred dollars by our gold measure, for sixty-six and $^{60}/_{oo}$ dollars in England. Suppose this to be the average rate at which the necessaries and conveniences of life can be obtained in England, as compared with the United States, then it is not merely possible but probable, that a cargo for export may be obtained in England for sixty-seven thousand dollars that would return the value of one hundred thousand dollars; yielding thirty-three thousand dollars profit in the excess of imports over exports; while a cargo of the same relative value here would cost one hundred thousand dollars in gold, and return simply its cost. Hence England would make a profit of thirty-three per cent in foreign trade where the United States would make nothing at all. Yet if the customhouse records even exhibit an excess of exports, it does not follow that there is any absolute loss to this country in the business, since we export overplus products only, and whatever we obtain for them, more or less, is in a national point of view clear gain. That is to say, we support ourselves, pay all our expenses of living and of production, and have these surplus products left. They are of no value except for export, and the returns they bring us are therefore national accumulation and profit.

An explication will make this point clear, and show the fallacy of this doctrine of the balance of trade. Let us suppose that by an expansion of currency through banking, or government paper issues, we make general prices here fifty per cent higher than they are in England; it would follow that the same quantity of labor and capital which would produce a barrel of flour in this country for six dollars would produce the same value in broadcloth, say a yard, in England for four dollars; in other words there would be this difference in prices for the same value in the respective countries of all commodities. Then suppose England sends us an invoice of 1,000 yards of broadcloth which is entered in our customhouse records at the aggregate price of $4,000, and, being sold here under our inflation so as to produce the net sum of $6,000 we return an invoice of 1,000 barrels of flour at the aggregate price of $6,000; where and what is the balance of trade? There is no such thing. The 1,000 barrels of English broadcloth costs the United States 1,000 barrels of flour, and the 1,000 barrels of United States flour costs England 1,000 yards of broadcloth; neither more nor less. The account is closed. England owes nothing for the difference, because values are exchanged, not prices, and this difference of $2,000 is mere price, the result of an artificial depreciation of the value of money in this country. The two nations gain equally by the exchange, since surplus products are supplied to each other of equal value. Money, being the thing tampered with by adulteration, remains untouched in this transaction, as between the two parties to the exchange, and has no more to do with the balance of trade than an equal value of beef, or corn, or wine, which remains untouched in either country.

But suppose, what is very sure to happen, that England takes $6,000 of gold instead of 1,000 barrels of flour for her broadcloth; then she takes our artificially depreciated commodity, and gets $6,000 of money for a real money value in broadcloth of $4,000, which we raise in price to $6,000 by adulterating our currency. She thus gains $2,000 of *value* that we lose by our own folly. This is a balance of trade that is better missed than found. Its advocates, however, call it national gain. I know what I say when I call it a dead loss; we might as well plunge two thousand dollars of gold into the sea.

Unpracticed thinkers find some difficulty in comprehending that the dollar is not a fixed value. Make it of gold, or make it a promise to pay gold, interchangeable with gold, and men, of whose intelligence better things should be expected fail to discover that an increase of supply depreciates its exchange value, precisely as every other instrument or object of commerce is depreciated in value. The dollar being the currency unit, the depreciation of its value exhibits itself only in the rise of general prices, and more dollars must be given in exchange for other values than before. When we add dollars of debt to our currency, interchangeable with dollars of gold, until six have no more purchasing power than four possessed before, it is inevitable that foreigners will take our dollars and leave our flour, until it gluts the home market insupportably, or its production is reduced to correspond with the demand. Thus we throw away capital and stop an equal amount of production by the same suicidal act—a double loss, like the difference to a merchant between making $2,000 and losing $2,000 which is $4,000 in his stock account.

Here an objector may say that with an open commerce gold cannot remain one-third cheaper in one country than in another, which is the same thing as saying that general prices cannot remain one-half or 50 per cent higher. On this point, what is supposed to be scientific teaching differs from the fact of experience, and, as science is simply experience classified, the theory must give way where it is contradicted by the well-observed fact. The fact is that under the operation of a currency of debt, which can be made to suit the interest of its producers, general prices can remain 50 per cent higher in one country than in another, or in all others, for an indefinite period, sometimes for several years, mainly because most of the values of every country are not objects of international exchange, but in a great degree because the makers of such a currency protect themselves by bond and security against its effects. They lend no value, no capital, but promises which create price without value, and throw upon their debtor the obligation to furnish the value and capital to pay the false price and meet such promises. Generally the currency-maker is protected and paid, but the value which is put into his hands to enable him to redeem his obligation he never loaned; it is robbing Peter to pay Paul, and Peter fails. A price that is not a value may be *kited* in the exchanges of domestic commerce for years, but when its ultimate payment in value is demanded, somebody must fail, for a value cannot be paid that never existed. It is, as I have on another occasion remarked, like circulating promises to deliver several Kohinoor diamonds, there being but one in existence; the promises may circulate so long as the issues are protected from an absolute demand for payment; but the one diamond being demanded and sent out of the country because its value is greater abroad than where the spurious promises circulate and cheapen it, the several promises for which there is no diamond to respond must be discharged by insolvency. Whether one diamond or millions of them, one dollar or millions of them, or anything else, form the basis of fictitious promises, a currency so constructed must plunder those who become bound with endorsers to save the issuers harmless. But while the issuers are saved, the currency can be maintained so as to inflate prices not merely 50 per cent but even 400 per cent beyond the natural money value, and yet under specie payment, as the experience of France with Law's banking and Mississippi scheme clearly shows.

Charles Mackay, in his historical sketch of the Mississippi scheme says:

> The looms of the country worked with unusual activity to supply rich laces, silks, broadcloths, and velvets, which being paid for in abundant paper increased in price fourfold. Provisions shared the general advance; bread, meat, and vegetables were sold at prices greater than had ever before been known, while the wages of labor rose in exactly the same proportion. The artisan who formerly gained fifteen sous per diem now gained sixty.

This fourfold rise of general prices was nothing but a fall of three-fourths in the value of money, and the cheapened commodity, money, rushed out as fast as foreigners could pour other capital into France to exchange for it. Edicts of the Government, the most despotic, and persecution the most odious, were powerless to prevent this. Plate and expensive jewelry were secretly sent away to England and Holland, and ludicrous devices were adopted to escape the vigilance of the Government.

Vermalet, a jobber who sniffed the coming storm, procured gold and silver coin to the amount of nearly a million of livres, which he packed in a farmer's cart, and covered over with cow dung; he then disguised himself in a dirty smock frock, or blouse, and drove his precious load into Belgium. From thence he soon found means to transport it to Amsterdam.

Notwithstanding every effort to the contrary the precious metals continued to be conveyed to England and Holland. The little coin that was left in the country was carefully treasured or hidden, until the operations of trade could no longer be carried on.

Law then obtained an edict forbidding the use of specie altogether, which destroyed the credit of the bank paper irrevocably, and drove the country to the very brink of revolution. The illusion created by his system of banking, of which the Mississippi scheme was but an offshoot, lasted four years—1716 to 1720—when the iniquitous contrivance crumbled into ruin, destroying not traders only, but the fortunes of many of the wealthiest and best families of France.

No one having a knowledge of commerce, to say nothing of political economy, will deny that cost of production is an essential element of market value in every commodity, and also that the currency and demand of the consumer finally determines its selling price over and above the cost of production, and the effect of the high price he pays, if convertible into value, is to enhance the price and value of imports in the market of production. In every way and without exception the result of employing a paper or debt currency is to benefit the foreign to the damage of the home market. Thus France, under Law's currency scheme, became the dearest market to sell in in the world.

The surplus products of every commercial nation must be sold at such rates as foreigners will pay, so that the producers of such products get no advantage from the paper inflation at home. Generally nations without mines of the precious metals, and without a paper currency, pay for their imports directly in their own products without difficulty, and without exporting gold and silver which they receive in their returns; and if we possessed statistics of the foreign commerce of France during the eventful four years of Law's experiment, I have no doubt we should find that her home products would have paid for all her imports, and did so in fact, if the imports had been reckoned at the natural money value, so that the money which made up the "balance of trade" in the excess of exports was completely thrown away. The kingdom would have been stripped of the precious metals at that time, virtually for nothing, but for the habit of hoarding among the people induced by a long-continued distrust of the government.

If what has been said is correct, then a protective tariff, which is with many the panacea for all the ills of commerce, and especially for what is thought to be an adverse balance of trade, is an evil. Of course, the object and the operation of the tariff is to raise the price of both foreign and domestic products to consumers, so that certain individuals may be enabled to direct the industry of the country into unnatural channels and supply the home market with commodities directly, that can be supplied cheaper indirectly through foreign commerce. And this, it is contended, by checking imports, will save our gold and silver coin and bring about the desired "balance of trade" in an excess of exports. That, with a debt currency, it tends to a nominal excess of exports there would seem to be no doubt, for the same reason that cheap money induces high prices, which cripple foreign commerce and change the export demand from merchandise to money. I repeat that while a debt currency circulates in the country, the money included in the excess of exports is thrown into the lap of other nations in payment of a false price for their products to our utter loss. The tariff promotes this loss by indirection, by raising our home prices and preventing profit in foreign trade, which would exhibit itself as it does in England in an excess of imports.

Has the tariff policy which has been pursued with rigor, but with vexatious irregularity, ever since the close of the War of 1812 saved to the nation the precious metals imported and mined here since that date? The answer to this question is to be found in the fact that not more than $200,000,000 probably remain in the country outside of the arts and hoards.

25

Price with and without Value*

I am glad of the reappearance of your old contributor, Richard Sulley, in the pages of the Merchants' Magazine. In former times I have been indebted to him for good ideas in political economy, and I find much to approve in his article in the May issue, just received, which is courteous in criticism of the article on the Balance of Trade contributed by me to the February number. I think I shall be able to convince him of the correctness of the principle to which he objects, that money cheapened by mining, being capital, is profitably exported, when in natural excess, in exchange for other capital; and is thus a source of national wealth, like everything else cheaply produced for foreign commerce—that is to say, over and above the home demand. I ought to have said it *is* national wealth, as well as the source of it. Money is a simple commodity governed by the same law of value and exchange as all other commodities and all other capital.

In the present stage of political economy there is an unaccountable tendency among thinkers to look beyond the facts experience has established (which constitute true science) into the regions of speculation and obscurity for truth that lies at our feet. It seems to be given over, at present, to metaphysical abstractions and scholastic subtilties that appall practical minds, and render the science of little or no use in the conduct of government or of the business of life. By this sort of treatment two points of great

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national inexplicitness have been most thoroughly *obfuscated* namely, *money* and *value;* and Mr. Sulley, I think, has not altogether escaped the occult influence of such teaching. He says:—

The opinion that money (gold and silver) is capital, and that we get value for it when it is exported in the usual course of trade, is not peculiar to Mr. Carroll, although it has been incidentally combatted in the pages of the *Merchants' Magazine.* Nevertheless, all the claim it has to be considered capital arises from its powers of saving labor by facilitating exchanges; but paper money, where it *has* value, is just as good as gold; and the only reason why gold is preferred for exportation is because its value is intrinsic, and therefore universal, while that of paper money is only imputed, and therefore local.

This argument is founded upon the abstraction that money is merely a medium of exchange, and everything professing the quality of a medium of exchange is money: hence paper, stamped or issued by government, or by corporations, is money. On this theory overvalued tokens are money and wealth, because money is wealth, and the Spartans were as rich with their iron currency as if they had earned and possessed its weight in gold. But money is no such abstraction. It is not merely a medium of exchange, but also an object of exchange, the product of labor and capital, from which it derives its attribute of value, and by reason of which it is the equivalent of other products of labor and capital. Without this equivalence there is no money, and with it a thing is not money, unless it is acknowledged and accepted as such in absolute payment of intrinsic value, by the commercial world.

Money was discovered or invented in the unknown past: its use and its meaning were established before the records of history, and the common sense of mankind determines what is money to-day with more accuracy than the most profound disquisitions of the most learned political economists. Indeed these learned men acknowledge the corruption of the word, and concede the argument to common sense, when they use the term *real money.* What is not real money? Why, spurious money—no money at all. And such is a currency of debt, which expels money, and is an incubus upon the capital of the country. It pays nothing, but requires continually to be paid in money or in other capital, and when this requirement becomes urgent, its issuers assume the position of preferred creditors, take possession of the money and floating capital of the public, to the extent of their requirement, and plunge other debtors into insolvency and ruin. There is nothing of this nature in money.

"But," Mr. Sulley says, "paper money where it *has* value is just as good as gold." Let me assure him there is no place where it *has* value. The element of value does not exist in a paper currency, nor in any other description of debt whatever. The value to which all debt relates is the property appropriated to pay it. There cannot be two values embracing one and the same thing; one in an estate and another in the deed of conveyance which certifies its ownership, or in the instrument of mortgage upon it. The term "paper money" is a ridiculous sophism; there can be no such thing. The dollar, which in this country the maker of the paper promises to pay, is 23.22 grains of pure gold; the gold is the money, not the paper; and the value is in the gold, not in the paper. Gold being acknowledged and accepted as a common equivalent of other values all the world over, an equivalent of gold in other capital is capable of discharging an obligation to pay gold. The notion that there is the value of a dollar in a memorandum of a contract—a written promise to pay a dollar—is the delusion upon which rests the whole scheme of factitious credit miscalled "paper money." The amount of bank notes, *as such,* is of no consequence in the consideration of this question. The bank, having no value to lend, lends promises to pay dollars of value which have no existence, and whether it inscribes this factitious credit on a piece of loose paper for circulation, or on a book of account to be circulated by check, makes not the slightest difference in principle or effect. Hence deposits in bank, subject to check at sight, are currency as completely as bank notes deposited in one's pocket. Naturally, the same proportion of currency as of capital will be at rest, in the long run, waiting demand somewhere.

In what is called the *credit system,* the currency is based on commercial notes, by which the trade of the country, that with a currency of money would be a cash system, is forced through debt and credit. Under the credit system the same value in raw material, or in the process of manufacture, is frequently sold several times over on credit. The amount of needless debt thus created can scarcely be conjectured; but the daily settlements at the clearinghouses show that it is enormous. Does Mr. Sulley, or does anyone, imagine that this vast debt, whether needless or otherwise, is *value* to be added to the inventory of the property of the country? This would be necessary, on principle, if there were value in a paper or debt currency. I do not understand the significance of the term "imputed value," unless it means spurious value. It seems to me there must be either value or no value in everything. Debt circulates in its evidences, not for the value it is, but for the value it promises.

Mr. Sulley appears to have overlooked, or perhaps does not remember, an explication of this thing called "paper money," showing the fallacy of the notion that it is as good as gold, that, without reference, I am sure I have furnished in some one or more of my contributions to this magazine. Let me repeat the idea in another example. It happens that the aggregate price of the property of this country, and doubtless of other countries, is always about twenty-five times the sum of the currency. Let the volume of currency vary as it may, the price of the whole property in due time rises and falls accordingly, not equally, but in the aggregate. Things in the most immediate request rise first, and in the greatest proportion. If one thing does not advance in due proportion, something else advances more than the due proportion, and thus the currency is duly employed and the average completed. The circulating capital is in the ratio, approximately, of 10 to 1; the fixed capital 10 to 1; and the unproductive and enjoyable wealth, which is not capital, is as 5 to 1 of the currency, making 25 to 1 in all, as before mentioned. This is an approximate calculation that is, perhaps, as nearly correct as an estimate of the kind can be made. At all events, it is sufficiently accurate for my acquirement.

In the last census year, 1860, the currency of this country, including California, amounted to about $640,000,000; consisting of say $436,000,000 net liabilities of banks, payable on demand, i.e., notes and deposits and balances due to other banks, deducting specie reserves, $4,000,000 of counterfeit currency, and $200,000,-000 of money in and out of bank and free of hoards. Had this currency been money exclusively, the wealth of the country would have been in money value as stated in the census, $16,000,000,000, divided as follows:

Circulating Capital, comprising money and all value seeking to be exchanged.. $6,400,000,000
Fixed Capital, comprising property employed for purposes of gain not seeking to be exchanged............. 6,400,000,000
Unproductive Wealth, comprising money in hoards, houses, furniture, *Sec,* in use by their owners, and pleasure property per se.. 3,200,000,000

But money proportionate to other capital was absent to the amount of $440,000,000; the value of the circulating capital was, therefore, but $5,960,000,000, and of the total wealth but $15,560,-000,000. There is a question of equivalence here that invites discussion, but which is not essential to our present argument. My belief is that because of the deficiency of $440,000,000 in the circulating capital there was a deficiency of the other two classes of wealth in the same proportion, because the equivalent of fiction can be nothing but fiction.

Let us now assume, for argument's sake, that this currency of $640,000,000 consisted of gold and silver exclusively, there being no such thing as fictitious credit to circulate in either notes or checks. It is obvious, then, that the buying and selling of goods must have been for cash; otherwise the currency could not be employed; and the borrowing and lending of capital would have been done by and through the banks instead of by buying and selling goods on credit. At this point of pure money currency we will suppose that we begin the credit system of making currency through banking on commercial notes. This requires the buying and selling of goods on credit to produce the notes for discount; and suppose we pursue this plan of running in debt to each other for existing capital, and getting notes discounted until we have an aggregate of $640,000,000 of "deposits" to our credit in bank, over and above all the deposits existing before. This gives us $1,280,000,000 of "money," instead of $640,000,000, or double the "money" to circulate the same capital; and the price of the whole property necessarily rises from $16,000,000,000 to $32,000,000,000! Where does this additional $640,000,000 of money come from? and where does the additional $16,000,000,000 of property come from? There is no such thing as either. The whole addition is pure fiction. There is no value in the money or currency above $640,000,000, and no value in the whole property above $16,000,000,000; all the rest is price without value, the merest moonshine in the world. That which costs nothing to anyone is like air and solar light, no value and no wealth.

But the effect of this spurious money, while it is interchangeable with real money, is to reduce the value of gold and silver, locally, one-half. Two dollars possess no more purchasing power than one possessed before, and of course the export demand of commerce is changed from our merchandise to our money, because the local depreciation of its value here has no effect upon its value abroad until the money gets there and enters into general circulation, when it becomes merged in the vast volume of currency in all other commercial countries, and has scarcely an appreciable effect on the general value of the money of the world. Not a particle of business can be done with the double volume of currency more than was done with half the amount before, only what is done will be at double the natural price, and people will run in debt at double the natural price, so long as the double volume of currency can be maintained, which is longer, under specie payment, than Adam Smith with his disciples has supposed. How long, depends upon the quantity of gold and silver in the country to begin with, to support the drain, and upon the unreasoning confidence of the public in the "paper money." If people generally do not call upon the banks for payment, the banks will supply additional currency by new discounts as fast as the money can be exported, because it is for their interest to do so, as they get additional interest on every additional factitious dollar they make. I censure not them, but their system, for this.

The principle of this currency is that the bank lends you a contract to pay money and value that have no existence, and throws upon you the obligation to meet that contract, under bond and security, to provide the institution with funds to discharge the same when it shall be called upon to do so. Of course the loan is made upon some specified time, but that time is arranged upon the principle stated, that the bank shall be put in funds to meet the impossible contract, which in the end is inevitable bankruptcy somewhere; since, the moment the banks withdraw any portion of their currency, they contract the measure of price, leaving the debts made by the old measure to be discharged by the new, under which the assets fall in price and become insufficient to discharge the obligations resting upon them. The experience of England with the financial crisis, while I write, in May, is a practical illustration of this pernicious and preposterous principle. The Bank of England is the mother of it, and it is astonishing that the accomplished merchants and bankers of England do not see the impossibility of meeting the contracts she imposes upon them.

I think I have said enough to meet Mr. Sulley's remark, that "where paper money *has* value, it is just as good as gold." I hope he will see that it has no value under any circumstances. The effect of this spurious money upon the capital of the nation is the loss of every dollar of gold or silver shipped under the degradation of the value of money which it causes, because the imports are advanced in price by that degradation, in common with all other descriptions of capital, and it is the amount of the degradation that is sent abroad in gold and silver. Real money is thus paid to foreigners for a false price. This important practical result, which all the metaphysical economists have overlooked, I am happy to see that Mr. Sulley understands; but I do not see how so good a thinker can imagine that the same result follows the local increase of gold, or that a paper currency is even capital in the hands of an individual or of the community. "Out of nothing, nothing is generated. This," says De Quincey, "is pretty old ontology." And when nothing is substituted for capital in gold exported, it is very clear that the capital is lost, which would not be the case if the paper were capital.

The unsophisticated truth is that the individual who accepts a bank note for his goods parts with his capital for that which has no value, and is therefore no capital He lends his capital on the note, and is no more paid for his goods than i£ he had accepted his customer's note for them. He cannot thus eat his cake and have it too. He cannot part with his capital and possess it at the same time. He it is who lends capital in this business, and not the bank; and he it is who pays the interest which is included in the price of whatever he purchases. When he wants to recover his capital, he parts with the paper promise and gets value for it; he is then paid in the value received for the value delivered, and not before, and the exchange which was only halfway made before is then complete. Should the bank happen to burst while he holds its note, I think Mr. Sulley will see that in holding the note he does not hold his capital, and is not paid. Hence the note is not and never was capital.

Mr. Sulley's error, or what I conceive to be his error on this point, lies in the following statement. I say, what I conceive to be his error, for I am open to conviction, and always intend to give heed to respectful criticism, such as I find in the writings of Mr. Sulley:

> Money, no doubt, whether of paper or the precious metals, is capital in the hands of individuals; but a larger or smaller quantity makes no difference in the capital of a nation; and if it be of gold, and is exported from excess, the nation will get nothing in return for it. If it increases in a greater ratio than other commodities, it must of necessity depreciate, as no condition of cheapness will induce an adequate consumption. This has been sufficiently shown by M. Chevalier, both from French and English statistics. It must therefore be exported in price *without value;* that is to say, without any return being made for it in the imports. Consequently to the nation that produces the precious metals, while at the same time it produces large quantities of other commodities for exportation, the production of the metals will be just so much loss. This is the evil of a *fixed standard* of value.

In making these remarks, Mr. Sulley overlooks the fact that all values are reduced, specially, by an increase of supply. The wealth of the world accumulates in this manner. What if the crops of grain are doubled this year in this country? Will not the bushel of grain fall in value as well as in price? That is to say, will it not exchange for less of commodities in general as well as for less money than before? Obviously, any exported excess of grain commands desirable capital in exchange, which is just so much added to the wealth the nation possessed before that excess was produced. And why is not this principle applicable to gold and silver? The miner who digs gold improves his fortune like the miner who digs iron, and as much as he adds to his own wealth by his labor he adds to the wealth of his country. But, be it observed, the gold must be produced in excess to supply the quantity exported; it must not be merely degraded in value to the exporter's limit by adulteration with "paper money," since by such adulteration and degradation the quantity exported is drawn from the precreated stock and lost, because nothing but debt remains to balance the value thus degraded and sent abroad. In the one case, there is the same quantity of gold left after the shipment of the excess as the nation possessed prior to the increased production and the capital returned for the shipment besides; in the other, a less quantity of gold by the amount of the shipment and no more of other capital to compensate the loss.

The French economist, Frederic Bastiat, says: "Utility is increased as we succeed in constraining nature to a more efficacious co-operation. So that we may say that mankind have as many more satisfactions, as much more wealth, as they have less value." In other words, mankind, by availing themselves of natural forces more and more, continually have an increase of utility, satisfactions, and wealth, at diminished cost.

Where nature furnishes the most efficacious co-operation in the mining and transportation of gold, it can of course be supplied at the lowest value, and if we can produce gold and exchange it for iron and cloth, and other utilities, at less cost of labor and capital than we can directly produce the utilities, themselves, we have "as many more satisfactions, as much more wealth, as we have less value." In what respect, then, is it less advantageous to procure and possess cheap gold than cheap capital of any other description? *provided always we have the gold,* and not an incubus upon capital in its place to cheapen it.

Jean-Baptiste Say notes a striking example of the increase of wealth by the reduction of value in the invention of the art of printing. "So that where there was formerly one copy only of a literary work (manuscript) of the value of 60 francs of present money, there are now a hundred copies, the aggregate value of which is 300 francs, though that of each single copy be reduced to $\frac{1}{20}$th." That is to say, the reduction of the money value, by the increase of supply from 60 francs to 3 francs per copy, produces in this commodity a fivefold sum of wealth. There has been an abundant increase of wealth of this description by cheapening production since Say wrote in 1820. "Gold and silver," says Adam Smith,

> whether in the shape of coin or of plate, are utensils, it must be remembered, as much as the furniture of the kitchen. Increase the use of them, increase the consumable commodities which are to be circulated, managed, and prepared by means of them, and you will infallibly increase the quantity; but if you attempt by extraordinary means to increase the quantity you will as infallibly diminish the use, and even the quantity too, which in those metals can never be greater than what the use requires.

Money cheapened by mining is, therefore, a cheap utensil and cheap capital, as wheat cheapened by tillage is cheap capital, and any normal excess of either over the home demand is equally a gain of national wealth. But it is only in its function of capital, the subject or object of commerce, that the increase of money is of the least consequence. As the instrument of commerce, the measure of price, the most limited quantity consistent with convenience in the coin is even better than a greater quantity, because lower general prices are thereby secured, and, other things being equal, the nation or community having the lowest general prices, in other words, the most valuable money, will have the advantage in the commerce of the world. But the two functions of money cannot be separated, any more than the beauty of the diamond can be separated from its worth, and the proper and only profitable course is to treat it as we treat other capital, accumulate as much as possible, and exchange the surplus for products of greater value.

In regard to Mr. Sulley's remark that a fixed standard of value is an evil, I suppose he refers to the adoption of an irregular quantity of metal for the unit of money, like our dollar, which is an unequal fraction of a troy ounce of gold, the French franc, which is out of the line of the decimal notation of the Empire, the English sovereign, or pound sterling, and the various units in use in commercial countries, which are "names indicative of nothing whatever," as to the established and ordinary weights employed in commerce. Unquestionably this is an evil. I have endeavored to expose it in your pages; but I do not see that it amounts to a *fixed standard* of value. I do not find, and cannot conceive of such a standard in money or in anything else. In the words of Mr. De Quincey: "An object to stand still when all other objects are moving, showing how much of the change has belonged to one object, how much to the others, or whether either has been stationary: this is a thing we shall never have; because no such qualification can arise for *any* object—nor can be privileged from change affecting itself." Let money change as it may, it is the legitimate price of things. I prefer, therefore, to call it the *measure of price.* When price is not money value, when it is made by a measure which is not money, it is illegitimate and false. There is a ground of value in the equivalence of labor and capital, to which objects must be referred in money, however much it may change in itself. To that true price is the equivalent of money value.

It follows that the rise of general prices, which results from the actual increase of the precious metals, is not, as Mr. Sulley imagines, *price without value,* but *price with value,* which, relating to our foreign commerce, is returned in the imports. And the export of gold or silver under this normal condition of things is just as profitable to the nation as the export of wheat or tobacco, or any other of the hundred commodities annually sent abroad, whether they are the direct or the indirect product of the industry of the country.

Twenty dollars is the price of a barrel of flour to-day for my family use. What sort of dollars? Not such as are produced by labor and capital—not dollars of *value.* If we had possessed twenty such dollars for such an exchange, probably twelve of them would have gone abroad long ago, and returned the value of a barrel and a half of flour of the same quality more than the nation possesses at present in its capital. The dollars of to-day are made by the scratch of a pen; these are inscribed as a "deposit" when no dollars are deposited. They are not dollars of value, because they cost nothing. They are dollars of *price,* and the strongest motive which actuates man in society—self-interest—is involved in their further and unlimited increase. Certain men in corporations are privileged to make and take interest on such dollars as money. Do you suppose they will be checked in this business by the limitation of the issue of bank notes to $300,000,000? Not in my opinion. When the barrel of flour costs $100, as it will in time if the present financial system continues, perhaps the folly of the system may be discovered, and suffering among the industrious classes lead to its suppression. Already the bank deposits amount to $670,000,000 including those due by banks to banks, while the notes are but $250,000,000.

It is an immense argument in favor of the natural resources of this country, and the untiring energy of the people, that the nation is not ruined by its political economy in raising prices against itself by tariff, and, especially, by creating prices without value.

26

On the Tariff and the Principle of Taxation*

There is an argument against a tariff on imports that appears to have escaped the notice of thinkers and writers on public economy. It is that, regardless of the tariff or taxes of any sort, general prices conform to the volume of currency: so much currency makes or measures so much aggregate price for all the property and service seeking to be exchanged. Hence if one commodity employs, by reason of a tariff, more of the currency than it would employ without the tariff, some other commodity of equivalent natural value must employ so much the less, and yield in price accordingly; the low price of the unprotected article underpaying, as much as the high price of the protected article overpays, its producer in relation to its natural value.

Thus suppose the normal value, as determined by cost and supply and demand, *free of taxation,* be the same for 1,000,000 bushels of corn and 1,000,000 yards of cloth, the price being $1 per bushel for corn and $1 per yard for the cloth, and the government then imposes an import duty of 25 per cent on cloth. The effect will be to raise the price of the whole 1,000,000 yards of cloth, embracing both the foreign and domestic article, to $1.25 per yard. Therefore, of the aggregate measure of $2,000,000 for both commodities, the cloth presents a demand for $1,250,000, and

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employs so much of the currency, leaving but $750,000 for the corn, so that the corn falls to 75 cents per bushel, and the farmer as compared with the manufacturer is one-fourth underpaid.

For the sake of simplicity I waive all consideration of the profit on the cloth duty to the jobber and retailer, which is so much additional tax paid by the consumer. By the "protection," whatever it amounts to, the farmer is wronged, and doubly wronged; once in the abstraction of currency that should go to the price of his product, and again in the abnormal price that, as a consumer, he must pay for the cloth.

This distribution of the currency is an unavoidable result of the law of value in relation to money; for whatever may be the character or amount of the currency, it can make only the same exchanges as a like sum of money, and it must, as the common instrument of exchange, follow the same channel of local circulation that would be occupied by a like volume of money—i.e., gold and silver.

The money of the world distributes itself among the nations according to the desirableness which constitutes the value of their respective productions as objects of exchange, with no regard whatever to local taxation. It is attracted by low prices and repelled by high prices; anything tending to high prices drives it away.

A nation or a community cannot therefore increase its money by increasing its taxes or its expenses; it can do this only by increasing its capital, of which money forms a part, and it cannot *permanently* maintain a volume of mixed currency greater than its capital naturally demands of pure money for its instrument of circulation. Since, therefore, provision cannot be made for an increase of a nation's taxes by an increase of its money, or currency, the only way in which the currency can be provided to pay the additional price of an article unequally taxed is to take it from the price of some other article, and thus rob Peter to pay Paul. Were money capable of increase by tariff, or other taxation, industry and enterprise would lose their significance, and the accumulation of national wealth would be a mere matter of legislation, an idea that carries its refutation along with it.

It may not be possible to know the precise equivalents that are disturbed in their relations by a tariff, or by any other unequal tax. Of course there are many more bushels of corn than yards of cloth circulated and consumed in this country, and any reasonable estimate of the relative value of the corn and cloth that change hands in commerce is perhaps impossible. If 10,000,000 bushels of corn are equivalent in exchange value to 1,000,000 yards of cloth, then corn would lose but 2½ cents per bushel of its normal price by a tariff of 25 cents per yard on cloth. All that I propose to show by the foregoing example is that equivalents in circulating capital are perturbed, and thrown out of their natural and mutually advantageous relations, precisely to the extent that the tax upon them is unequal, ad valorem. To that extent the abnormal is cherished and rewarded at the cost of the normal produce—to that extent a tax levied to favor the production of an article that would not be produced without it must be paid out of the proceeds of some other article not so favored, the production of which is natural to the soil and industry of the country.

The amount of duties on imports gives no sort of indication of the pressure of a protective tariff on the industry and earnings of the unprotected classes. The whole of the annual imports does not probably exceed one-twentieth part of the money value of the annual productions of the United States, leaving out of view the immaterial value or services that leave no enduring product capable of being exchanged, which are, equally with the material values, subjects of indirect taxation through duties on imports for the benefit of the privileged classes. Thus the pay of the clergyman, the teacher, the lawyer, the physician, the actor, &c, is so much the less by reason of the abstraction of currency to provide extra pay for the producer of that which could be imported for less than the cost of the home product. Hence the burden of taxation on imports is by no means confined to the consumers of the imports taxed, and of the special commodities protected. Were it possible for a consumer to avoid the use of every article the price of which is augmented by the tariff, he could not escape the insidious tax levied upon his industry by the abstraction of currency from his use to force a production against the natural law of value.

There are then two separate burdens imposed on consumers by a tariff on imports—first, the price added to both the taxed and the protected commodities, the latter being many times greater than the former, which sum is paid affirmatively by the consumers of the products immediately affected thereby; and second, the sum of currency abstracted from the normal remuneration of all other industries but those protected by the tariff, which sum is paid negatively but not less certainly by the unprotected classes.

There can be no objection to low and natural general prices, because, with a normal currency, they must be the consequence of activity of production, an increase of wealth, and abundance of capital in relation to currency—in other words, a high value of money, which increases the exports of merchandise: but there is an insurmountable objection to low and unnatural special prices, made so by abstracting currency from the use of one producer to give it to another through legislation, for this is but a form of robbery.

It is my opinion that the noticeable general disinclination to agricultural labor in this country is largely owing to the fact that it is the great unprotected branch of industry here. It is underpaid that other industries may be overpaid. Notwithstanding the co-operation of natural forces, working for nothing here with greater power than anywhere else on the globe, the farmer finds relatively small pay for hard work, and men are enticed away from this invigorating and naturally profitable employment, to seek ventures in crowded cities, and unwholesome work in manufacturing towns, to which the intermeddling of government gives an unnatural incentive and reward at the cost of agriculture. The result is the production of commodities that could be produced cheaper in money value, and with more public advantage in the spread of population, in the more extensive cultivation of the soil, the greater vigor, the better health, and the more general intelligence and happiness of the people, by a normal application of their industry, on the land and on the water, through the exchanges of an unshackled commerce.

It is no argument against this to say that the nation thrives. However it may check its thriving, the task would be difficult for government to prevent it. Such are the vast resources of the country in cheap and rich lands and inexhaustible mines—as the London *Economist* says, "the best things on the earth and under the earth"—accessible by many thousand miles of free navigation of rivers and lakes, a varied climate, favoring the production of almost everything that agriculture can furnish desirable to man, with ship timber, naval stores, forests of exportable lumber for house-building, numerous and secure harbors on an extended ocean coast; in short, all the most beneficent powers and capabilities of nature attracting immigration and co-operating with a high degree of intelligence, industry, and enterprise, among the laboring classes, what but madness on the part of the government can prevent the advance of the nation in material prosperity? Yet nature triumphs over an adverse legislation at a vast and needless cost to individuals of wealth and peace of mind. Nowhere else under the sun is bankruptcy in trade so general, success in life so various and uncertain, and anxiety in families, and unhappiness in society on the whole, so great. We prosper in spite of the government, which is tolerable only so far as it maintains order and justice; this is its only legitimate function. When it attempts didactic legislation—when it attempts to teach the people what branches of honest industry they shall or shall not pursue, it is positive and insupportable evil.

The foregoing considerations lead, of course, to the conclusion that all taxes should be direct and level, ad valorem. They should be levied on all property alike, and on all income alike, with the exception of a certain necessary standard of living, which government should be careful not to impair, since the ambition of the industrious classes depends largely upon it. Their enterprise and application to labor is affected by it to a degree that has a wide influence on the material and moral welfare of the nation. The higher that standard is fixed by custom and public opinion, the fewer persons will be satisfied with a low and grovelling existence, and the greater is, necessarily, the public prosperity.

As self-government is the ultimate aim of political science, any other is but a necessary evil to be endured only while and to the extent that the moral and intellectual forces of society are too weak to control the dangerous, and protect the suffering classes without the aid of public authority. Teaching is better than legislating for the public good. No good man needs an exciseman or a constable to tell him what to buy, or sell, or eat, or drink, or wear, or how to perform his part in life, and the hand of authority is badly employed when it tends to depress the ambition or check the honest industry of anyone.

The theory which looks to government as a teacher or a director is, to my apprenhension, altogether a mistake; government is formed, or ought to be, not to teach the people but to be taught by them; its authority is limited by their average intelligence and sense of justice, and when it attempts to extend its power beyond this limit, as, for instance, in the support of the institution of slavery in this country, it is sure to be resisted until the iniquity is destroyed. The tariff system of taxation, which stands at the mouths of our harbors to drive away our customers and cripple the commerce and industry of the country, is another of these iniquities that the intelligence and true democracy of the nation have marked for speedy destruction.

Levy and level the taxes ad valorem and they will not affect prices in the slightest degree; both the domestic and international exchanges will be made at prices the same precisely as if there were no taxes at all. This is obvious from the proposition with which we started, the correctness of which no thinker will dispute, that general prices conform to the volume of currency and its relation to circulating capital. Double the currency, or reduce the circulating capital one-half; either will depreciate the value of money or currency one-half in a rise of 100 per cent of general prices. Reduce the currency one-half, or double the circulating capital; either will appreciate the value of money or currency 100 per cent in a fall of 50 per cent of general prices.

People do not consider as they should—and legislators are culpably neglectful of the economical fact—that *payment* is made in *value,* not in *price.* Suppose a farmer to have 100 bushels of wheat on which he is taxed one per cent, then one bushel goes to pay the government, and ninety-nine to satisfy other demands. But suppose the tax to be five per cent, then five bushels go to satisfy the government, and ninety-five to other demands. It requires no more money or currency to make the one distribution than the other. There are but 100 bushels of the wheat to command currency or value in exchange; there is but so much capital as is contained in this quantity of wheat, only so much *value* to make payment so to be employed or consumed in peace or war, and it is pure folly to suppose that its efficacy or value can be increased by multiplying dollars and increasing its price. The same is obviously true of every item of capital and of the capital of the country altogether.

Had this simple economical fact been comprehended by government at the commencement of the rebellion, that capital and not currency—value and not price—makes payment, the folly of increasing the currency would have been avoided, and what a wonderful difference it would have made in the amount of taxation and of the national debt, as well as in the condition of the commerce of the country!

Value, it should be understood, is that power in exchange which commands the necessaries, conveniences, and luxuries of life, while *price* commands nothing but currency, which may be money, or bank or government debt, or overvalued tokens, the value of which is what it will fetch; and the laborer with three dollars of price will have no more or better payment for his day of service, when the currency is expanded threefold by debt, than with one dollar of money at its natural value, because the three dollars are by the expansion depreciated to the value of one dollar. In fact, under this supposition, two of these dollars are fiction; they never had any value, and can impart none; they make price without value. What the dollar buys is the laborer's payment or remuneration, not what the dollar is, or rather what it is not by reason of a trick of banking or of an issue or a legal tender act of government.

As to the apology of war for the present high tariff and other unequal taxation, however honestly presented or accepted, it is very absurd as a scientific fact. The argument just presented shows that inequality of taxation is as unnecessary for war as for peace. The capital of the nation supplies the consumption of the nation, and all that is necessary for the support of government, in war or peace, is an equal distribution of its cost among the people according to their means of payment. An astonishing delusion prevails upon this subject, especially with reference to the necessity of a public debt, and also as to the effect of war on the material prosperity of a country. Its moral and immediately personal effects we are not now considering. Its atrocities, and bereavements, and mutilations, and physical suffering, are shocking enough. No knowledge of science is needed to comprehend the moral evils of war and deprecate its horrors, but scientific knowledge is necessary to comprehend that a just war, equitably maintained, is not necessarily unprofitable, in a material sense, to the nation at large.

No capital but our own paid for the war of the rebellion; none was borrowed from abroad at the time, and none was needed; for we had ample capital to have maintained two such wars, *without a public debt,* and in continual prosperity as much as in peace, and we have no less capital now. Every dime of the cost of the war was paid for out of the national capital at once, as fast as the capital was delivered to the government for the purpose; and the energies of consumption it developed stimulated in like degree the vast energies of production in which, with special reference to the commodities most needed in war, no nation on the globe is more powerful than the United States.

So long as the capital of each producer is promptly replaced, that is to say, his present capital, which includes of course his invested capital and profits, the more consumption of his products, and the quicker the better, because the greater will be the employment of industry and the opportunities of saving, and the greater the national wealth. People argue on this subject as if capital were not consumed in peace. How long is it profitable to the producer of a finished article, or to the commerce of the country, to keep it unsold or unconsumed? Clearly until a buyer is ready to replace the capital it contains, and not a moment longer. It is only at the seat of war, where the means of reproduction are destroyed, that war, in the material or financial point of view, is necessarily unprofitable. Napoleon was careful to remove this from France—to fight on other soil than his own; so far he was a good political economist, and France never prospered more in wealth and population than during his wars against all the rest of Europe. Mankind people up to the means of maintenance, especially to the supply of food, and where these are steadily increasing population increases in like proportion, whether in war or peace.

No doubt the revolted States lost capital by the rebellion, since they used up and suffered the loss to a great extent of their means of reproduction; but the vast productive powers of the West and North were so stimulated at the same time that they have been enriched more than the South has been impoverished, and the national wealth, reckoning the Negroes, before and since, as they always were, labor and not capital, is to my apprehension no less to-day, in the aggregate, then it would have been without the war. I have not space in this article to discuss more fully the point of the relation of war to public wealth, and I offer these remarks upon it merely to give the reader assurance that a tariff or unequal taxation was not necessary for the conduct of the war that is just closed. I have acted with the Republican party in support of the fundamental democratic principle of human freedom, but with a continual protest against their financial policy; and I maintain that the present abnormal condition of the national finances is owing not necessarily to the war, but to an unequal and unjust distribution of its burdens, and to an unpardonable ignorance of the nature of money and of the fundamental principles of economical science.

Instead of taxing the rich and the bank stockholders for their share of the cost of the war, government has borrowed capital of the former, and granted to the latter the privilege of kiting, against public and private debt, a currency consisting of bank notes and book credits, miscalled "deposits," on which the people are obliged, from the necessity of the case, to lend their capital for nothing and pay interest on it besides, not for the benefit of the government or of themselves, but for the benefit of the currency-makers. These two classes, therefore, instead of being, like the rest of the people, payers of taxes, are made receivers of taxes, and the burden of supporting the war and a needless public debt has been thrown upon the poorer and the hard-working classes, who are the least able to bear it. Of course this cripples their means of consumption, and, as they are the great consumers, their forced abstinence reacts upon production, crippling that and necessarily the general trade of the country. As a nation we are in the absurd and paradoxical position of having paid for the war to the last dime out of our own capital and at the same time we are owing for a great portion of it to certain of our own citizens, because we have neglected to collect from them their share of its cost. Such is the preposterous nature of the funding system.

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The Currency Question in the Commercial Convention in Boston*

I was glad to find that the members of the Commercial Convention in Boston of last February were generally readers of this magazine. Having had the privilege of presenting a few remarks, as an outsider, to the Committee on Currency and Finance of that Convention, by their courtesy, I would like to offer through your pages to the gentlemen who composed that committee, and to your readers generally, some further explanation of the views which there was not time to elaborate on that occasion.

Several members of the Committee having urged the need of a lower rate of interest at the West, as a reason for the increase of banks and currency there, I took occasion to say that to increase currency in relation to capital is a sure way to increase the rate of interest, as well as general prices, and that even the supply of money itself does not change this law, because interest is not a price for the loan of money merely; it is the rent of capital. It is not, therefore, currency that is needed at the West to reduce the rate of interest, but *capital,* since the more capital there is, the less is its rent, and capital can be obtained only by labor, or it is the fruit of labor wherever and however obtained.

* Reprinted from *Hunt's Merchants' Magazine and Commercial Review,* LVIII June, 1868), 418-32.

In support of this doctrine, as to the rate of interest, I presented the example of California, and stated that money runs away from a high rate of interest all the world over, as it runs away from that State, where it is 24 to 30 per cent per annum, to New York, where it is 6 to 9 per cent; thence to London where it is 4 per cent, and thence to Paris, Hamburg, &c, where it is only 2 or 3 per cent. The question was asked why, under these circumstances, does money leave California? I could only reply, because of the deficiency of other capital there, California is too poor to retain the great amount of money she produces, the pressure of business before the Committee precluding any further explanation.

The question of interest is closely connected with the policy of expanding the currency, and is important for a reason the reverse of that contemplated by the advocates of that policy in the Convention. To give the subjects of interest and currency, therefore, proper consideration, let me repeat that interest is the rent of capital—loanable capital—and capital is as effectually loaned in wheat, or iron, or groceries, or dry goods, or in any other form, as in money. When goods are bought and sold on credit, obviously the rent of the capital is considered in the price of the goods. Interest includes, always, more or less of guarantee against bad debts; hence a debt currency, which is a fruitful source of bankruptcy, is a powerful agency in raising the rate of interest where, from the abundance of capital, it would be naturally low. There can be nothing more absurd, as the matter presents itself to my mind, than to expel and repel money with a debt currency, and thus force the business of the country into the credit system, with all its needless embarrassment and direct cost, and an increased rate of interest besides.

Money is but one of the exchangeable commodities of commerce, only that it possesses extraordinary utility as the common equivalent and recompense in exchange, the demand for which is without limit. To this utility it owes its value, which varies with the needs and means of payment of all who desire it, differing in this respect not at all from every other exchangeable commodity. I agree perfectly with Professor Lieber, that money existed before government; that it is a commodity; and that, virtually, there are no such two words or acts as buying and selling; there is only *exchange.* The blindness of the public in regard to it seems to be owing to the interference of legislation in separating the unit of money from the ordinary weights of commerce by which it was formerly known and exchanged. Every student of the subject knows that the British pound sterling was once a pound of silver, and the French livre the same. Cheating by the governments made these two units the meaningless things they are. Our dollar was originally an ounce of silver, and the German thaler the same.

Gold or silver offered in exchange, or buried in the miser's hoard, for its intrinsic value, is money. Whoever buys a barrel of flour for a gold eagle is at the same time buyer and seller; he buys flour and sells gold, and bargains as much for the value of the gold he sells as of the flour he buys. Whether in bullion or in coin, whether reckoned by ounces or dollars, until its value is augmented by labor in the arts, as plate, jewels, 8cc, gold is money.

The rate of interest is opposed to the value of money. That is to say, where the rate of interest is high, except momentarily sometimes in the crisis of a bank contraction, the value of money is low, and vice versa. Loss by the depreciation of the value of money is just the same in every respect to its owner as the loss by the depreciation of the value of wheat to the owner of wheat. The value of money is as simple an expression as the value of wheat; it is, of course, its purchasing power, and that can be expressed only in the thing it purchases. If ten dollars of money purchases a barrel of flour, so much flour is the value of so much money. If a bushel of corn exchanges for a dollar, the value of a dollar is a bushel of corn. Where little money buys much of other things its value is high: where much money buys little of other things its value is low. Nothing can be plainer; yet, and although this fact, and the distinction between the rate of interest and the value of money, have been clearly set forth by the best scientific authority in England—John Stuart Mill—we find the London *Economist* habitually calling the rate of interest "the value of money." I cannot suppose this to be the result of ignorance, but of the curious and unaccountable persistence with which the practical, so called, and the theoretical, in political economy refuse to become acquainted with each other. By this misuse of a significant term the *Economist* helps to intensify the corruption of the nomenclature of that science which obscures the subject in the public mind.

Money is capital, if free of hoards. It is exchangeable or circulating capital, like every other thing that is offered for exchange, and it is wealth, not currency, to the miser. It is wanted everywhere as capital and wealth "to serve a purpose and satisfy a desire" for its purchasing and *paying* power, and for its security; functions which nothing else possesses in like degree or in like convenience and perfection. It finds customers without effort, wherever it is known to exist; it is the thing promised in debt, both in and out of the currency, and it makes payment in quality and value all the world over free from doubt or uncertainty. I say it is wanted as capital and wealth, *not as currency,* because as currency it serves only to make price, which adds nothing to value or to wealth. Had we but one-tenth of the currency we have to-day in this country, other things being as they are, we should have but one-tenth the price of things in general, but not a particle less of value in our property and not a particle less of general wealth. We should have, in that case, simply ten times the value or purchasing power in every dollar of our currency, and, were such an extreme case possible, it would give us a wonderful advantage in commerce over every other people on the globe. Who could compete with us in the production and sale of anything that we have the natural soil and ability to produce, or the ability to procure? Who could make such profits in foreign trade as we? The barrel of flour, costing ten dollars now, would cost but one dollar then, and we could exchange it, say with England, for a yard of broadcloth of the present currency value of ten dollars, which, no matter what might be its price, would cost us but one dollar, because our imports cannot cost any more than the exports that pay for them. Could we not then supply France and Germany with broadcloth cheaper than they could make it? Could we not build ships and sail them, and supply cargoes, cheaper than any other people? Who then but we would cover the ocean with ships and steamers, and conduct the carrying trade of the world?

And what prevents us or any other people from realizing this imaginary advantage? Simply the irrevocable law of value in exchange, by which money, as capital, the great object as well as instrument of commerce to all nations, flows to the market where its value is the most; that is to say, where the least money will exchange for the most of other things. This being so, no folly can be greater than legislating for a supply of currency, since money itself is naturally in repletion everywhere to prevent any one country or people from having the advantage of others in international trade, except by the normal exercise of industry and intelligence in producing and cheapening capital.

The more of anything there is produced, the cheaper it is, of course; but this fall of special value is nevertheless an increase of wealth. The miners and the State of California are enriched as much by producing money, although cheapening it all the while, as they would be by producing a like value of wheat. This fact stares us in the face in the rapid strides of that new State to wealth, and puts to shame the speculative theory of certain scholars and writers that money is not capital. It would be as absurd to oppose the cheapening of money by its increase, as of Indian corn or wheat by an increase of the crops. But to cheapen money, as currency, without increasing it, as capital, to compensate the depreciation and supply the export demand which that depreciation creates, is quite another thing, that should be restrained as rigidly as counterfeiting, for it amounts to the same thing in its effect upon the wealth of the nation. A bank that has nothing to lend, and lends that nothing in a promise to pay money on demand, creates a fiction, and puts it into the currency to the degradation of the value of money, and loss of capital to the community, as effectually as the counterfeiter who does the same thing, the difference being only in the intention, and in public credulity which believes in and accepts the one and rejects the other.

This same thing, in principle, has been tried in dealing in wheat in Chicago: but it lacked that support from public credulity, or, as it is called, "confidence," which is so freely granted in dealing in money under the name and cloak of banking, a useful and naturally an honest business, the name of which is used to cover a multitude of sins. The quality of wheat, as of gold, may be uniform, and determined accurately by competent inspection, and the supply of various owners may be stored in bulk of one grade, and delivered in detached parcels, regardless of the distinction of ownership without injustice to anyone. Thus, as everyone knows, wheat is stored and delivered in Chicago. The warehousemen issue receipts, or certificates of deposit, as the wheat is received, and by and on those certificates it is sold and delivered. These men were not slow to discover that, as wheat was coming and going continually, and keeping their warehouses replenished, they could establish the "credit system" in the business, by dealing on their employers' capital, counting upon an average forbearance of demand, without borrowing or paying interest for it. In other words, they could issue certificates of deposit for wheat that was never deposited or produced—fictitious bushels of wheat in promises—cause sales to be made by those certificates, and meet them out of their employers' supplies.* Some of them did this thing; how many or to what extent is immaterial, and whether with or without intentional wrong is also immaterial to our argument, which is concerned only with the principle, and that is swindling. The Illinois legislature so considered it, and passed a law enacting that any person who shall negotiate or put in circulation any such receipt "shall be deemed guilty of felony, and, on conviction thereof, shall be fined in a sum not less than one thousand dollars, nor more than five thousand dollars, and imprisoned in the penitentiary not less than one nor more than five years." Some failures among the warehousemen, I think, brought this law about.

Nevertheless, the same thing is done with money in Chicago and elsewhere not only with impunity, but with encouragement. It is popular among the commercial nations; it is not banking, which is dealing in loanable capital, but currency-making, the illegitimate, fictitious "credit system" of the Bank of England. You deposit, say, one thousand dollars of coined money in a bank, and

* Betting on the price of wheat is a different thing, because it brings into the market both buyer and seller simultaneously, and by the same act, and the one balances the other.

the bank will promise to deliver it on demand to four other men as well as to yourself; that is, will lend its employers' capital on the Chicago certificate and Bank of England plan four times over by discounting, without borrowing or paying interest for it, each of the four customers having the same privilege of checking upon your money that you have, the bank counting upon an average forbearance of demand, by circulating its debt in the place of money, so that 20 per cent reserve of specie will enable it to meet these preposterous promises. Whether the promises are in certificates, i.e., notes issued, or inscribed credits called "deposits," makes no difference; the bank creates a fiction of dollars of money, as the Chicago warehousemen created a fiction of bushels of wheat, and with the same effect in degrading the value of circulating capital.

In this country 20 per cent of specie is considered ample for the bank reserves; in England 33% per cent; in France, I think, rarely if ever less than 40 per cent; and the Bank of France, the only currency-making institution in that country, is apt to be in trouble at that; for France has had such sharp experience with "paper money" that "confidence" is not quite sufficient there to give it free scope.

If there be any difference in principle or effect between the spurious wheat traffic of Chicago, now suppressed, and the currency-making of banks, which is encouraged, in degrading the value of circulating capital to the loss of its owners and the country, I must say that, after many years of careful study of the subject, aided by practical experience in active business, I cannot see it. The loss falls first upon the owners of the capital in the local market where the spurious loan is made, and ultimately is distributed through the country.

"Everything," says De Quincey, "that enters a market we find to have some value or other. Everything in every case is known to be isodynamic with some fraction, some multiple, or some certain proportion of everything else." It is by this law of equivalents, this isodynamic or equal force and intensity of value, tending to an equilibrium constantly, but never resting, that money moves from place to place, and that every fraction of capital is attracted by and to every other fraction of capital throughout the commercial world.

"New countries are always understocked." California is understocked. She has not a sufficiency of other capital to reduce its general or average value to a level with her natural and large supply of money, or, what is the same thing, to raise the value of her money to a proportionate or isodynamic* equivalence with her other capital, and it is impossible that she should have it, because of her insufficiency of population and productive power. Hence, capital in general is dear there in money value and real prices are high; in other words, money is cheap; and money as cheap capital leaves California, as wheat and corn leave Illinois, being attracted abroad by other capital according to supply and demand.

No matter what may be the currency in use in this country, whether dollars or promises to pay dollars in circulating notes or demand deposits, so far as it is interchangeable with money, or passes for money, it will follow the California rule of running away from dear capital—from the market where capital is relatively scarce to the market where capital is relatively plenty—from the poor State to the rich one. The western Atlantic States cannot retain a dime more of it than will be naturally attracted to them by their circulating capital; and, if they make a currency of debt among themselves, that currency will as surely fall into the hands of Eastern creditors, in the cities where capital is in greater proportion to currency, as does the surplus money of California. But the result will be widely different; they send out in such case not money and capital, but debt and embarrassment, to return and plague them, whereas California sends money and capital that pays as it goes.

* *Isodynamic,* "Logic of Political Economy," page 49. This scholastic term of Mr. De Quincey's aptly defines the equivalence of money. Montesquieu supposed money to be the equivalent of all other values combined, which is an error. It is the equivalent of each particular thing for or against which it exchanges; but it is the common equivalent, acknowledged and accepted by the trading world. This is the sole peculiarity of money as an exchange value. Other values are equivalents, that pay by the higgling of the market, but money is the only universal recompense accepted without question.

Not that California is ever out of debt to the eastern States. She is comparatively poor, as I have said, and borrows capital of them, by buying goods on credit, her surplus money being of no more advantage to her than an equal value of wheat or of any other surplus capital is or would be. But by avoiding a debt currency, she secures exemption for her capital from a great amount of utterly needless embarrassment, pro and con, in the notes and bonds of individuals for and against the notes and credits of banks, required for no purpose but to create and maintain such a currency, which, in the nature of the case, by expelling and repelling money, precludes a like amount of sales for cash in prompt exchange. At the same time she secures the production, export, and exchange for foreign goods, of large quantities of wheat and other staples that she would not otherwise produce, because the export demand would fall upon the cheapened commodity, money, which would be exported in their stead.

Many a bushel of wheat and of barley, many a pound of wool and gallon of wine, are produced and exported by California more than she would produce if the prices and cost of these staples were raised by a paper currency, since every step in the direction of high prices limits their market. Her facilities for producing these things are such that, notwithstanding her cheap money, she supplies them as cheaply, and, being equivalent thereto in value, they unite with money in the exports. But let her mix paper with her money, and the first dollar of it will be an abnormal depreciation of a dollar in the value of her money, which, there being no new dollar produced to compensate the depreciation and supply the export demand, will inevitably cause a dollar to be exported from her pre-existing stock of money, instead of merchandise. She will have precisely the same additional price to pay for her imports as if she had a new dollar to pay it with, and she will lose the money absolutely in an old dollar by having only paper price, not money value, returned for it.

California might in this way, by adding paper dollars to her circulating medium, nearly divest herself of money, and, notwithstanding her vast production and receipts of gold, come into line with her sister States in suspension and bankruptcy. It is a wonder to me that she has not been prevailed upon to do this already—that cunning men have not persuaded the people of California that they need more "money" to transact their business, and that banks have not been crowded upon them to borrow their capital blindly for nothing, and charge them interest upon it, by calling the instruments of this borrowing "money." It is a blind scheme by which the first principles of justice and common sense in the employment of capital are reversed, and its lenders are made to pay interest to its borrowers, or rather its takers; the result being that so much capital is withdrawn from its owners and the country, and irrecoverably lost. California needs this sort of thing precisely as much as any of our western Atlantic States, or as any other place in the wide world, and that she has it not, argues that she is favored with leading minds wiser than those of Australia where it prevails with a natural excess of money, and where the list of bankruptcies is unexampled and appalling.

The proportion of wealth, active and inactive, to money in circulation is naturally about as 25 to 1; and when a currency that is a mere medium of exchange and not money, is mixed with money, or, as in our present experience, takes the place of money, the proportion of wealth to the whole currency continues the same—that is to say, the aggregate price of the property of the country is twenty-five times the sum of the currency. There is in property what is called by an excellent economist, J. Y. Smith, Esq., of Madison, Wisconsin, "a greediness of price," which secures this result. Every new dollar that enters into the circulating medium is soon taken up in the price of things, and if the dollar is money, the product of labor, that price is value; otherwise it is *price* without value.

Mr. Calhoun, in his speech, March 21, 1834, on the recharter of the United States Bank—one of the most suggestive speeches on banking and currency, I think, ever delivered in Congress—suggests 1 to 25 or 30 as the proportion of *circulation* to the aggregate property of a community. If by this term "circulation" he means to exclude the demand deposits from the currency I object to the idea and to his reckoning, for it is impossible to find the slightest difference in principle or effect between a bank note and a bank deposit payable on demand. The bank note is but a check of a bank upon itself—the holder of any sum of bank notes pays out as much as he has occasion to use at the moment, and keeps the remainder for future use in his iron safe or his pocket. So the owner of a bank deposit pays out in a check the sum he has occasion for at the moment, and keeps the remainder for future use in his bank. It is not the payment, the mere manipulation of the paper, that operates upon the value of money and the price of things, but the whole sum of the demand debt, since the whole acts as a purchasing power precisely as the whole of any commodity in market acts upon the value of that commodity, although nine-tenths or any other portion of it may be at rest in warehouses and seeking demand all the while. Everyone operates in money or goods with reference to his means at hand.

As this question of the nature of bank deposits came up in the currency committee referred to, I desire to be distinctly understood in reference to it. No one doubts that one thousand dollars of coin and one thousand dollars of bank notes in your counting-house safe, which you are circulating in various amounts by daily or occasional payments and renewals, constitute two thousand dollars of currency. Suppose you transfer the whole sum to a bank, check upon it, and renew the deposit to suit your purposes; in what respect is the principle altered or the currency character of the two thousand dollars changed? Or suppose your wife takes one hundred dollars in coin and bank notes to go a-shopping, is not this sum currency? The demand she makes at the shops enters into or is a part of the average purchasing power of the whole circulating medium of the country and the world, and tends to raise prices whether she spends any of the currency or not, and this demand is, of course, *in* the one hundred dollars; for if you did not possess it, someone else would, and would exercise the average demand in it as you do. But your wife meets with no satisfactory bargains, and the currency is deposited to your credit in bank. Is it any the less currency than when it was in her hands? Again, you sell a quantity of coffee for a merchant's note which you get discounted, and the net sum of the discount is added to the deposit to your credit. You check upon this sum as you did upon the coin and notes. All these items are mixed into one deposit, one power, and one effect. You make an average use of this deposit, as you make an average use of the goods in your warehouse, in the operations of exchange; and, in the long run, there will be a proportional amount and purchasing power of currency and of goods at rest in this way throughout the community. Yet all are in circulation, because all are being offered in exchange.

As to the word "currency" there can be but one rule for its interpretation, and that is very plain. Currency is what and where money would be under a metallic system of like volume, free of hoards; and it is obvious that, under such a system, a great, if not the greater, part of the money employed in trade would be in banks on deposit subject to check at sight; and another great part would be held by the banks against certificates of deposit in circulation instead of bank notes. This simple rule distinguishes currency from the ordinary commercial notes, bills of exchange and ledger debits, which are of the nature of mortgages on property, and represent capital as against money when offered in market. No one pretends to consider a promissory note or bill on time, received for goods, as money. No one debits it to his cash account, and no debtor holds money in reserve against his bills running to maturity. The effect of selling such bills in market is to convey the equitable ownership of so much of his goods or capital; it is to demand money or currency, and so far to appreciate the value of money and reduce general prices.

Whereas, if the note is manipulated by a bank, and its proceeds are mixed with money in a deposit, the sum at the credit of the depositor acts as it would do under a metallic system on the money side of the exchanges, as money or currency against other capital, tending to depreciate the value of money and raise general prices, directly the opposite of its power as a promissory note.

I beg leave to dissent from the opinion of John Stuart Mill and the English country bankers on this point entirely. Under an exclusively metallic system such bills would exist and be discounted by banks for money actually in their possession. The bills, if sold, would act then, as they act now, as other capital before the discount, and as money or currency in their proceeds afterwards. In their nature they are instruments of legitimate credit having no tendency to inflation whatever. The source of inflation, and of the commercial crisis, is in the nature of the system which pretends to lend money, but creates currency by discounting such bills when there is no such money in existence. The English bankers endeavor by their argument to escape the odium of the commercial crisis, and cast it upon the increase of credit in overtrading; but they are in error. Prices are raised by currency, not by simple credit.

In computing the currency, of course, the bank reserves must be deducted from the total of bank demand liabilities, and placed where they belong in the reckoning, or we shall reckon the same thing twice over. Then adding the net sum of these liabilities to the money in circulation, and now to the outstanding government notes also, we have an amount of currency that is as 1 to 25 of the aggregate price of the property of this country, as nearly as an estimate can be made. Reckoning thus, by the aid of the bank returns at Washington near January 1, 1861, I find the currency in the latter part of 1860 amounted to 640 millions of dollars, which sum multiplied by 25 gives 16,000 millions of dollars as the aggregate price of the property of the country. This corresponds with the census estimate of 1860.

As London is the settling place or great clearinghouse of the commercial nations, we can determine by the course of sterling exchange very nearly the relation of our currency to its natural volume at any time. Nine and a half per cent nominal premium for sight bills, as every merchant knows, is the true par of exchange on London. By the latter part of 1860 sterling exchange had fallen below this point materially, indicating very clearly that the currency was below the true money volume. Had there never been a bank note or uncovered demand deposit in existence, we should have had 640 millions of dollars of gold and silver in circulation at that time unquestionably. As it was, we had but about $200,000,000; 440 millions of money being repelled by the kiting of debt against debt to maintain a bank currency within the amount naturally belonging in solid money to the capital of the country. I believe that capital has increased so much that, but for the repulsive power of the debt currency, we should have at this time

800 millions of gold and silver in circulation, instead of which we have a mixture chiefly of poverty and embarrassment, amounting to 1,400 millions, maintaining average prices at 75 per cent above money value, real estate being now in the greatest fever of inflation, other things having subsided a little to make room for it.

Now, in view of the ratio of 1 to 25, let us inquire what California would need to do to retain the gold she now sends away, and we may learn what any State must do to avoid sending to other States a currency of debt to her own loss and embarrassment, instead of merchandise to her profit and advantage. In round numbers the population of the United States in 1860 was 32,000,000. It will be observed, therefore, that the average of currency was $20 per capita for the whole country. California cannot retain so much as this, because she is young in enterprise and opportunity, and her capital does not equal the average of all the States. But allow her, for argument's sake, $20 per capita, and, her population being in round numbers 400,000, she can retain but $8,000,000 of money free of hoards. What she may retain in hoards is of no consequence to our argument, as it is of no consequence in commerce, nor in determining the value of money. The aggregate price and real money *value* of the developed property of California is, then, $200,000,000, according to my computation as 25 to 1 of the currency, and this sum is, I think, an extreme allowance.

San Francisco receives yearly $50,000,000 of gold, which, the currency of her State being full, she sends to the Eastern States, and to foreign countries. To retain this gold California must produce, every year, one thousand, two hundred and fifty millions of dollars ($1,250,000,000) of wealth of all sorts, over and above her present annual production. This, and nothing less than this, as 25 to 1 of the money, will enable her to retain all this gold. Any one may see at a glance the impossibility of her doing any such thing, since after eighteen years of great industry in mining, and in every other sort of production that would present a promise of profit to the most acute and enterprising people that ever colonized a country, she has accumulated, altogether, but 200 millions of property.

Here let me remark that I prefer this method of estimating the wealth of a community to the most elaborately prepared statistics, since every portion of wealth, whether in market or out of it, must have an estimation in price, and that price must depend upon and fluctuate with the volume of the currency. It is possible to make a comparatively satisfactory and accurate computation of the currency of this country from the ample returns of the banks to the government, intelligent commercial estimates of the movements of the precious metals, and the treasury report of its own issues. No other nation is, or ever was, so well supplied with information in these particulars. Merchants and bankers generally know how to keep accounts and state them. But it is impossible to make anything satisfactory out of the figures supplied by the various government agents, widely distributed over this great country, who are selected, not for their competency, but for their politics, or the politics of those who have an interest in finding them employment. Many of these men are turned into office ignorant of the work they have to do, and turned out again before they have time and opportunity to learn it, if they would, by the whirligig of partisan politics which turns upon the rule: "To the victors belong the spoils," ignoring experience and qualification entirely.

The Director of the Bureau of Statistics, Mr. Delmar, in his report to the Secretary of the Treasury, November 14, 1867, gives some instructive and amusing examples of the character of government returns that deserve attention in this connection. Referring to certain tabular statements, of a few years past, he says:

> The tonnage returns were swelled with thousands of ghostly ships—ships that had gone to the bottom years ago. Newport swelled her coastwise movements with the daily arrivals and departures of the Sound steamers; and at some of the border districts, every time a ferryboat entered and left a slip, her tonnage, against a standing regulation of the department, found its way into the account of the foreign entrances and clearances.
>
> The collector of Pembina reported that he had erroneously returned imports for exports, because he had a *felon* on his finger.

The imports for 1861 have been variously reported at $286,500,-000, up to $352,000,000; those of 1862, from $205,700,000, to $275,-

300,000; and minor discrepancies follow in l863-'4-'5. The exports of 1861 are returned in different reports all the way from $227,-900,000 to $389,700,000; those of 1864 from $281,800,000 to $320,-200,000; and differences of smaller amounts occur in those of l862-'3-'5.

Now, if the customhouse can do no better than this, what can we expect of the departments of more recent and imperfect organization? In computing the wealth of the country I am better satisfied to rely upon the currency.

Returning to California experience, we find that State cannot keep her yearly surplus of money, $50,000,000, in circulation at home, unless she can make a yearly addition to her property of $1,250,000,000 in money value.

By the same rule Illinois, for example, could not keep $10,000,-000 of bank currency in circulation, in addition to her present supply, unless she could simultaneously produce $250,000,000 of wealth of all sorts over and above the regular production, measuring price by the existing depreciated currency. And if she produced the wealth, she would have the currency without producing it, because she would sell goods to other States and receive their currency in return. It is beginning at the wrong end of the operation to make the currency before the capital, because if she does so she will buy goods of other States, remit currency, and run into debt to them, and into difficulty altogether, unless the currency is itself capital, i.e., *money,* and then, of course, she will remit the surplus without embarrassment, and with as much advantage as she would remit anything else, by paying, instead of running in debt, for the returns.

The population of Illinois numbers at this time, probably, 2,200,000, and it may be presumed that her capital equals, per capita, the average of all the States. Hence, at $20 a head, she can maintain $44,000,000 of currency in money, or at par with money and no more: multiplied by 25 this gives $1,100,000,000 as the aggregate money value of the developed wealth of the State. As all but six or seven per cent of the wealth produced in any State, or in all the States, in any one year is consumed in the same year, the accumulation of $250,000,000 of value, in addition to the existing wealth of Illinois, must require much time and labor; but $250,000,000 of *price* may be added to that wealth in very little time, and with very little labor—only so much as is needful to make speculations and promises, or fly-kites of exchanged paper, that by bank discounting will serve for inscriptions of credit to the amount of $10,000,000; provided all the other States expand their circulating medium in the same proportion. But if they do not unite in the expansion, if they keep down their circulating medium to its present relation to capital, Illinois will buy of them in price more than she sells to them; the $10,000,000 additional of her currency will be diffused temporarily among the States, Illinois retaining but her fraction according to capital, and in due time the whole will return "to plague the inventor" as surely as chickens come home to roost. It is utterly impossible for Illinois, in the long run, to maintain a dollar of currency in relation to capital more than the other States.

Let us not forget that science is experience classified and recorded, but its theory is what men think about it, which may be as wide of the truth as Ptolemy's doctrine of the immobility of the earth. Illinois has had ample experience of the truth in this matter of a debt currency, and one would think might by this time have reduced that experience to science. By simply exchanging bank liabilities, payable on demand, against the liabilities of various States, payable, as it now appears, mostly never, she had accumulated a currency of bank notes and demand deposits amounting to $13,000,000, the banks having only $300,000 of specie to pay it with. This was the work of nine years—1851 to 1860, and it culminated in extensive financial ruin to the banks and people of that State.

This, being an addition from time to time to the natural sum of the circulating medium of the State, by raising general prices and furnishing "accommodation" to merchants and farmers, encouraged the holding over of domestic products which checked production, and the sales of merchandise to other States, while it stimulated purchases from them, and the consequence was, as I have said it always must be with such a currency, it took the place of money cheapened by excess, and was remitted to the credit or cities of the east. Thence it returned mostly in the traveling bags of bankers', brokers' and merchants' agents, who met with all sorts of evasion and opposition to their demands for payment. They were told that they were paid already. Was it not *money* they had in their bags? What more could they want? It is good money, "well secured currency," said the Illinois people, and when some of these agents could not see it, they were, in certain interior places where a bank was about as necessary as the Temple of Jerusalem, hustled and mobbed out of town. This sort of experience ought to show that debt is not money, and that the promise to pay a thing is not the thing itself. A crash of bankruptcy sponged the slate of this business.

It is well to observe in this connection that the wealth of a community naturally divides itself into three fractions, say two-fifths of circulating capital, two-fifths of fixed capital, and one-fifth of unproductive, enjoyable wealth. In the fixed capital I include wealth intended for productive purposes, but not ready for market, and, therefore, not circulating or offered in exchange. Of these fractions only one, i.e., the circulating capital, which is in the ratio as 10 to 1 of the currency, makes any demand for, or has any influence upon, the value of money that will prevent its export, so that we have only to persevere in the production of circulating capital to secure the utmost degree of material prosperity, and all the value in money or currency that we can possibly possess. Any scheme to produce or procure more money or currency than will naturally or necessarily be attracted by and to this circulating capital, except on the California principle for export, is worse than folly; it is mischief, because it increases debt, wastes capital, and substitutes poverty and embarrassment for wealth.

And it will be observed that in creating circulating capital we increase *pari passu* the other divisions of wealth, into which it distributes itself by a law that is as certain of obedience as the law of gravitation; hence, after all, we must put twenty-five times the labor into the production of general wealth that we employ in the production or procurement of money, or it will fall in value, and run away by its depreciation, which, if natural because of the increase of gold and silver, is a gain of wealth, like the depreciation of breadstuffs by an increase of the crops, that, but for this increase of quantity, would not be exported; but if unnatural, because of the increase of "paper money," it is a loss of wealth, it merely robs the country of so much pre-existing money and capital, and we might as well throw so much gold into the sea.

In conclusion, let me advise the reader to bear in mind the experience of California and Illinois in the investigation of the currency question; and I take leave to enter a caveat against the deductive method of reasoning on this or any other question of political economy, which is quite too common; that is, from theory downward to fact. The opposite or inductive method, upward from the fact of experience, is, in my view, the true course to pursue with economical questions. Adam Smith's method is deductive. He supposes a wagonway through the air, which "enables the country to convert, as it were, a great part of its highways into good pastures and cornfields, and thereby to increase very considerably the annual produce of its land and labor." By this downward logic, from the clouds to the earth, he finds a saving of gold and silver in the use of "paper money." A paper wheel or a paper machine, which costs less than a metallic one, is another of his metaphors. "A certain quantity of very valuable materials, gold and silver, and of very curious labor," is thus saved for other uses than distributing the revenue of society among its members. Looking from the clouds he does not see that these valuable materials, gold and silver, form, themselves, like other circulating capital, a portion of that revenue which is lost by the degradation of their value through the previous increase of the currency, before "paper money" takes their place.

I have the highest respect for Adam Smith's teaching generally, but this deductive process of his, to prove the profit and advantage of "paper money," seems to me *inductive nonsense*. When we have a wagonway in the air, to reason from, which transports goods and passengers with the directness, celerity and security of railways and earth roads, we shall doubtless cultivate the ground beneath with profit and satisfaction. When we find a paper wheel or a paper machine to do satisfactorily the powerful work of a metallic one, miners and metal workers will keep holiday or starve, perhaps, and then it may answer to accept Adam Smith's theory of "paper money" as scientific truth.

28

Specie Payments*

In view of the discussion which occupies public attention as to the resumption of money payments, it may be instructive to consider whether any legislation or any voluntary action of the public is likely to bring it about. I may as well say in advance that I do not think it is. Not from impossibilities in the nature of the case; but the structure of the currency, the vast powers of self-interest in the erection and support of it through the banking system; the overpowering debtor interest which that system creates by its needless kiting of debt against debt, and the hallucination in the public mind that price is value, so that a decline of general prices is supposed to be a decline of general wealth, are all opposed to it. Debtors must be wronged by any contraction of currency necessary to the resumption of specie payments, as creditors were wronged by the expansion which caused the suspension, and debtors therefore resist contraction.

There are those possible modes of public policy either of which would restore the currency to the par of money, and consequently restore money payments, or the mixed system of interchangeable debt and money, to which we have been accustomed. Neither of these, in my opinion, will ever be adopted; but there is a third mode of proceeding that comes of itself, like the rejuvenation of nature in this latitude after a rugged winter, to which we must look for relief, and in which it will be found. When, however, is

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not quite so certain as the return of spring after a hard winter.

Of the three possible and voluntary methods, the first is to stop the currency at its present volume, and accumulate capital to bring the promise to the par of the gold dollar. I believe I have heretofore given my reasons in this magazine for fixing upon $20 per capita as the normal sum of money demanded by the population and capital of this country.

Population and wealth advance together, in the same ratio, because of the natural law which peopled the earth up to the annual supply of the means of maintenance, with slight and temporary exceptions in the violent proceedings of society. In the United States this conformity is probably less obstructed than anywhere else, and the ratio of increase is, approximately, 3½ per cent per annum, simply compounding each decade.

Assuming the real money value of the property of the United States to have been $16,000,000,000 in 1860, as stated in the census, the following tables will show its gradual accumulation, beginning with nothing in 1770. Of the wealth existing at that time nothing remains excepting the land, and some few old buildings, the natural appreciation of which from the increase of population, and the cost of cultivation, improvements and repairs, amount to more than it was worth then. Hence it is fair to assume that the wealth of the nation has all been created since 1770.

It is remarked by John Stuart Mill that, "The greater part, in value, of the wealth now existing in England has been produced by human hands within the last twelve months." The power of reproduction is not less, proportionately, in the United States. But as, with population, everyone who is born dies, so, with capital, every portion produced is consumed, and accumulation results from reproduction. Of the wealth produced each year all but about seven per cent in value is consumed the same year, whether in peace or in war, leaving net gain on the whole, as shown in the tables, of about 3½ per cent per annum.

For the inhabitants in the latter table I adopt a formula from the Treasury Department. On this scale of increase which for easy reckoning we may call 3½ per cent per annum, we have gained 8,800,000 inhabitants since 1860, and have now, in round num¯

RECKONING BY DECADES FROM 1770

Date	Inhabitants	Accumulation
1780	3,000,000	1422,221,369
1790	3,929,827	553,085,646
1800	5,805,937	746,759,996
1810	7,239,814	1,018,934,728
1820	9,638,191	1,356,483,402
1830	12,866,020	1,810,769,530
1840	17,069,453	2,402,362,610
1850	23,191,876	3,264,035,218
1860	31,443,322	4,425,347,496
Differential fractions		5
		$16,000,000,000

ANNUAL INCREASE FROM 1850 TO 1860

Date	Inhabitants	Accumulation
1851	24,250,000	$392,765,566
1852	24,500,000	396,814,696
1853	25,000,000	404,912,955
1854	25,750,000	417,060,344
1855	26,500,000	429,207,732
1856	27,400,000	443,784,599
1857	28,500,000	461,600,769
1858	29,500,000	477,797,287
1859	30,385,000	492,131,206
1860	31,443,322	509,272,337
Differential fractions		5
		$4,425,347,496

bers, a population of 40,000,000, and wealth in real money value $20,000,000, demanding money for its circulating medium to one twenty-fifth of its amount, or 800 millions of dollars. Less than this of circulating capital in gold and silver we could not have, as money, if the paper folly that we call money were removed from its path, and more we could not retain without an equivalent increase of other capital.

But the currency of this country, embracing bank demand deposits and balances that would be money under a metallic system of equal volume, amounted at this time to not less than

1,400 millions of dollars, being 600 millions more than the sum of money we can hold unless in absolute hoards.

Hence, by the rule of three, as 14:8::1:^{5}‰$_{0}$. The currency dollar of to-day has the average power as a circulating medium of 57 cents of money; or, what comes to the same thing, our general or average prices are advanced 75 per cent above the true money value, at which they stood in the census year 1860. The problem is to raise the power of this depreciated currency 43 cents in the dollar, an increase of capital; in other words, to reduce general prices from 175 to 100, or from 100 to 57, which is the same thing, without contracting the currency. This could be effected in about twenty-one years by an average increase of capital, yearly, of 3½ per cent. Thus, suppose corn to be one dollar per bushel to-day, and we make an exponent of that commodity for our reckoning:—

1868......................................	100 bushels	$100 or	$1.00 per bushel.
1869......................................	lO3½ "	100 or	.9662
1870......................................	107 "	100 or	.9346
1880......................................	l73½ "	100 or	.5764

In the latter part of 1889 we should have 175 bushels for $100, the price per bushel being 57 cents; and commodities in general and services would increase in quantity and fall in prices accordingly. That is to say, we should have thirty-five thousand millions of property, in real money value, to be measured in price by fourteen hundred millions of currency, being an increase in the total wealth of the country of 75 per cent, and a fall in price of 43 per cent, when our currency would be at par with the gold dollar, and money payments would resume themselves.

It is simply ridiculous to suppose that our people would submit to any such lingering process as this, or that production and trade could proceed under it. They are always and immediately checked by a general fall of prices.

As population and capital accumulate a fraction more than 3½ per cent per annum, and compound each decade, we should by this process reach the par of money with our currency, and money payments accordingly, in rather less than nineteen years; but this does not help the case materially. It might as well be a thousand years, as ten or five, of a lingering fall of prices. No such nonsense will be endured voluntarily by the laziest man of common sense among us.

The second plan I propose to consider is to contract the currency legally and gradually, as proposed by most of our financial writers. Suppose we try the effect of a contraction of 100 millions a year. This would cause a fall of prices, first as 14 to 13, then as 13 to 12, then as 12 to 11, and so on, exceeding by a fraction of nine per cent per annum for four years, and compounded with the usual increase of capital, which we have discussed above, it would make the fall of general prices 11 per cent per annum for four years, or 44 per cent altogether in that time. As we need but a fall of 43 per cent, this would bring us to a par currency and money payments within the four years.

But this also is too long suffering and too much of it. Any man of good business knowledge may see this at a glance. No such business can be done in this country.

The third proposition to which I ask attention is to support two currencies, separately, for a term of years as short as may be possible, one of gold and one of paper; but the government must make the paper and control the whole debt currency rigidly and entirely. It must buy the interest-paying public debt for new greenbacks as fast and as far as the bank notes and demand deposit, uncovered by the reserves, can be suppressed, so that the paper currency may be kept full to enable the banks and individuals to discharge their paper obligations with paper at paper prices, and make subsequent contracts for gold. But this power to issue new greenbacks should be in the hands of commissioners to be exercised only to make good the sum of bank currency withdrawn, and prevent a great and sudden fall of paper prices and a financial crisis. Great firmness, integrity and discretion would be indispensable in the exercise of this power.

If five years for example were granted for the circulation of the paper, it might and should be left free as a medium of exchange for all purposes according to the desire and agreement of parties during that period. But the funding system would remain, and it is my belief that the tendency to depreciation of the paper, in the divergence of prices from the gold standard, although modified and restrained by the funding, would be such as to cause the whole to be funded voluntarily during the five years, leaving us at the close of that period a pure metallic currency. Any possible balance then outstanding should be coercively consigned to the funding process. This would leave the banks free to borrow and lend capital, though the instrumentality of money, without limit, and judging from the operations of well-conducted trust companies, they would soon carry their loans to twenty times the amount of their stock capital, since they would be unembarrassed by fictitious credit in their demand liabilities. This fictitious credit in discounting debt out of itself into so-called "deposits," and not out of the pre-existing currency, cripples their loans, on the average, to less than two-thirds over and above their capital stock under specie payments. What trifling business is this compared with what they might do for the benefit of themselves, and the public with an unadulterated currency! Legislation would be necessary in this case to protect old contracts existing prior to the suspension in 1861-2.

Objection has been made to this plan, that two currencies of unequal cost and value will not circulate together; the less will drive out the more valuable one; which is true if the two are interchangeable, but not otherwise.

We have the two currencies now, unsupported by law, but supported by public opinion and integrity in spite of the law, that is, in spite of the paper tender act. California ignores that act entirely, employs money, not debt, for her currency, and buys and sells the greenbacks as she buys and sells other public securities, for their marketable price in money. And our merchants continually traffic for gold in exchange for their merchandise, especially for imported invoices, relying upon the integrity of the debtors. I am not aware that anyone has been base enough to tender greenbacks for gold in discharge of a gold contract. He could do it with impunity in law, but not in public opinion. But we want to get rid of this legal inequity, which so far as it has any real power, supports rogues against honest men, encourages debt, and the absence of capital, the thing upon which all business depends, by driving capital in money out of the country, through an abnormal depreciation of its value in the high prices we pay for imports. It is opposed to all true progress in commerce and national finance.

The great obstacle to this plan of a double currency, or of two currencies, is the huge power of fictitious credit in the banking system, which, as I have said, cripples the loans of the banks and their usefulness, and, in my opinion, ultimately, their profits also. But they believe in it, the people believe in it, and it seems useless to argue that we cannot have the value or the use of money at home and send it abroad at the same time, or have our cake and eat it too, which is what the so-called credit system attempts to do through the circulation of bank debt in the place of money, and pretends to accomplish.

While this delusion continues, although we might, by the use of two currencies for a time, slide easily from the paper currency with its false prices, to a metallic currency with its true prices, and avoid financial crisis, we shall not do it. Moreover we are likely to have a decision of the Supreme Court adverse to the constitutionality of the paper tender act, which may embarrass the greenback circulation, or remove it altogether.

I imagine that circulation might be continued without the legal tender attribute, for the purpose of withdrawing the bank currency, with a saving to the public of the interest paid to the banks on their circulation, and on their fictitious deposits also; but Congress and the people are not up to this idea and, therefore, any third plan of restoring specie payments, and without a crash of bankruptcy the only one, must also be set aside for the present as impracticable.

The fourth and last plan is the old one that comes like the Ghost in *Hamlet,* as the consequence of evil-doing. We have become familiar with, if not fond of it. "Art thou there truepenny?" Sponge the slate with bankruptcy. This is the old remedy, and the only practicable one, since our people will not tolerate any other, nor take warning from their repeated sufferings to prevent the evil which renders the remedy necessary and inevitable.

Undoubtedly this event will be exhibited in due time by the failure in legal tender reserves of some of the large National

Banks, or of some other expanded financial institution bearing the same relation to the banks as did the Ohio Life and Trust Company in 1857, the lesson of which may be read in a child's row of blocks, when one tumbler knocks down the whole line. There is nothing in the system to prevent the failure of the banks in greenbacks, as they have already failed in gold. They have the same temptation to expand and depreciate the currency for the gain of their stockholders, and they are proceeding, as before, in discounting debt out of itself into new "deposits," and not out of pre-existing deposits or currency of any sort. Of course the end is certain, but how near no one can tell.

Of all possible blunders in public economy, that of expanding currency as such, in relation to capital, is the most inexcusable and wrongheaded, because of the self-evident truth of the proposition that the nation or the community having the least currency in proportion to capital has the most valuable money, and thereby, to the extent and power of its capital, the control of the commerce of all others. And without the expansion there can be no contraction. Mining gold is producing capital, and gold is money, or currency, to which there can be no objection, as any excess of gold is exportable; but there is no exporting an excess of paper "money."

While money is the common instrument of the world's commerce, by simply letting it alone we can maintain its value at its highest power, and take the lead of the European nations in commercial enterprise, because they do not let it alone. Every one of them, with the unimportant exception, I think, of Switzerland, tampers with money by adulterating its currency with paper. But we have outdone them all in the folly until we are steeped in debt for money and money value that have no existence, under the strange delusion that the medium of exchange is the only attribute of money, and that capital wealth and the power of *payment* are not indispensable elements of nature. We lend our capital on a mass of public and corporate debt as a medium of exchange, shut our eyes to the fact of the absence of so much capital, and so much means of doing business, and call ourselves paid.

With this degraded currency in hand, if the mission of the Chinese Embassy and the aims of the Pacific Railroad Company have any significance, we are about to suffer ourselves to be plucked, in our central position, by a vastly extended commerce on both sides of the Continent. China and Japan, especially, will sell us their luxuries and knickknacks in enormous quantities at our high gold prices, that is to say, at the low artificial value we put upon gold, and carry away solid money as the cheapest thing we can sell them in return. At the present writing our general prices are as 175 of currency to 100 of money value, whereas, because of its nonusage as the common circulating medium, we are selling 100 of gold for 144 of currency. There is nothing, I think, that we are selling so cheap.

Having in prospect a vast increase of our commerce with the Eastern nations, who maintain by their industry and their exclusively metallic system the highest value of money, there never was an hour when a prophet in political economy was so needed in this country as now.

Except by and through general bankruptcy we shall not bring about specie payments, unless we can by law or sufferance circulate two currencies long enough to cure the disease of depreciation, as "like is cured by like" in homoeopathy. On this principle we must offset the debt currency against the needless public and private debt which is its counterpoise, and extinguish them both together. This we can do without a crisis; but woe unto debtors, including the government, and especially the administration of the time, if the government ever undertakes to experiment in any other way upon the financial system of the nation.

29

Bankruptcy and Insolvency*

The following hypothetical case presents an interesting problem in bookkeeping, and a very instructive example in political economy. I find it in *Gouge's Journal of Banking* published in Philadelphia, July 21, 1841.

It is one of the peculiarities of a paper money system, that, under it, a country may abound in wealth, may owe nothing to foreigners, and yet every man in it may be bankrupt.

This may sound strange to many readers, yet it will be easy to demonstrate it.

Suppose a State to have within its limits one hundred thousand families, and each family to be worth ten thousand dollars. Here will be an aggregate of property of the values of one thousand million of dollars.

Next, suppose each head of a family to dispose of his own property on credit, and purchase an equal amount of someone else on credit. Here is an aggregate of debts and credits of two thousand million dollars.

Then suppose the circulating medium of such a community to be suddenly reduced in amount one-half. Through the shock that would be given to confidence, prices would fall more than one-half; but suppose them to fall only one-half. Here then will be but five hundred million dollars' worth of property, with which to liquidate two thousand millions of debts and credits. Each man will receive five thousand dollars from his debtor, and pay five thousand dollars to his creditor. Yet when all this is gone through with, each man will owe five thou-

* Reprinted from *Hunt's Merchants' Magazine and Commercial Review,* LX (Mar., 1869), 193-200.

sand dollars, and have five thousand dollars owing to him. Everyone would then be bankrupt, although the land, the houses, and all the other wealth of the State would be just what they were before "the contraction" began.

The word "bankrupt" is here employed in its restricted but true significance of inability to pay in money according to contract, and not in the more general sense of *insolvent,* which means unable to pay in anything.

Everyone who attempts the study of political economy meets with obscurity at the threshold from the corruption of its nomenclature in, as well as out of, the dictionary: this is a case in point. No great scholarship is necessary to know that bankrupt is derived from the Latin *bancus,* a bench, and *ruptus,* broken, and that the term came into use among the Jews in Italy who were the money dealers of the Middle Ages. They displayed their money upon benches, and the custom prevailed of breaking the bench of everyone that failed. Hence it is to money dealing that the term bankrupt strictly applies; and as everyone is a money dealer, so far as he contracts to pay money, he is bankrupt when he is unable to pay money according to contract, although he may be solvent as to ability to pay in goods or something else.

And this is the condition of each head of a family in the case presented by Mr. Gouge. Each one owes ten thousand dollars of money; he must say to his creditor, "I cannot pay ten thousand dollars, but I am prepared to compound the debt. I can pay five thousand dollars, and deliver to you the value of five thousand dollars in other property besides to discharge your claim." But as each one has the same value of property to receive as to deliver, the delivery of the property amounts to nothing, and the short way to the adjustment is to declare a general bankruptcy of five thousand dollars each, which cannot be had, or five hundred millions in all, according to Mr. Gouge's example. And this is precisely the state of their affairs; they do not meet their contracts according to the bonds by five hundred millions of dollars, because one-half of the promised dollars are annihilated.

The following entries may elucidate the case as a problem in bookkeeping. Each man will inscribe on his books:

Merchandise Dr. To Stock.
For capital in goods, etc. $10,000
Bills receivable *Dr. To* Merchandise.
For goods or property sold $10,000
Merchandise *Dr. To* Bills Payable.
For goods purchased.. $10,000

Here the contraction of the currency reduces prices one-half, and there follow:

Profit and Loss *Dr. To* Merchandise.
Loss by depreciation $5,000
Cash Dr. *To* Bills Receivable.
Received one-half in money.. $5,000
Profit and Loss *Dr. To* Bills Receivable.
Discharged one-half in bankruptcy.. $5,000
Bills Payable *Dr. To* Cash.
Paid one-half in money.. $5,000
Bills Payable *Dr. To* Profit and Loss.
Obtained release in bankruptcy $5,000
Stock *Dr. To* Profit and Loss.
For balance of profit and loss account...................................... $5,000

By casting his eye over these entries, without taking the trouble to write out the posting, any good accountant will see that the business is reduced to the simple condition of

Merchandise *Dr.* .... *To Stock.*
$5,000

And each head of a family in this bankrupt community stands, as to capital, wealth, and means of doing business, precisely as he did before the contraction, i.e., in possession of the same quantity and value of property only at one-half the price; with this important advantage, that he can export merchandise profitably, to the encouragement of agriculture and manufactures, which he could not have exported before; he and his community having now the world for a market for goods, instead of the money which they would otherwise be forced to ship, and which before they did ship, at its degraded value, that is to say, in paying the high price for imports resulting from their cheapened money. Nothing responds to a depreciation of money by rising in price sooner than imported commodities.

Now suppose contraction could fall upon all alike in the comfortable way above described, what possible advantage is there in the expansion which compels the contraction and adds nothing to capital or the means of doing business? Each of these men may look the other in the face and say, in the words of the old song: "We're all good fellows together"; but what do they gain by the "paper money" system, which carries the price of property to one thousand million dollars, the value of which is five hundred million dollars, since the value of the property is the limit of its purchasing and paying power?

Mr. Gouge, in this instance, neglects to mark the distinction between value and price. The value of the property never exceeded five hundred million dollars, because values are isodynamic equivalents in cost of production, or in material utility appropriated, like land, compounded of supply and demand. A thing destitute of inherent utility which costs nothing, like a paper note, cannot possess value, and, of course, cannot be the equivalent of anything that does possess value. If it could, wealth would be easily produced by simply writing notes.

Mr. Gouge continues: "Now such a case as is here supposed cannot occur in practice. A trading nation will owe more or less to foreigners; and, much as we are in love with the 'credit system,' every man will not dispose of all his property on credit, and purchase an equal amount of others on credit. The case will, however, serve to illustrate the effects of 'a flexible standard of value.' "

Undoubtedly, as far as it goes, it does so very clearly. There is nothing, I think, in political economy more preposterous than the notion that we need any other, or any more, flexibility in the circulating medium than is to be always found in money, i.e., gold and silver. When we think we need more currency, what we really need, and what the best interests of the country demand, is a lower price for things, so that we may produce cheap, sell at a profit, and import to advantage: unless more currency means more capital, which is always desirable, and, in the precious metals, is more desirable, because in more universal demand, both for home use and export, than any other, inasmuch as everything else makes a demand for money.

What is the perfection of a commodity? Certainly universal desirableness. So that the commodity possesses this—so that everybody wants it, and is willing to pay for its intrinsic value, no trader concerns himself about its use as an instrument, or about the ultimate utility to which its value is due.

A dollar is a marketable commodity containing a quantity of gold, as a crowbar for sale is a marketable commodity containing a quantity of iron. The former, being in universal demand, will employ labor more readily, and stimulate industry and the production of capital to obtain it more than any other commodity whatever. The latter, however useful, is in very limited demand, and has but limited power to encourage industry and the production of capital. The trader's interest is in the commodity, not in the instrument. Its value in exchange is what concerns him, no matter what caprice may determine its value in use; and it happens that money has no other value than value in exchange, since it is an affair of trade exclusively. Or we may say its value in use and its value in exchange are coincident.

Mr. De Quincey introduces, by way of illustration, a phial of prussic acid, bought with a view of self-destruction. "It would argue great levity of heart," he says, "to view in the light of a useful thing any agency whatever that had terminated in so sorrowful a result as suicide." But the apothecary does not necessarily concern himself with the purpose of the buyer. To the apothecary the use of the article is in its value as an object of exchange, which he finds in the condition of the market. The most frivolous as well as the most useful thing may thus furnish employment to industry and constitute capital and wealth.

The mistake in regard to money is just here: it is in concern for the instrument, when the thing we need is the object of exchange—the commodity. An instrument of exchange being attainable in an evidence of debt, by simply writing a promise and calling it "a dollar," we fancy the name to be the thing, and thus plunge into embarrassment and bankruptcy. We buy and sell goods on credit to make the name, when we should otherwise buy and sell for cash, and have the thing that we cannot have while the name is accepted in its place. We really change the unit and delude ourselves with a name, when with infinitely less sacrifice of ease we could possess money and so much the more capital and wealth.

Credit will procure capital. What then? As compared with money, credit is the absence of capital to the buyer and to the country. One may buy goods on the credit of a bank or the government, instead of his own; but to suppose that credit organized for this purpose performs the function of money, is to suppose the respectable beggar as well off and as useful in the community as the man of wealth. It pays nothing. This function of organized credit, instead of supplying a marketable commodity to increase the business of the country, destroys one, sinks the value of the commodity—the dollar—and drives it abroad. It is precisely the function of which we cannot have too little; whereas, of the marketable commodity we cannot have too much: because any natural excess of money will be as surely and as profitably exported as the natural excess of any other commodity which, by reason of such excess, falls in value until it meets the exporter's demand. It is impossible to separate the dual nature of money, the instrument and the commodity; and if we put any other instrument in its place, we lose the commodity altogether.

A currency of debt is by nature the very opposite of money, since debt is a thing to be paid; whereas money is a thing that pays. The former is embarrassment; the latter capital, when offered in exchange, and wealth always; and the first dollar of debt organized into currency, instead of supplying the means of paying the price it creates and of meeting the contracts based upon it, becomes itself an additional contract and a demand for more money or capital to pay it with. Instead of satisfaction it is hunger; and accordingly we find the greater the amount of circulating notes and bank demand deposits, uncovered with specie, the higher is the rate of interest, and the greater the distress for money, until it reaches a crisis and an ultimate settlement in bankruptcy.

In the hypothetical case under consideration, the individual debtors pay and receive equally, upon the clearinghouse principle; but one rascal or Shylock among them would throw the whole settlement into confusion, and for the sum of dollars that he would grasp unequally they would be insolvent as well as bankrupt, inasmuch as one could not pay the other through the whole line.

In the discussion of the currency question I have had occasion to remark that, for every dollar of currency annihilated by direct contraction, there must of necessity be about ten dollars of bankruptcy in the community. Some intelligent friends of mine, for whose opinions I entertain the highest respect, have not been able to agree with me on this point, which, it seems to me, Mr. Gouge's example illustrates very perfectly. Being a mere matter of illustration, that example takes no note of the division of stock or of the natural proportion of money to other capital, but merely assumes that the whole property is circulating capital, to be bought and sold. In fact, however, only about two-fifths of the property of the community is ever, I think, at any one time in the condition of circulating capital, that is, in market for sale or exchange; and, in a normal condition of affairs, about one-tenth of this circulating capital is money.

Hence our imaginary community, with the aggregate price of one thousand million dollars in circulating capital, would have one hundred million dollars of currency, so that the contraction of fifty millions of currency results in five hundred million dollars of bankruptcy, or five thousand dollars for each of one hundred thousand individuals, as stated in the example. By no means can this result be avoided in the ratio of the contraction of the currency to the indebtedness of the community; but no approach to such equality of adjustment as in the case supposed is possible.

Whoever happens to owe, in proportion to the value of his assets, more than the proportional contraction of the currency, becomes inevitably insolvent as well as bankrupt. Moreover, a general code of easy morality prevails among debtors in distress as to helping themselves to the property of creditors; cunning and high-handed villainy scramble in the confusion of a financial crisis; opportunity and privilege, such as may be enjoyed by a bank director or bank favorite, enable some men to avail themselves of more than their equal or just share of currency and capital; all these and other influences render an equitable settlement of debts and credits in every crisis of a factitious currency system utterly impossible; and I venture to say that every direct contraction of one dollar of such a currency always was, and always must be, accompanied by ten dollars of absolute insolvency. An insolvent is no less an insolvent because he tides over his payment, and throws his deficit, through cunning or privilege, upon other men.

Now let us apply this rule to the present condition of financial affairs in this country. The currency, including demand deposits, must be reduced six hundred millions of dollars, according to my estimate, so that sterling exchange, which to-day—February 23d—is at 46 in greenbacks, shall fall to 9½ in greenbacks for sight bills, before specie payments can be maintained. The paper currency will then, of course, be interchangeable with money, which will be raised in value to an equality with merchandise, so that we can ship merchandise as profitably as money. By any scheme of direct contraction this will involve six thousand million dollars of bankruptcy and insolvency. There is nothing wonderful in this conclusion, if all the indebtedness running to maturity on the greenback unit must respond to the money unit in demand for payment; and this is the theory of direct contraction, whether gradual or rapid.

But when any such scheme shall be put in operation, its two forces or elements, so to speak, will immediately change places. It will not long be the contraction of the currency that will cause the bankruptcy, but the bankruptcy that will contract the currency. As in 1860-61 the bankruptcy at the North, resulting from the repudiation of debts at the South, annihilated so large a portion of the demand deposits of the banks, which constitute the most effective part of the currency always, that the aggregate currency of the loyal States fell below the natural and necessary specie volume, and made money so much more valuable than merchandise here that gold poured into the country a million dollars at a time by nearly every steamer arrival from England during the year 1861.

So it will be again. Contraction may begin it, but the positive and negative poles of the scheme will very soon change places.

When bank accommodation fails, bankruptcy comes into play, soon takes the lead, and one tumbler here and there knocks down a whole line, until the securities, against which the deposits stand, fall, and the deposits with them. Banks being pressed with their notes must redeem them, and avail themselves of their securities in the hands of the Comptroller to purchase greenbacks or specie. What effect this will have upon the prices of government bonds in connection with the general pressure of individuals to realize upon securities, may be conjectured. But in this way we may reach specie payments, without doubt, through a flood of bankruptcy. It is the only way that has thus far been proposed in Congress. Is there no other or better? There is a better way, as I have already indicated in this magazine.

In the issue of October last I suggested supporting two separate units and currencies, gold and greenback, for a specified time, during which indebtedness fairly contracted by the greenback measure may be discharged in greenbacks, or their interchangeable equivalent, bank currency, and new contracts made in gold. This must be the basis of any *equitable* plan of relief from our present financial difficulties. It is a method of indirect contraction that will save harmless every man who is solvent at present prices; those who are not so cannot expect to be saved by any method.

Since writing the October article I have come to the conclusion that the plan may be more simple in its details, and more speedily accomplished, than I had before supposed. The paramount question is, does a majority of Congress really desire a resumption of specie payments? If so, the only obstacle to be removed is the principle of fictitious credit in banking. The way to cure a disease is to attack its source. The principle of fictitious credit is bankruptcy. The banks are never in a condition to meet their payments *on demand* according to contract, even when their currency is called convertible. They owe hundreds of millions of dollars payable on demand, more than are possessed by the whole country, in their best condition, and under an uncertain forbearance of demand, we are as practically bankrupt as Mr. Gouge's example represents his imaginary community to be. But our present extra muddle comes of the one hundred and fifty millions of fictitious credit plunged into the currency in the fall of 1861, with subsequent additions. Extinguish this principle in the banking system, prospectively, by taxing the uncovered demand liabilities of the banks out of existence, the tax to take effect one year after the passing of the act; provide for the voluntary funding of greenbacks by an immediate issue for that express purpose of four or five per cent twenty-year bonds, principal and interest payable in gold, every greenback to be destroyed as soon as funded, and no other legislation in regard to specie payments or the currency will be necessary.

Under this policy paper prices could not fall to embarrass debtors; on the contrary, they would have a tendency to rise, which would be checked by the funding, so that they would remain comparatively steady, while coin would gradually fill the channels of circulation, without panic or crisis, until by an increased production and export of merchandise, we should accumulate a metallic currency, and the uncovered paper currency would disappear altogether.

I say the uncovered paper currency, because a notion prevails that no paper would circulate under a metallic system. Certainly the banks would furnish certificates of deposit for circulation under such a system; the difference being that they would have coin in reserve, dollar for dollar, and so much capital, which, under a paper system they have not. And the difference to the country would be in the production of commodities to exchange for gold and silver that under a paper system are not produced. Hence producers are more employed and enriched by a metallic system, and the aggregate capital of the country is augmented accordingly.

The current commercial debts of this country mature in about seventy days on the average; so that twelve months will be ample time for their readjustment on a gold basis, and there need be no apprehension of a renewal of paper contracts under the certainty of the withdrawal of the paper medium, as no one will contract at paper prices knowing they must be paid in gold.

By no other plan or on no other principle, in my opinion, than this of a double currency, temporarily maintained for a specified time, can we escape the bankruptcy and insolvency that form the text of this article.

30

The Financial Question*

What is repudiation? What is a dollar? What is money?

These specific inquiries embrace all that is essential in the great unsettled question of our national finance. Let me endeavor to reply to them scientifically, uninfluenced by political prejudice, or by the dogmatism of writers of any party, or of any shade of opinion.

Repudiation is the denial of the validity of a contract, disavowal of an obligation, and refusal to comply with its terms. On this point I think there can be no two opinions. Now, what is the obligation of debt in this country? Read it on the back of the greenback in your pocket: "This note is a legal tender for all debts, public and private, except duties on imports and interest on the public debt." This is equally plain on the back of the note, and in the law authorizing its issue. Nor is there any question that a legal tender involves the compulsory acceptance, as *a dollar,* of anything which Congress decrees to be a dollar, in discharge of a debt, even if it be, as in the case of the greenback, but the evidence of another. The substitution of debt for debt is not indeed payment; and the law, in saying that the note of the government is *payment,* says an untruth; but it is a "legal tender," and hence a forced loan.

It takes two to make a bargain; which of these is the repudiator in this case? Obviously the creditor, when he refuses to accept the

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greenback according to the terms of the contract; and the talk about repudiation, of which we hear so much in reference to the 5-20 bonds, is all on the wrong side.

I do not see that the opinion of S. P. Chase, or of Jay Cooke, as to the character of these bonds, is of any more consequence, or is any more binding on the conscience or the capital of the nation, than the opinion of any other citizen who may or may not have been concerned in their sale immediately.

Facts of experience show that, under the notions of political economy prevailing everywhere, the sovereign can make a unit of price out of a bushel of beans, or a red herring, or a paper token, or anything else, and both debtor and creditor must be bound by it. To my mind it is false economy, as well as great folly and injustice; but no opinion which favors a sound political economy is popular or considered practical at present, because privileged classes of commanding influence are opposed to it who gain by the wrong.

But an ex post facto law is a nullity. The Constitution of the United States expressly declares that no such law shall be passed. Hence the greenback is not a legal tender for any debt contracted prior to February 25, 1862, the date of the act which authorized the issue of the legal tender notes.

What, then, is a dollar? It is a thing of law, and not of fact, independent of law. Every government, I believe, makes the mistake of establishing arbitrarily a money unit different from the unit of weight, claiming the right to alter it in weight and quality at will. Formerly this was done notoriously to cheat the public creditors. So that, everywhere, at least in Europe and America, law, and not commerce, determines what the unit of price shall be, and even whether it shall be a ponderable substance, and money, or not money. If government can change its substance, or alloy the coin at will, 10 per cent, or 20 per cent, or 40 per cent, and still give it the same name, and compel its acceptance at the same nominal value, why not alloy it 100 per cent, that is to say, eliminate the money, and establish a currency which is not money? And this is precisely what our government has done in making a legal tender of the greenback dollar.

I think government has a Constitutional right to do this by the power to borrow money, which implies the choice to issue evidences of debt in any form that may serve its purpose; also, by the power to regulate commerce and the currency, the last being implied in the power to regulate the value of money: the moral right, as well as its expediency, is quite another thing.

It is true the inference may be drawn from the inhibition of power to the States to emit bills of credit, or make anything but gold and silver coin a tender in payment of debts, that the framers of the Constitution intended to establish a hard-money government; but this is only an inference. And, unfortunately for this view of the case, the principle had lapsed already on the adoption of the Constitution; for the Bank of North America had emitted bills of credit, as well as loaned its credit in deposits, as money, without money, which had expelled so much money from the country. So that a specie currency, with this principle in operation, was impossible from the first.

The original dollar was coined in Bohemia of a troy ounce of silver, the fineness of which I do not remember to have seen stated. This was superseded by the Spanish dollar, weighing 416 grains of standard silver, about nine-tenths fine, and the latter was adopted as the money unit here prior to the establishment of the mint. The first American dollars were struck in 1792 to conform in weight and fineness to this Spanish coin. The mint dollar afterwards underwent several alterations, until 1853, when the coinage of the silver dollar ceased and the gold dollar became the unit. This coin contains 25.8 troy grains of standard gold, nine-tenths fine. The real gold dollar, therefore, is 23.22 troy grains of fine metal which is our present money unit, by and upon which all our foreign exchanges are reckoned. But our currency unit, for all purposes but the payment of duties on imports and interest on the public debt, is the dollar greenback, which is essentially a paper token. Thus we have two separate legal dollars, one of money and one of debt.

Since 1853 our silver dollar has been coined only in halves of 192 grains each, making a reduction of about 8 per cent from the weight and value of the mint dollar of 1792. But in Europe the variations of the dollar have been much greater than in the United States, except that it is there always made of silver. In Germany, its birthplace, where its original weight was an ounce, its contents in pure silver vary in different localities from 252.6 to 271.8 grains, the standard metal being alloyed variously, so that by our gold standard it is valued at 70 to 75 cents. In Prussia the *thaler,* or dollar, of full weight contains 342 ½ grains of standard silver, alloyed 25 per cent. In Italy the *tallero,* the Italian dollar, weighed 454 grains, and was alloyed 40 per cent. I believe this coin, like the old Spanish dollar, is out of circulation. Enough is here presented to show that the dollar is a creature of government and not of commerce; that it is subject to the most arbitrary alterations by princes and legislators who are wholly ignorant of the effect of their measures, ignorant of the nature of money, of financial science and of political economy altogether.

More obscurity in political economy, and more confusion to commerce, result from the ignorance and folly of governments all over the world in separating the unit of money from the unit of weight, and tampering with the money unit, under the notion that they regulate commerce and the value of money thereby, than from all other causes. Instead of regulation, every such act is disturbance; the only regulation in the power of government being that of prevention, which shall prevent individuals and corporations from disturbing the normal value of money with a false currency in making credit in notes and deposits without value received and in counterfeiting.

Now let us consider what is money? Money is a matter of commerce independent of government. It existed before government, and records of its use appear in the dawn of history. It is a commodity which, before it was tampered with by princes to cheat their creditors, circulated and was exchanged by the same unit of weight as other ponderable substances. 1,860 years before Christ "Abraham weighed to Ephron four hundred shekels of silver, current money with the merchant," in exchange for the cave of Machpelah. The shekel was an ordinary Jewish weight equal to about half an ounce avoirdupois, having no more relation to money than to any other commodity that circulated by weight.

Everyone knows that the British pound sterling contained originally a pound weight of silver, and so did the French livre.

From the Conquest, A.D. 1066, to the 28th of Edward I, A.D. 1300, the pound weight of silver was coined into the pound sterling, rather more than eleven-twelfths fine. That is, the pound sterling contained 11 ounces and 2 dwts. of fine silver, and 22 dwts. of alloy. Under this king, in the latter year, the first depreciation appears when the pound of silver was coined into £1 0s 3d; but in the reign of Edward III, A.D. 1344 to 1356, the depreciation was extended to 20 per cent, the pound of silver still of the same fineness, being coined into £1 5s, so that 25 shillings were degraded to the original value of 20 shillings. Gradually, until the fifth of Edward VI, a further depreciation took place when (A.D. 1551) it reached its climax, the fineness of the silver being reduced to 3 ounces in the pound weight, and the debased metal was coined into £3 12s. Both these measures of depreciation reduced the value of the pound sterling eleven-twelfths from that of the original pound sterling or pound of silver, leaving to the new coin of one pound but the original value of Is 8d.

It seems that the sum of £120,000 only was so coined, and in the same year the standard was raised to 11 ounces of fine silver to the troy pound. This pound of standard metal eleven-twelfths fine was then coined into £3. It is remarked in James' essays that "the coinage of debased silver money in the fifth year of Edward VI of 3 oz. fine ought more properly to be considered as tokens," which is very true, but it should be understood that all coins are tokens and not money, so far as they consist of base metal. The alloy is always reckoned of no value, and as that which is of no value will purchase nothing, and make no payment, the alloy in coin is not money, since money is a universal purchasing and paying power.

During all these years, from the Conquest, or at least from the reign of Edward I, the notion prevailed that the will of the sovereign determined what should be money, and what should be the value of money, by the name of the unit. Calling a thing a pound sterling by authority was supposed to secure a uniform value under all its variations of weight and quality.

The world has pretty thoroughly outgrown this foolish notion, but not quite. There are yet people in this country, of pretensions to scientific knowledge, who believe that Congress can by enactment determine that anything which it chooses to call "a dollar," to be paid and received as a dollar, shall have the value of a dollar of gold coin containing 23.22 grains of fine metal, in which all the value of the dollar lies. This nonsense comes of the absurd custom of making and continuing a unit of money that is not a common and familiar unit of weight, like, for example the troy or avoirdupois ounce or pound.

Here let me remark, episodically, that, if we in this country are to adopt the French metrical system of weights and measures, as I trust and believe we shall at no distant day, it is to be hoped that we shall have nothing to do with the franc as the unit of money, but come at once to the gramme coined in gold, since the gramme is the French unit of weight. The gramme equals $15^{433}/_{4000}$ English troy grains; hence, if alloyed one-tenth, like the present Federal and French money, it would make a coin equal to $.59^{83}/_{400}$ of our present gold dollar or nearly sixty cents. To avoid the inconvenience of having so small a coin solid, it should be made and expanded in a ring. As in any absolute change of the unit, a fraction for reckoning, in the translation from the old to the new currency, is unavoidable, we may as well have one fraction as another; and the sooner we get rid of the corrupted, blinding, preposterous, and unmeaning *dollar* the better, if we can have the plain unit of weight in gold in its place.

To return now to our immediate inquiry: What is money? it is necessary to say that in every alteration of the coinage of England, before the establishment of the Bank, general prices rose and fell to a corresponding degree; rising with the depreciation, and falling with the appreciation in quality of the unit, only excepting variations arising from the difference in the quantity of other circulating capital, such as the fullness or scarcity of crops and production generally. The alterations of the coin in England have been great enough, as I have already shown, to mark this feature distinctly: and the proof is plain that money is pure unwrought gold and silver, and nothing else, differing from bullion only in the alloy or impurity of the metal, which must be eliminated to determine the quantity of money it contains.

As has been remarked already, the world has pretty thoroughly outgrown the notion that the fiat of the sovereign can determine the value of money by operating upon the unit and debasing the coin; but it has only begun to see that the value of money can be immediately and disastrously disturbed by abnormal banking, which operates directly upon the currency, as well as by the paper issues of government. This is an evil infinitely worse than debasing the coin directly, because it amounts to a debasement of the coin in effect, and a loss of capital into the bargain.

By debasing the coin directly, government gets the advantage, as a debtor, for the difference between the new and the old unit, by paying a less quantity of money than its debt was contracted in, and it gives to every other debtor the same unjust advantage over his creditor. But here the mischief ends; no loss of national capital results therefrom because the foreigner, who sells goods to us, must accept the debased coin which he can exchange only for its true equivalent in the less quantity of gold or merchandise for export. Whereas, when debt is converted into currency, either of notes or deposits, the sum thus added to the previous currency is as complete a debasement of its value as would be the addition of a like proportion of base metal to the coin. The foreigner accepts the debased currency for his goods, and immediately exchanges it for gold at par for its full amount, through the convertibility of the bank notes and deposits, and the loss by the debasement is thrown wholly upon ourselves.

I am indebted to no authority for this doctrine; it is self-evident in my opinion. Through some leading mind it will some day enlighten Congress and make an end of "paper money" in this country. Long after I had presented it in this magazine I discovered that it was maintained by Adam Smith, although in direct contradiction of the "paper money" theory which he seems to have contrived as an apologist of the system of the Bank of England. In the *Wealth of Nations,* Book 4, Chapter 5, on Bounties, he says:—

That degradation in the value of silver, which is the effect of the fertility of the mines, and which operates equally, or very nearly equally, through the greater part of the commercial world, is a matter of very little consequence to any particular country............

But that degradation in the value of silver, which, being the effect either of the peculiar situation, or of the political institutions of a particular country, takes place only in that country, is a matter of very great consequence, which, far from tending to make anybody really richer, tends to make everybody really poorer. The rise in the money price of all commodities, which is in this case peculiar to that country, tends to discourage more or less every sort of industry which is carried on within it, and to enable foreign nations, by furnishing almost all sorts of goods for a smaller quantity of silver than its own workmen can afford to do, to undersell them, not only in the foreign, but even in the home market.

This is directly in conflict with the teaching in other parts of his book, that "paper money" can be made to economize the precious metals through the operations of banking, since the paper or bank credit, on its introduction or its increase, must be an addition to, and a consequent local degradation of, the value of the pre-existing currency, including silver, of course. The *Wealth of Nations* is made up of disconnected lectures; the author seems to have altered his opinion at times, and to have forgotten at one time what he said at another in relation to money.

But an older and a better authority on this point than Adam Smith has recently been brought to my notice by a controversy in the *London Times*. In 1757 Joseph Harris, then master of the mint, wrote an *Essay on Money and Coins,* in which my doctrine is set forth better, perhaps, than I can do it myself. McCulloch, the economist, who procured the republication of this book by the Political Economy Club in 1856, describes it "as one of the best and most valuable treatises that has ever seen the light." Mr. Harris says:

Supposing the sum total of money, real and fictitious, now annually circulating in this country, to be 100 millions; 20 millions of which is in cash, and the rest in paper credit both public and private. If this paper credit be increased, by the creating of more bills, suppose to the amount of ten millions; one of the following will necessarily be the consequence: Either all our commodities will rise ten per cent in their nominal value, which will render them too dear for foreign markets; or this addition will drain away ten millions of our cash, and so impoverish us in reality to that whole amount; or the effect most likely will be partly the one, and partly the other; but whichever it is, the nation will be equally damaged. May this be ever a caution to statesmen, how they listen to projects that must clog our trade, banish our coin, and in the end bring on general bankruptcy.

Nothing can be plainer than this; but it is only a better utterance of the same doctrine that I have held, and expressed in these pages, for many years.

Our true financial policy, then, is to abolish the fictitious money, or credit in currency, altogether, and thus maintain the highest possible value of money, so that we may produce and buy cheap and sell dear. Higher than the value of gold in the markets of the world we cannot keep it if we would, because gold will accumulate, both by production and import, the moment its purchasing and paying power is appreciably greater here than elsewhere. Let us so regulate the value of money as to restore it to its natural position as a commodity, and thereby so regulate commerce that we may produce commodities more abundantly, as well as cheaper, build ships and sail them cheaper, than the nations of Europe who use a paper or bank currency, and thus we can easily take the lead of the commerce of the world.

As to the pretence that a bank currency payable in coin on demand, without coin in reserve dollar for dollar to cover and pay it, can be limited to the natural sum of money that would circulate without it, which is the theory of Adam Smith, in which he contradicts himself, it is a proved impossibility. And, if it were not an impossibility, it must always be an absence and a loss of capital, as the foregoing illustration of Mr. Harris' demonstrates, and as I think I have demonstrated over and over again in this magazine.

Of the 5-20 bonds I have already spoken. It is, I think, a quibble to deny that they can be legally and justly discharged in greenbacks, but it would be madness to do this by a new and further issue of greenbacks, since it would involve such a degradation of their purchasing power, and consequent rise of prices, as would eventually disgrace and sink them, and the national debt with them, in the hands of their holders, after the manner of the French assignats. No such extreme depreciation of currency will be long endured by an intelligent people. And the loss of the national debt would thus fall almost entirely upon the working classes, who cannot afford to be idle and reject the current circulation.

But if new gold bonds bearing a lower rate of interest, say 4 or 4½ per cent, can be sold at par for the existing currency, as many persons suppose, then surely government ought to accept the opportunity and retire the five-twenties. I confess to great doubt on this point, because it is not a question of national credit, but of the rent of capital in this country.

In England, where the proportion of capital to the demand for its use is greater than here, and the currency is always better, because containing more of the element of capital, and less of debt, 4 per cent annum offers a desirable investment, the average rate there being 3 per cent. But here, where a vast extent of new, rich, and cheap land in market, and vigorous young enterprise, with a currency of debt built upon debt, are pressing upon a comparatively limited supply of capital, 6 or 7 per cent per annum is its needful rent on good securities. It is not easy, therefore, to understand why anybody should lend us capital at 4 or 4½ per cent, even on government bonds. Should Congress try the experiment, and succeed, I shall be very glad to admit that my political economy is so far at fault.

Loanable capital is chiefly home-staying, consisting of goods sold on short credit, the value of which the owners cannot well part with for long periods, and of money which does not run abroad to a higher rent of capital, because its rent is high only where it is scarce, and where capital in general is scarce it is of course dear in exchange value, which is the same thing as saying that money is cheap; that is, goods command high prices. Money does not go or stay where it is cheap any more than other capital. Hence capital in goods runs to California, but money runs the other way, although the rent of capital, or rate of interest, in California is from 18 to 24 per cent per annum on good securities.

We are always sure of having all the foreign capital in goods that we can consume in this country, because our financial system which makes money cheap makes goods dear. The capitalists who take and hold foreign loans in Europe pay the shippers of goods that are sold to us; but in every country such men are but a small minority of the people, and they hold or own, comparatively, but a small proportion of the capital, most of it being actively employed at home.

However, if Congress will tax out of existence the fictitious bank currency of notes and deposits, fund the greenbacks, and thus give to industry and commerce the opportunity to add to the capital of the country a currency of money, which the people and the banks can use in place of the present incubus of debt, the rent of capital, or rate of interest, will fall materially, if not as low as it is in England. We can then not only manage the national debt with ease, but, as I have already said, command the commerce of the world.

These are my candid and carefully considered views of the financial question.

31

The Currency Theories of the Day*

Mr. Walker contributes to Lippincott's Magazine of December last an article to show the damaging character of the legislation of Congress on the currency, during the session of 1869-70, as leading away from the assumption of specie payments, and tending altogether to expansion. I wish to add my testimony to the same effect. But, an objector may ask, "Why, then, is there no rise of general prices and the premium on gold?" The answer is that, so far, the expansion is absolute, not relative. Mr. Walker is dealing with the question in its absolute sense. Is there any more currency than before? of this there can be no doubt. But, relatively, has the currency increased more than the capital of the country during the same time? Perhaps not. And if not, there can be no advance in gold nor in general prices.

Political economy has an unfortunate proclivity for metaphysics, and its literature is apt to run into vague theory and inconsequential discussion, incomprehensible to most men, and of no real importance when comprehended. Mr. Walker avoids this proclivity, partly as a judicious student of the science, but more, perhaps, because of his habits of thought and expression as a practical businessman. There is, however, a logical necessity, in all discussions of the currency question, for considering one element of

* Reprinted from *Bankers' Magazine and Statistical Register,* XXV (May, 1871), 817-24.

complexity which he omits in the essay now under notice—namely, the activity of circulation.

Formerly it was supposed that the value of money was equal to the value of all the property it circulated; but this notion has long been exploded. Yet the truth is not generally seen that money, i.e., coined and unwrought gold and silver, is but a simple commodity, a thing that is bought and sold for what it is worth in other things, having its value, like every other commodity, in cost and supply and demand, as both an object and an instrument of exchange. Its value, therefore, is variable, and is measured by each thing against which it exchanges precisely on the principle of barter. If you sell a barrel of flour for an ounce of gold, you buy an ounce of gold for a barrel of flour. The exchange is complete, value for value, and the money then passes to another. You sell your ounce of gold for a coat, or buy a coat for an ounce of gold; it is but an accident of language which determines the mode of expression, whether buying or selling; and you have made what may be called a triangular barter, having exchanged a barrel of flour for a coat by bartering with a third commodity—money. Other traders use the same money, which, so long as its value is not impaired nor its office usurped by an inferior currency, passes on and continues in market through an endless succession of exchanges.

It follows that the activity of the circulation of money must be as its quantity compared with the quantity of all other things of equivalent value offered for exchange. Perhaps this proposition may not be capable of a perfectly accurate estimate, but I think it is as 1 to 10, approximately, so that the average activity of the circulation of money is to other circulating capital as 10 to 1. Of course, the money will be unequally distributed; some will have much, and some will have little or none, and some, as bankers, may have their whole circulating capital in money.

It will be observed that this estimate co-ordinates or compares money only with finished commodities and capital in market. Other capital not prepared for market, including fixed capital, not immediately affecting the circulation or the value of money, probably amounts to as much more; in addition to which there is out of market about half the same value of unproductive wealth, in estates appropriated to enjoyment, dwelling-houses, furniture, horses, carriages, etc., etc., which are not capital. The whole wealth of the country may, therefore, be reckoned as naturally twenty-five times the value of its money; and so far as we permit debt in the currency, or tokens, to displace money, we have so much the less capital and wealth, and so much the less means of doing business. For neither debt nor credit is capital; the only power or use of credit is to borrow capital; and so far as we are deficient in money, as in any other commodity, we are deficient in capital for credit to borrow or use. So far we are poor and needlessly embarrassed.

But a currency of debt will extend and measure price like so much money; therefore, the aggregate price of our circulating capital will be ten times the sum of the currency, whatever may be its character, whether money or debt or the counterfeit of either.

The increase of wealth in this country, at present, seems to correspond with the increase of population, the ratio being very nearly 3½ per cent per annum. Were the currency money, exclusively, the total of national wealth in 1870 would have been twenty thousand millions of dollars in gold value, as nearly, perhaps, as an estimate can be made. Probably six hundred millions should be deducted from this for the displacement of gold and silver by a valueless currency; for there is no value in debt, the value it relates to being in the property bound to pay it. But, for the sake of simplicity in reckoning, we will assume an increase of 3½ per cent on $20,000,000,000 for the present year, which will be seven hundred millions, of which two-fifths or two hundred and eighty millions will be in market as circulating capital. This would draw to itself and maintain in circulation twenty-eight millions of dollars in money, i.e., gold and silver, and no more. Manifestly it will not maintain at par any greater addition to our paper currency.

Mr. Walker shows that the currency act of 1870 authorizes an increase of twenty-nine millions of bank notes over and above twenty-five millions of three per cent certificates held by the banks, which by the same act are to be withdrawn, and no check is placed upon the increase of their deposits by discounting. These deposits are formed, chiefly, by discounting the price of goods sold on credit into *dollars* that have no existence, and the notes are formed in the same way. Such dollars and such money are purely fictitious, but the notes and the deposits are the same in principle and effect, and it is unnecessary to make any distinction between them as currency.

Judging from past experience, the right to increase the bank notes twenty-nine millions over the reserves will carry with it, when exercised, an increase of the deposits to double the amount, say fifty-eight millions, under the continued suspension of specie payments. Hence an increase of eighty-seven millions may be expected from that act alone. Mr. Walker estimates it higher, because the bank reserves are at present in excess of the legal limitation, and he supposes the banks may surrender their three per cent certificates without reducing their demand liabilities. He is probably right in the possibility of the case; but in the reckoning I wish to give the government the benefit of its caution, such as it is, and suppose that the exchange of the certificates for greenbacks will withdraw from circulation, and place in the reserves, an amount of greenbacks equal to the certificates held by the banks. I am also disposed to give fair consideration to the prudence of the banks, since they may fail on greenbacks, by and by, as they have already failed on gold and silver; and they will be the more likely to do so in the end, inasmuch as the withdrawal of greenbacks is without any return of value or means of payment to the country; whereas, gold and silver can only be withdrawn, like other capital, by returning an equal value in something else. Value pays for value, it matters little whether in money or merchandise, since, as true equivalents, each may be exchanged for the other without difficulty. But the contraction of currency by an offset of one debt against another is no payment of value; it is annihilation.

From these considerations it follows that the provision for increasing the currency by what is called the currency act of 1870, to say nothing of the act for establishing coin banks, is as much as three years' accumulation of capital like the present year would maintain at par with gold. And there are two reasons why it has not already caused a rise of the premium on gold and of general prices; one is that the activity of circulation is checked by the already redundant currency, which so diminishes the value of gold, or, what is the same thing, so advances gold prices, that we can neither build ships, nor sail them, nor produce commodities for export, in competition with other nations. We cannot have an active commerce with such a currency, and a sluggish circulation is a fatal bar to an advance in the price of anything. And the second reason is a logical sequence of the first: the machinery of the *new* currency is not yet sufficiently in operation to counterbalance the power of the increase of capital in the country to the present time.

Then follows the enactment for coin banks—an unaccountable caprice of Congress. Neither Mr. Walker nor anyone else seems to know where or how the idea originated. If there can be any use or advantage in such banks, it must be exclusively enjoyed by their proprietors to the damage of the public; since, so far as the interests or wants of the public are concerned, the business of supplying currency is greatly overdone. They may perhaps be able to convert into currency some portion of their credit, and of the price of government bonds, and thus, by adding to an already redundant currency, tax the people with interest for what is worse than nothing. But there seems to be no place for such institutions, which are coin banks only in name. Were they indeed coin banks, to borrow and lend capital in coin or bullion on time, never creating any demand liabilities without *money,* dollar for dollar, in reserve to meet them, they would promote the use and thereby tend to enhance the value of money, which is the true policy for the country: but they are nothing of the sort; they are to make their support and profit by lending their credit in making additional currency over and beyond any now existing, and, like all currency-making institutions, their profit must accrue, not in the legitimate difference of interest between borrowing and lending, but in the excess of their loans, on which they get interest without paying any, over their capital.

But the channel of currency is already so gorged with circulating credit that it is irredeemable, and the invariable rule is that the poorer currency, so long as the public accept it, will drive out the better. This coin bank currency of notes and "deposits" is, by the terms of the act, to be interchangeable with gold and silver coin. It is doubtful, I think, if the banks can circulate any of it, or do any business under the terms of their charters; because such currency would immediately depreciate the value of gold as if so much additional gold were thrown into market. In other words, it would raise the gold prices of goods, which would check the export of our domestic products, and bring in foreign goods at the advanced gold prices to take the gold. That is the inevitable effect of all credit or debt currency at its creation or expansion. While it is all alike, and interchangeable with gold, having the whole field to itself, it can be maintained, spasmodically, by expelling the surplus in bullion, by bankrupting individuals, and by occasional crises which break the banks that make it. The case is altered now; the whole field is preoccupied, and the channel of circulation is filled to overflowing with an inferior currency. If any of the anomalous "coin" currency presents itself in excess of the bullion held in reserve to meet it, the depreciation of gold will be immediate, and the excess will immediately be returned to the coin banks to be redeemed in gold for export. If I am mistaken in this. I shall be glad to make an apology for a mistake in science to the first coin bank that does a successful business.

To some points of Mr. Walker's essay I take exceptions. He thinks gold and the Treasury gold notes form a currency of "inflexible value." But there cannot be inflexible value in anything, since value is necessarily relative, and all things are continually changing in cost and supply and demand, in relation to each other. Money forms no exception to this rule. The only true idea of money is the simplest, viz., that it is a commodity, as I have said already, varying in value not only by reason of change in its own supply, but in the supply of everything which constitutes the demand for it; that is to say, everything and every service offering to be exchanged.

Mr. Walker is led into this error through the popular notion of a standard or measure of value which money is supposed to be, but is not. "Except," as Mr. De Quincey remarks, "when needed as a test of the variations between successive stages of a paper currency," a standard or measure of value is impossible; "not by accident impossible, but impossible by the very constitution of its idea"; because no object can be found to *stand* still when all other objects are moving, and thus be qualified to measure all changes of value between any two objects, showing how much of the change has belonged to the one, how much to the other, or whether either has been stationary: "no such qualification," says Mr. De Quincey, "can arise for *any* object—none can be privileged from change affecting itself; and if liable to change itself, we need not quote Aristotle's remark on the Lesbian rule to prove that it can never measure the changes in other objects."

But Mr. De Quincey's exception is significant. Money is a measure of value in the sense of limitation, as limiting the currency, and the price which springs from it, to value, because cost is an essential element of value. So long as the currency is money, and nothing else, price is money-value. Whereas the moment any portion of currency is added without the equivalent cost and value of money, that is, without the cost in labor and capital of gold and silver, price exceeds money-value, and is pure fiction; it is price without value, and of no more use than a fifth wheel to a coach.

I do not remember to have noticed this idea of a measure of value, as a test of the variations of a paper currency, in any writer but De Quincey. It is, however, essential to a comprehension of the nature of price, which, being mistaken for value, is the great delusion in the financial legislation of this country. The less price and the more value, the less currency as such, and the more capital we have in our national wealth, the more business we have, and the greater is our command of the commerce of the world; because the cheaper we produce and buy, and the dearer, relatively, we sell; in other words, the greater are our profits in foreign trade. What we need to do is to maintain the highest possible value of money, and that is its natural value, as capital. It is always in repletion naturally as currency, since that nation which has the least currency in relation to capital can produce cheaper than any other nation; hence there is no need of making currency, nor of extraordinary measures to encourage the importation of money, because cheap and desirable merchandise will attract it from every foreign market.

A peculiarity which influences Mr. Walker's view of a measure of value is that he considers price and value, under an exclusively metallic currency, to be synonymous. Were this so, then, of course, money, which is the true measure of price, would be also a true measure of value; but it is not so, because value is the power of purchase and payment in everything; whereas price is the same power in money only. Hence the value of a thing, or its general power of purchasing, may rise, while its price, or its power to purchase money, falls. This happens under a falling off in the supply of money, where, in a less degree, there is a falling off in the supply of the other article in question, or an extraordinary demand for it, other things being equal as before.

Thus, if we suppose money or bullion to be the only currency, and its quantity were diminished one-half in relation to circulating capital in general, it would follow that things which had before sold for one dollar would fall to fifty cents, on the average. Money, therefore, would have risen to double its former value. Meanwhile, wheat, and the other cereals, we may suppose had fallen off in supply one-fourth. Arithmetically, then, three-fourths of a bushel of wheat would be of the same value as a bushel had been before. In other words, it would have risen in value one-third, while it had fallen in price one-third. From one dollar it would fall to sixty-six and two-thirds cents the bushel, while it would exchange for one-third more of everything unaffected in supply and demand than it did before. This distinction between price and value Mr. Walker evidently has not settled in his mind.

But he is doing good service in opening a path for truth through the wilderness of error into which the subject of money and currency has been led by the example of the Bank of England and the teachings of Adam Smith. A certificate or note will serve one person to another, and it is a plausible but manifestly a shal-
the purpose of transferring the ownership of a commodity from

low theory, on which the Bank of England is founded, that the certificate therefore answers all the purpose of the commodity itself, although in itself the certificate possesses no power of payment.

Commodities are things that are being constantly produced and bought and sold, in the employment of labor and capital; they are not consumed or enjoyed as commodities; the function of a commodity ceases when it passes out of market, and, while unconsumed, it is then simply wealth. In these respects money does not differ in the least degree from any other commodity. If we have it, it forms a portion of our capital and wealth; somebody has earned it and has it to sell or lend or enjoy. If we have it not, we are not in possession of so much capital and wealth; nobody has it to sell or lend or enjoy, and nothing produces nothing. Yet the Bank of England, and Adam Smith's theory of the economy of the precious metals, derived no doubt from the example of the Bank of England, are founded on the absurd notion that the certificate, without the money, answers every purpose of money; that the money can be sent abroad and exchanged for other capital, and the certificate, as a note or deposit, can be circulated in its place with a clear gain of so much capital. Whereas the truth is, the money is lost, not gained; it is lost by depreciation of the whole currency, dollar for dollar, as expansion proceeds in "paper money," the depreciation being developed in the rise of prices at which we buy foreign goods but cannot sell our own; and the gold and silver sent abroad to pay the advanced prices is the sum of the depreciation. It is utterly lost to us and gained by foreigners who produce and buy at the lower prices of a better currency; while we are floundering in debt and embarrassment caused by the absence of capital in money, with the consequent buying and selling on credit, and discounting evidences of debt, to form and maintain a currency of promises in its place.

There can be no objection to legitimate banking, nor to the use of credit in borrowing capital in goods or money, for that is the proper function of credit; but when it undertakes to convert the price of goods or securities into dollars of money, whether through government purchases or banking, where money is absent, it is a lie, and no credit at all, for such dollars are made of price, not value, and are pure fiction.

Bastiat, in his dialogue, *What Is Money?* makes one collocutor ask: "What harm is there in looking at cash as the sign of wealth?" The other replies: "The inconvenience is this—it leads to the idea that we have only to increase the sign to increase the things signified...........We go further. Just as in money we see the sign of wealth, we see also in paper money the sign of money, and thence conclude that there is a very easy and simple method of procuring for everybody the pleasures of fortune."

There is no end to the confusion which springs from the heresy that money is not wealth, but the sign of wealth, and that, being but a sign, it can itself be signified by promises to pay it, so that, by making promises to measure price as money, we can increase production and trade; as if the dry-goods dealers of the country could increase their business, ad libitum, by multiplying their yardsticks. Currency is the measure of price, and, as such, its increase is worse than useless; but money is wealth, the sign or representative of nothing but itself, and its increase is desirable, like other wealth, which declines in value until it is exportable in exchange for something more desirable because of higher value.

This is no theory; it is opposition to theory. It is no theory to insist upon the fact that gold and silver form the money of commerce here and everywhere; that our exchanges must be based upon it as the common equivalent of value at home and abroad; and that a promise to pay a thing cannot be the thing itself. It is no theory to justify and defend the normal use and value of money, but it is a theory that fiction in its place is a saving of money, as if poverty were a saving of wealth; and the burden of proof lies upon those who maintain it.

No business is more curtailed in amount and usefulness by the substitution theory than banking itself, because the loans of banks are constantly crippled by demand liabilities for money they never owned or borrowed, and which has no existence. Averaging the periods of expansion and contraction together, the loans of our currency banks do not exceed their capital more than two-thirds;

while savings banks, having no capital at all, lend millions, each, in our large cities; and we have trust companies that lend twenty times the sum of their capital. The only difference in principle is that savings banks and trust companies borrow what they lend, and currency banks lend what they do not borrow. "Paper money" is not a significant term for the evil against which banking has to contend; it is the *fictitious deposit*—the so-called deposit, over and above any sum of money or of pre-existing currency, made by discounting an evidence of debt out of itself. Abolish this, and banking would doubtless extend itself and embrace nearly all the credit business of the country.

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Tariff and Special Taxation*

There is an abnormal effect on price, and, hence, injustice in the distribution of wealth, in the tariff system of taxation, apart from the contested principle of protection, as distinct from revenue, which ought to remove that system from our national policy. It is, in the addition of price to the article taxed, an effect that is inadmissible in any system of taxation. When taxes are levied, ad valorem, on all property alike, they have no effect whatever on price, all prices being precisely the same as if there were no taxes at all. This is the only true principle of taxation, since it leaves undisturbed the just rewards of labor, and both the domestic and foreign trade of the country unimpaired.

Price is not value, and taxes are paid in value. Suppose the annual taxes to be one per cent, ad valorem, on all property; then the farmer, for instance, would appropriate one bushel of every hundred bushels of his corn to the payment of his tax bill and the support of government. Or suppose the taxes are two per cent; then his appropriation must be two bushels instead of one to the same purpose. He gets neither more nor less price for his corn in either case, since the supply of corn is not altered by the taxes; and, obviously, it is the same with every other sort of capital. Value in capital must be contributed by some or all citizens to the support of government; and when a scheme of taxation enables any-

* Reprinted from *Bankers' Magazine and Statistical Register,* XXVI (Mar., 1872), 669-75.

one to add the sum of his tax, or any portion of it, to the price of the commodity he produces or sells, it is unjust, inasmuch as it enables him to shirk his tax and shift his burden upon the shoulders of other men.

No increase of expenditure, whether of government or of individuals, can attract money; nothing but capital in circulation can do this. An increase of other capital attracts money by making other capital relatively plenty and cheap, and money relatively scarce and dear; and money, like every other commodity, seeks the dearest market: that is, where it commands the most value in exchange. In all cases general or average prices result from the supply of money or currency, modified by the activity of circulation, in relation to the supply of other capital or objects of exchange, and are in no degree affected by the taxes which provide for the expenditure of government. A thing must be made more desirable by the expenditure upon it, or the expenditure adds nothing to capital or wealth.

John Stuart Mill remarks, in his chapter of "Taxes on Commodities," that the effect of such taxes, "when levied on all commodities in exact proportion to their value, would neither be a general rise of values, which is an absurdity, nor of prices, which depend on causes entirely different." That is to say, values depend on the supply of everything in relation to the supply of every other thing, and, as they necessarily embrace all exchangeable things, money included, leaving nothing for a standard of comparison, a general rise of values is an impossibility. Whereas prices depend simply on the supply of money or currency in relation to the supply of all other things; hence a general rise of prices is easily possible, and takes place whenever the currency is increased in relation to the circulating capital, or the circulating capital is diminished in relation to the currency.

General prices and taxes, however, depend, legitimately, on diametrically opposite causes, viz., the prices on the accumulation of capital which attracts money, and the taxes on the consumption of capital which repels money. But whether the currency be money attracted by other capital, or credit, organized by banks or government, general prices have no dependence on, and are in no manner influenced by, the taxes; for taxes neither alter the relative supply, nor the desirableness, of anything whatever.

It follows that when a price is raised by special taxation it is raised on the principle of plunder, since, as it cannot affect general or average prices, the currency it employs, and the price it absorbs, must be abstracted from other prices. Hence some men escape their just proportion of the taxes, while others, who have not the advantage of special taxation to add to the prices of their products, are compelled to pay not only their own share of the taxes but the share of others besides.

The power of this evil principle is, of course, unequal in proportion as prices are affected by it in the general circulation of things; not that one thing is so much higher, and another precisely as much lower, than the true and natural price; because the commodities included in the tariff, or charged with special taxation, form the smaller portion of the circulating capital.

Thus, if we assume, without pretending to statistical accuracy, that property amounting to nine thousand millions of dollars changes hands in one year in this country, one-ninth of which is raised in price forty per cent, on the average, by tariff and special taxation, then that one-ninth, the normal price of which would be one thousand millions, sells, under the abnormal operation of the tax, for fourteen hundred millions of dollars, and the four hundred millions of extra price is necessarily abstracted from the remaining eight-ninths of the property, which should bring, under the natural law of distribution, eight thousand millions, but will fetch only seven thousand six hundred millions of dollars. That is to say, the producers of one thousand millions of value are *protected* forty per cent by plundering the producers of eight thousand millions five per cent.

This is not the question of protection, as distinguished from revenue, in the tariff system, which agitates political parties; it is more than that: it is the question of spoliation by government of one part of the community for the benefit of another involved in every act of special taxation—every tax on the pound or the yard or the bushel or the piece: every *per cent* on a specific commodity —whether in the tariff or the internal revenue system. And it is the fatal mistake of the free traders and revenue reformers that they do not see this essential point in political economy and shape their politics accordingly. They concede the whole argument, in principle, when they advocate a tariff on imports of any description, and become protectionists unawares.

Senator Sherman is criticised in some of the public prints for saying that he sees no difference in principle between a tariff for revenue and a tariff for protection. Senator Sherman has discovered the truth; he is right; there is no difference except in degree. Of course, a tariff will be more or less protective as it affects more or less any special price; but in its very nature it is *protective,* inasmuch as it must *protect* some interests from their due share of taxation, or in the accumulation of profits, by plundering others. And its effect is to disarrange, not only the normal and profitable distribution of property, but of population also. Huge fortunes, and great cities festering with corruption, are built up, by diminishing the wealth and population of the country districts, through this abnormal system; while, in the cities, the effect is to make a few men rich and the vast majority poor.

Notwithstanding the curious error of the French sect of *Économistes,* founded by Doctor Quesnay, in teaching that merchants, artificers, and manufacturers are maintained altogether at the expense of the proprietors and cultivators of the land, that school was right in its doctrine, on the point under consideration, as set forth by Adam Smith, thus:

> When a landed nation oppresses, either by high duties or prohibitions, the trade of foreign nations, it necessarily hurts its own interest in two different ways. First, by raising the price of all foreign goods, and of all sorts of manufactures, it necessarily sinks the real value of the surplus produce of its own land, with which, or, what comes to the same thing, with the price of which, it purchases those foreign goods and manufactures. Secondly, by giving a sort of monopoly of the home market to its own merchants, artificers, and manufacturers, it raises the rate of mercantile and manufacturing profit, in proportion to that of agricultural profit; and, consequently, either draws from agriculture a part of the capital which had before been employed in it, or hinders from going to it a part of what would otherwise have gone to it. This policy, therefore, discourages agriculture in two different ways: first,

by sinking the real value of its produce, and thereby lowering the rate of its profits; and, secondly, by raising the rate of profits in all other employments. Agriculture is rendered less advantageous, and trade and manufactures more advantageous, than they otherwise would be; and every man is tempted by his own interest to turn, as much as he can, both his capital and his industry from the former to the latter employments.

The doctrines of the *Économistes* are treated with perfect fairness in the *Wealth of Nations,* Book 4, Chapter 9, "On the Agricultural Systems," and everyone who proposes to vote or to legislate with reference to taxation, and especially with reference to a tariff on imports, should study that chapter. Doctor Quesnay's system is therein shown to be a generous one; its "capital error seems to lie in its representing the class of artificers, manufacturers and merchants, as altogether barren and unproductive"; but it admits that this unproductive class is "not only useful, but greatly useful to the other two classes," and hence proposes perfect freedom of trade as the true policy for the nation. It gives merely a theoretical preference to agriculture as the basis of all production and of all wealth; but inculcates noninterference with industry by government as its cardinal principle.

"Every system," says Adam Smith, "which endeavors, either by extraordinary encouragements to draw towards a particular species of industry a greater share of the capital of the society than what would naturally go to it, or, by extraordinary restraints, to force from a particular species of industry some share of the capital which would otherwise be employed in it, is, in reality, subversive of the great purpose which it means to promote. It retards instead of accelerating the progress of society towards real wealth and greatness; and diminishes instead of increasing the real value of the annual produce of its land and labor": to which may be added the words of Bastiat—"The good of each tends to the good of all, as the good of all tends to the good of each."

Agriculture is the great unprotected industry of the United States; and the effect of our tariff policy is to condemn the farmer to relatively poor pay for hard work. He is compelled to pay the tariff advance on the foreign goods, and on the domestic goods raised in price thereby, which he consumes in his family, while his own produce is at the same time depressed below its natural price by reason of the tariff advance on other merchandise. He is thus taxed both positively and negatively, and bears, as it were, a double burden. It follows that men turn to farming with reluctance, and young men escape from it on every imaginable opportunity, crowding our cities and manufacturing towns, prematurely and unnaturally, with a population that would be more profitably and healthfully distributed over the country; while the temptations and immoralities of cities multiply idlers, paupers, and vagabonds, that are altogether foreign to our normal growth in civilization.

Agriculture is also the great natural industry of this country. We are emphatically what Adam Smith calls a landed nation. Nature works gratuitously, and agriculture is the employment here in which nature co-operates the most efficiently with the labor of man in the production of value. Vast unoccupied tracts of fertile land; an invigorating and varied climate; an almost endless extent of free navigation of rivers and lakes; numerous and safe harbors on two oceans; timber, and coal, and iron, in abundance, for the construction of roads and of vessels to transport our bulky products to all markets: these are among the advantages which Nature offers to human industry here, as nowhere else, for the pursuit of agriculture in cheap production; and the nation, as a whole, thrives by reason of these advantages, in spite of a very preposterous political economy, and of much needless individual bankruptcy, perplexity, and suffering.

Where food and the other necessaries of life are procured with the least labor they are the cheapest, and the people have the advantage of every other people—the facilities for procuring raw material being the same—for manufacturing and producing everything, whether of necessity, convenience, or luxury, and this advantage can only be impaired or sacrificed by the interference of government. The people of the United States have precisely this advantage; it crops out in a ceaseless and increasing flood of immigration from the old countries and in the most wonderful national prosperity known to history. Yet it is interfered with by government in creating a false currency, by which money is made unnaturally cheap, and goods unnaturally dear, as well as in the tariff system and other artifices to reward one class of men at the cost of another.

By making money artificially cheap, government compels us to part with money—the sinews of trade—when we should naturally ship merchandise, and receive money. Our exchanges are thus thrown into the wild vortex of credit, the centre of which is called "money," but is nothing of the sort, because it is not capital: it is a promise, and makes no payment; it is, indeed, more entirely credit than any other part of the system, since it is formed, not like an ordinary promissory note, by the passing of capital, but by granting one credit against another—a mere bubble that collapses by an offset, and reduces the currency and general prices without the payment or passing of any capital whatever. Nearly the whole circulating capital of the country is thus set afloat on "the Daedalian wings of paper money," carrying prices up and down with all the uncertainty of a game of hazard; so that, notwithstanding the great wealth and general prosperity of the nation, there is not, probably, on the face of the earth, a people so much and so often cheated of their dues, or generally more uncomfortable in their business relations, and more unhappy, individually, than we are.

Take the hands of government off of money and commerce, and leave money, without the interference of a false banking system, to the natural law of circulation, as a commodity, and business would be more secure and active here than anywhere else, while, in spite of England, we should take the lead in the navigation and in the commerce of the world.

Everywhere the thing which is produced the cheapest constitutes the means of buying cheapest whatever may be wanted at home or abroad. But this simple and undeniable truth is wholly ignored in our political economy. Obviously, the cost of a commodity imported can never by any possibility exceed the cost of the commodity exported which pays for it; and this is equally true in the transactions of merchants and of nations, let the price be as it may. What if a yard of broadcloth is imported at the price of eight dollars, and paid for in four bushels of wheat exported at two dollars the bushel; the question is, what is the cost of the wheat to us? I£ only one dollar the bushel, then the cost to us of the yard of broadcloth is but four dollars, and the profit of four dollars to the merchant or the nation, one or both, is invested in the cloth.

But the better way to state this problem is in labor, since labor is the basis of value. If the yard of broadcloth cost, say in England, eight days' labor, and our four bushels of wheat cost but four days' labor, it is clear that on the cloth, being more wanted than the wheat, we make one hundred per cent profit by the exchange. And, assuming that more than eight days' labor must be expended to manufacture the cloth here, we are gainers still further by producing the wheat instead. Now, whether the gain be one hundred per cent or any per cent, the principle involved is the same, and it is manifestly absurd for the government to force the manufacture of broadcloth which we can procure cheaper by leaving our industry to its natural liberty in the production and export of wheat.

It is not, however, the purpose of this paper to elaborate the arguments of well-known authors in economical science—Harris, Smith, Say, Ricardo, McCulloch, Mill, Bastiat, Chevalier, Cobden, and others—all of whom have exposed the folly of the so-called protective principle in a tariff, but to exhibit the wrong of every description of tariff and special taxation, since it is impossible to advance the price of anything by a tax unless upon the principle of plunder, by taking unequally and unjustly the property of some men for the benefit of others, or robbing the many for the benefit of the few. This is a point of great importance, with respect to legislation, which no one of these authors seems to have brought into view. True, it is to be inferred from Adam Smith's statement, following Quesnay, that "when a landed nation, by means of duties, raises the price of foreign goods and of manufactures, it necessarily sinks the value of the produce of its own land," because the value of that produce cannot sink without a proportional fall of price to the injury of its producers; but he does not say this; and, by fixing his attention too exclusively on the tariff, and its effect upon the general welfare of the nation, he seems to have overlooked, in a great measure, its effect on different classes of citizens, and entirely to have overlooked the fact that every tax which raises a special price rewards some men by plundering others.

Now, it is for statesmen to discover and apply some perfect ad valorem system of taxation, which shall be free from the iniquity of raising the price of anything. No one expects perfect equity in the operation of any law, however perfect the system on which it may be based, until all men become honest, which is not likely to happen immediately; but the several States and territories of this Union require a valuation of property for their own purposes of local taxation, and it would seem to be practicable and easy for the general government to co-operate with the State and territorial governments in obtaining a uniform and correct valuation, through commissioners appointed by Congress and the Executive, to act with the local assessors, and the *per cent* applicable to the general government could then be collected with the local taxes at no more cost, necessarily, than would attend the collection of the local taxes alone.

What honest objection can there be to this? Certainly it would abolish customhouses, with their needless cost—their spies and informers and lying oaths and abominable corruptions; while it would relieve merchants from a senseless routine of labor, complication, and delay, in the transaction of business, and tend greatly to expedite and augment the commerce and wealth of the nation.

As to the method of valuation, very likely, because of possible concealments, and the weak integrity in public matters too generally prevailing, perfect directness may not be the best, with respect to personal property, and it may be well to adopt some such plan as that proposed by Mr. David A. Wells, and the New York Commission, of calculating upon the rental of real estate, multiplying the sum of the rental, with the greatest fairness and approximate accuracy, to estimate the value of the personal property.

Just here it may be proper to say that, whatever may have been intended by the 4th clause of Section 9, Article 1, of the U. S. Constitution—"No capitation or other direct tax shall be laid, unless in proportion to the census or enumeration hereinbefore directed to be taken"—it is, and has been from the first, a dead letter, except as to the capitation tax, because it would be so palpably unjust to apportion the tax by the head on the aggregate property of the nation, the same in the poorer as in the richer sections of the country, that it is plainly impracticable, and no such apportionment seems ever to have been attempted. Clearly, no law to that effect could be executed. We may, therefore, dismiss that as a possible objection to a uniform system of ad valorem taxation.

But whatever plan may be considered or adopted, every good citizen and every statesman should set his face like flint against the present system, and every other which can have the same effect of raising prices by taxation.

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Of the Discount Deposit*

Once in my life, and only once, have I known a bank officer who seemed to me to comprehend thoroughly the nature of his business in discounting an evidence of debt out of itself into a "deposit." That officer was the late J. Amory Davis, President of the Suffolk Bank of Boston, who told me that, in his opinion, the business of banking would be more profitable to its proprietors in the long run, as well as more useful to the public, if that principle were abandoned entirely. Mr. Davis was a good thinker, careful and sound in his conclusions, and a perfectly conscientious man. I was glad to find that his ample experience and practical knowledge of banking led to the same conviction on this point which I had entertained many years before I had the pleasure of his acquaintance.

The subject is brought to my mind at this time by an argument of George S. Coe, Esq., President of the American Exchange National Bank of New York, on bank taxation, which I find reported in the March issue of this magazine, and in the newspapers. In a newspaper he is represented as saying to the Committee of Ways and Means of Congress:

> Now, as to dividends, the banks in the city of New York, one-half of them, have not for the last two years earned their dividends, and for the last year not one-third of them..........I say that our institu tions did not earn the dividends which they have declared, but they

* Reprinted from *Bankers' Magazine and Statistical Register,* XXXI (June, 1877), 961-68.

paid them out of their reserves because they could not help responding to the agonies of the stockholders, and the necessities of the case.

There is nothing surprising in this statement. The gist of the trouble lies in the supposititious "dollar" created by discounting, which, being nothing in itself, has no equivalent; nevertheless it demands the payment of money, or an equivalent, and, although the bank throws upon its customers the obligation to meet this demand, the demand "returns to plague the inventor" of the fictitious dollar, under the adverse course of exchange which that dollar itself creates.

A promise is a debt, it is nothing else; and the attempt to make debt serve the purpose of money always has been and always will be a failure. Money and debt are as opposite in nature as fire and water; money extinguishes debt as water extinguishes fire. Debt in the money channel is a violator of natural law; an intruder that can remain there only so long as money can be kept out by the interference of legislation. The buying of goods is one thing, the paying for them another. Credit may be a good medium of exchange, but never can be the object of exchange. The seller is not paid for his goods in a note or a check; the exchange is not completed until his capital is restored to him in money or its equivalent as value for value. Hence the debts of the community, so far as they are contracted in price without value; that is, in price formed by credit in excess of the natural money value, below which prices cannot permanently fall, must be kept in existence by continued renewal, and by maintaining in full activity of circulation the volume of currency in which they were contracted, or prices will fall, debts must be discharged in bankruptcy, and banking comes to grief like other credit business. A sluggish circulation, such as we have had for some years past, is equivalent for the time to a contraction of the currency, since if the currency cannot be used it cannot maintain prices.

These fundamental principles of finance and political economy are ignored in the fictitious bank deposit, the deposit created by discounting; and this is the cause of the trouble with the banks which Mr. Coe portrays so eloquently. Taxes have very little to do with the matter, and their removal would have no appreciable effect, I think, in removing the difficulty. This so-called "deposit" involves the entire principle of the currency system of Europe and America. It was invented by the Bank of England, in 1694, or rather by the Scotchman, William Patterson, who invented that bank; and two other Scotchmen, John Law, the projector of the Mississippi scheme, and Adam Smith, have been chiefly instrumental in corrupting political economy with the fallacy that this "deposit," with nothing to it or behind it, is an economy of the precious metals. It amounts precisely to this and nothing more, that two men exchange promises, one being a banker, promising to pay on demand, which promises are to be offset in the end by a re-exchange of one against the other; meanwhile, the banker's promise is to be called "money," and regarded as equal in value to gold. Mr. Coe, I am glad to see, discovers the fallacy of this pretense of money in the deposit, but he does not propose to reform it; and he is one of a thousand of his craft in admitting, that in manipulating the deposit, he is not borrowing and lending money.

Here is Adam Smith's statement of the matter.* "A paper money, consisting in bank notes issued by people of undoubted credit, payable on demand, without any condition, and, in fact, always readily paid as soon as presented, is, in every respect equal in value to gold and silver money, since gold and silver money can at any time be had for it." That is to say, a banker does the same thing in effect for commerce and the general welfare, by writing a promise for a given amount of gold which he does not possess, as the miner who produces capital by raising the same amount of gold by hard labor from the bowels of the earth. I think no greater folly than this ever claimed the sanction of science in any department of human inquiry; but it is the principle of banking in which Mr. Coe is engaged, and the essence of our currency system. It is a quicksand which the banks make for their own and all other business to stand upon.

As to the difference, so often alleged, between the bank note and bank deposit, there is none whatever in principle or effect; one is as much currency as the other. Originally, the Bank of England

* *Wealth of Nations,* Book 2, chapter 2, of Money.

issued notes for all her discounts and demand liabilities. Suppose you have $1,000 at your credit inscribed in a bank ledger, and you make and pay away a check for $100, you have $900 of bank credit left. Or suppose you have the same amount inscribed in ten separate notes, and pay away a note for $100, you have $900 of bank credit left as before. In the one case you make your own checks at your convenience; in the other, the bank makes, in effect, and hands you ten checks upon itself, which you dispose of at your convenience. The currency is the fund in bank, whatever that may be or pretend to be; it is not merely the instrument—check or note—which serves to circulate that fund; and the whole fund is money or fiction, as money is present in or absent from it. Were the currency exclusively metallic, it would be largely distributed through banks by the same instruments. The balance at the debit of every trader's cash account is his currency, and the chief item of that balance is usually his bank deposit, subject to check at sight; not the deposit loaned on time or in a savings bank, which, being removed from his cash account, is loaned, and is not currency.

If this common-sense statement needs the sanction of authority to satisfy the reader, let him refer to Henry Thornton's *Inquiry into the Nature and Effects of the Paper Credit of Great Britain,* page eighty-seven, where he will find a footnote as follows:

> It is in substance the same thing whether a person deposits £100 in money with the bank, taking no note, but obtaining a right to draw a draft on a banking account which is opened in his name, or whether he deposits the same £100 and receives for it a bank note. The possession of the right to draw obtained in the one case is exactly equivalent to the possession of the note obtained in the other. The notes, it is true, are commonly issued, not in consideration of money received, but of bills discounted; but the deposits, it may be observed, are generally formed by the means of bills discounted.

And in Lawson's *History of Banking,* page 156, we find the following statement of the same thing:

> A note holder does not in fact differ from a person to whom a balance is due; both are creditors of the bank; the one holding a note, which

is the evidence of the debt due *to* him; and the other having the evidence of the entry in his pass book, or in the ledger of the bank.

Authorities are abundant on this point. Joseph Hume completely defeated Lord Overstone, then Samuel Jones Loyd, in an argument upon it before a committee of the British House of Commons, as I read the case in Overstone's *Tracts.* Mr. Coe explains the principle thus:

> One hundred bales of cotton are sent from New Orleans to New York, shipped inland. This cotton is not money. There is not a dollar of actual money connected with it. It has a value equivalent to so much money. The party in New Orleans who ships it chooses to send it to Cincinnati, and draws a draft against it, upon that place, and deposits that draft in bank in New Orleans. That becomes a deposit. Is it money? Is it not cotton and nothing else?

To this I reply, it is no more cotton than it is money; it is neither the one nor the other; nor is it legitimate credit, for legitimate credit borrows capital, and there is no capital borrowed or loaned in this transaction as recited by Mr. Coe. The bank borrows no cotton and lends no money. The cotton shipper lends no cotton and borrows no money. The two parties merely exchange obligations; the bank promises to pay the cotton shipper money in New Orleans which it does not possess, for if it does, the deposit is money borrowed by the cotton shipper, and the credit is legitimate in true and unexceptionable banking, which is not the case in question. On the other hand, the cotton shipper promises to pay, to the order of the New Orleans bank, money in Cincinnati which he does not possess or own there. By taking his draft the bank does not come into possession of the cotton or its ownership; it has nothing to do with the cotton, which goes on its way according to Mr. Coe's explication. What, then, does the bank possess? Simply the cotton dealer's obligation to put money to its credit, or meet the draft in Cincinnati. The cotton may be destroyed upon the road; whether it is or not, the drawer may sell property inherited from his grandfather, to meet the draft in Cincinnati. His obligation is of the nature of a mortgage upon his whole estate, which he may release by the sale of any other property, as well as of the cotton in

Cincinnati; or he may be an utter bankrupt, in which event he may have appropriated the proceeds of the cotton in anticipation of the appearance of his draft in Cincinnati; or the acceptor may be good for nothing. What I wish to show is that the bank has no lien upon or security in the cotton, and the deposit is merely an organization of debt into currency through false banking. Mr. Coe proceeds:

> The owner in Cincinnati moves it [the cotton] to Pittsburgh, and he puts the draft which he draws upon that place against it, into a bank in Cincinnati, and there also it is a deposit. The owner in Pittsburgh again moves it to New York, and there again a draft is drawn and is deposited in bank. That is the third time that the value of that one hundred bales of cotton becomes the subject of a deposit, and yet not a single dollar of money is deposited. Now what is that?

I answer: *Fiction,* counterfeit money, that ought to be suppressed by taxation, or in any way the government may adopt to get rid of it, for the benefit of banking and all other business.

Why doesn't Mr. Coe say the deposit in Cincinnati is cotton, and again cotton in Pittsburgh, if, as he says, it was cotton in New Orleans? I believe Mr. Coe to be one of the most intelligent bankers in the United States. I think he does not care to risk his reputation for intelligence and common sense on the assertion that this sort of banking, which he believes to be legitimate and entitled to relief from taxation, multiplies 100 bales of cotton into 300 bales by three successive deposits. Anybody would see the fallacy of such a statement. But the dollar is such a pure abstraction, as the medium of exchange, which, as such, can be made as perfect by the authority or permission of government in a leather button, or in an item of bank debt, as in gold or silver, that almost any absurd statement as to a deposit of dollars may have the sanction of the British school of political economy, and pass for good banking and good sense; because the doctrine of that school is commonly accepted that the medium of exchange is the only essential function of money. While that doctrine prevails, political economy, in my opinion, will not amount to a row of pins.

Money in trade is a commodity, a thing that is bought and sold; out of trade it is simply wealth. It is the creature of commerce, not of government. It existed before government. When history began, it was gold and silver bullion circulating by the common unit of weight, as Abraham weighed the shekels of silver to Ephron. Its essential function in commerce is that of capital as the common equivalent of value in exchange; and the prime element of an equivalent is always cost of production; its other elements being supply and demand. Instead of being a mere medium of exchange, it is the most conspicuous object of exchange in commerce, since, as the universal equivalent, it buys and pays for everything offered for sale, and is wanted, always and everywhere, as no other commodity can be, the wide world over. An exchange is as complete on the receipt of money as of any other commodity.

A dollar made without cost of production may serve the purpose of a medium of exchange, like counterfeit money among people who choose to circulate it, but it pays for nothing; it is a nonvalue, no capital, no equivalent, and, being used as money, it sinks the value of money in the rise of prices without compensation, and hence in loss of capital to the nation that makes and employs it; for infallibly so much gold or silver will be paid away for nothing in a false price for foreign goods. Whereas, a fall in the value of money by reason of the production of gold and silver, is exactly compensated by the increase of capital in money which will be exported and exchanged for commodities of higher value, like a surplus of wheat, or of any other commodity, as soon as the course of exchange indicates, as it will with scientific precision, that money is cheaper than the average of other commodities; which is the same thing as saying, as soon as local prices are raised above the money level in other countries. No steam governor regulates the working of an engine with more accuracy than money, uncorrupted and unobstructed, regulates the movements of commerce.

Now, Mr. Coe's deposit is made of dollars that cost nothing—dollars that he says, very truly, are not money, and that I say are not cotton, for there is obviously not a particle more of money or of cotton in the country, or in the world, by reason of their creation, than if they had never existed; but being interchangeable with money, or so far as they are exchangeable for money at a discount, they will, by the law of value, which is as constant and irrepealable as the law of gravitation, depreciate money, as I have just said, and compel the export of gold or silver in pure loss of capital to the nation. of course, I am treating of a principle in this matter, and assume, as the principle requires, that the deposit is an addition to the pre-existing currency.

The interests of banking, as well as the public welfare, require the suppression of every such "deposit," and all such dollars, since they but obstruct the money channel and prevent the accession of capital in money that we should otherwise have by producing and exporting merchandise in exchange for it. According to all authorities, as well as all common sense, the limit of industry and trade is determined by capital. The only power or use of credit is to borrow capital; when credit supplants capital it is an unmitigated evil.

The loans of the commercial banks of this country, during specie payments, have never amounted to double their capital, in the aggregate. The two greatest periods of expansion culminated in 1837 and 1857, and in both instances the expansion brought about a financial crisis and a general suspension of specie payments. According to the returns at Washington, the capital in 1837 was $290,772,091, and the loan $525,115,702 being about eighty per cent more than the capital. In 1857 the capital was $370,834,-686, and the loan $684,456,887, or about eighty-four per cent more than the capital. The suspension of 1837 was succeeded by fitful and partial efforts to resume, and six years of extreme perturbation and distress. A general resumption being accomplished in 1842, the loan stood at the beginning of 1843 only eleven per cent in excess of the capital. The suspension of 1857 was less disastrous because the California gold replenished the coffers of the banks, and they were enabled to resume in 1858, with their loan forty-eight per cent in excess of their capital. But it is safe to say that the bank loan has not exceeded the bank capital seventy per cent on the average, from the adoption of the Constitution in 1787, till the suspension of specie payments in 1862.

Now, there are trust companies in our large cities, lending twenty to twenty-five times their capital, and honest, well-conducted savings banks, with no stock capital, lending fifteen to twenty millions of dollars each. How are such large loans maintained? Simply by noninterference with the currency; in other words, by avoiding the fictitious deposit—the discounting of an evidence of debt out of itself—to cripple their loans. Everyone knows that a large business with a small percentage of profit leads to accumulation more generally than a small business with a large percentage of profit. There is no limit to the loans that might be made by the commercial banks under a normal system, but in the vast amount of loanable capital in the country which they do not reach with the false deposit, and which they would reach without it, more especially with a currency of solid money, since that would be of itself capital added to the existing means of doing business.

It was in view of such facts as these that I was long ago led to believe the business of banking would be more profitable in the long run to its proprietors if they would abandon altogether the deposit created by discounting; and it was in view of such facts that the experienced banker, Mr. Davis, to whom I have referred, came to the same conclusion. He had seen the reverse side of the picture which Mr. Coe now presents.

Nearly all the borrowing and lending of capital in trade is done now by buying and selling goods on credit. It is a forced business, to make currency by making notes for discount, against the natural laws of trade, which, if left to themselves, would bring money into the country, and the buying and selling of goods would then be done with and for cash on delivery, which would save to the industrious classes the enormous cost of the currency in the credit prices charged for goods, and covered in the notes discounted. These prices must include not only the discount allowed the banks, but also the guarantee against bad debts; the discount ranging in ordinary times from seven to ten per cent per annum, in different parts of the country, and the guarantee, according to some authorities, averaging four per cent on each credit sale, to cover the cost of supporting bankrupts, including, of course, the smallest retail business.

All this is abnormal and utterly wrong, but it is the inevitable fruit of the false deposit. If this system were abandoned, the banker would take his proper position as the middleman between the lender and the borrower—between the capitalist and the man of enterprise, who would borrow capital of the banker in money and pay the interest properly out of his profits, since he could get no greater price for goods than his neighbor trading on his own capital, who would have no interest to pay. General prices, therefore, would be unaffected by credit; we could produce cheaper than we do now, and cheaper than the people of Europe, who maintain the false money system, so that we should have the advantage of them in the world's commerce. And our securities for banking, which are now so generally doubtful, and frequently bad, would then be reliable and good, almost without exception.

The intelligent reader does not need to be told that "commerce is simply the exchange of commodities." Can he then fail to discover the impolicy of obstructing the money channel with paper promises, and blockading commerce against the admission of its most useful and desirable commodity, gold and silver bullion, to the amount of one thousand millions of dollars, approximately, which belongs as the common equivalent to our circulating capital, and the absence of which plunges nearly the whole traffic of the country into the vortex of debt and credit? We have only so much the less commerce as this $1,000,000,000 of capital would maintain.

It follows, unquestionably, that our true policy is absolute non-interference with the value and circulation of money; in other words, true and free banking, and free trade in money.

34

The Natural Sum of the Nation's Money*

There are merchants who say that, in buying goods with a bank note or check drawn on a discount deposit, they do the same thing in principle as in buying on a banker's letter of credit. They are mistaken. The difference between the two instruments is world-wide; it is the difference between a lie and the truth. The bank note or check is, of course, all right when used as an instrument to circulate the money behind it; the money so circulated being the final recompense in exchange, and as clearly the object of exchange as any other commodity can be. The money is a *value,* the product of labor; the instrument is a *nonvalue.* There cannot be two co-ordinate values embracing the same dollar; the same dollar cannot have two owners and employers at one and the same time; and if the instrument circulates as money without money behind it, i.e., as a title to money where there is no money, it is virtually no better than a counterfeit note, which those who like it may circulate as an instrument or a medium of exchange, for it pays nothing, it is no more of a recompense than is the note of an individual given for a commodity purchased by himself. An uncovered note of a bank or of the government, or an uncovered bank check, is therefore plainly a falsehood in the cash account; it is a matter of credit, an evidence of debt, under false pretenses and in the wrong place.

* Reprinted from *Bankers' Magazine and Statistical Register,* XXXII (Dec, 1877), 449-56.

On the contrary, a banker's letter of credit is an honest paper—just what it pretends to be, an instrument of credit, as innocent of injury to commerce, as free from all power to degrade the value of money, or, what is the same thing, to raise prices, as is a merchant's note or promise. It has nothing to do with the cash account. Nobody pretends to consider it money.

The banker's credit may be better known than the merchant's, or it may be additional security for a purchase, but in principle, and in its effect upon the market, the simple honest credit of the banker does not differ from the simple honest credit of the merchant. In either case the credit or promise is a postponement of the use of money, and the effect upon the market, of more or less money, takes place at the maturity of the promise, when the money is called for; if then there is not money enough to go round, prices fall and accommodate themselves to the supply of money in a natural and healthy manner. Or, if money is then abundant, and exceptionally easy of attainment, prices rise, until, by attracting imports and checking exports of merchandise, the rate of exchange is brought to par and the value of money to an equilibrium with other markets.

Just here let me say that I am not unaware of the doctrine of John Stuart Mill as to the influence of credit on prices, but I cannot accept it. Credit must flow in the money channel and pass for "cash" to influence prices, for price means money value, and when the price of a thing is not the equivalent of so much value in money, but is raised by credit, it is false, and both an injury to commerce and a loss of capital to the nation.

The course of exchange is the consequence and the criterion of the relative value of money in different countries and cities. If, for example, it is distinctly, and for a period of activity in commerce, against New York and in favor of London, it is because money is cheaper in exchange value in this country than in England; in other words, because general prices, reduced to weight for weight in gold, are higher here than in England; and, if the difference is sufficient to cover the cost of transporting specie, specie will be exported from New York to London, and merchandise in return will be imported into this country from England, or from some other country that will draw on this country for specie to be shipped to England. London being the centre of the exchanges and *clearinghouse* of commercial nations, it is sufficient for us to know that sterling exchange is effectually, not *sporadically,* against us to know that we have more currency valued as money than our capital can maintain in active circulation, and we must export the excess in specie. Conversely, if the course of exchange is effectually in favor of this country, as it was in 1861, it is because money is worth more here than elsewhere; which means that we have, as valued in gold, less currency in active circulation relatively to capital, and consequently lower general prices, weight for weight in gold, than other countries. We must import specie and export merchandise accordingly. There is nothing in all this but the movement of a commodity cheaply transported, an object of exchange, which goes where it is worth the most; that commodity being money—gold and silver bullion—coveted the wide world over as the universal equivalent of value in exchange, and therefore moving more promptly and with less change of value than any other commodity. The "balance of trade" is, or ought to be, the balance of profits in an excess of the value of imports over exports.

We may print or inscribe reams and tons of paper with promises, and circulate them in notes or checks as money—they will only degrade the value of money and displace so much capital in gold and silver bullion, without compensation, as they can be converted into, beyond the natural volume of money; they will serve to transact only so much the less business as there is the less capital to work with. As mediums or instruments of exchange they will raise *price* without *value,* and come at last to a valuation in gold for as much gold as can be had for them. They must respond to the value of 23.22 grains troy weight of pure gold to the dollar, though it may take a bushel of them to command a dollar of gold in exchange, or they will not circulate.

Judge Kelly and his greenback disciples ought to know this from the colonial and revolutionary history of this country; from the experience of France with John Law's bank and Mississippi scheme, and afterwards with the assignats and mandats; from the recent experience of the Confederate States, from the history of "paper money" everywhere else, and finally from our own present experience. Judge Kelly ought to know that the nation is without capital so far as it is without money, that is to say, so far as government debt or any other debt takes the place of money, and that we can no more escape a gold valuation by circulating greenbacks than he can escape the atmospheric air by going to the clouds in a balloon. Commerce takes care of this; it is not an affair of government. "Commerce is simply the exchange of commodities"; this is a truism of political economy, and the absence of the commodity money is so much abstracted from the means of doing business. No other commodity increases business so much and so satisfactorily as money, for the reason that no other commodity, as a commodity, that is, as a thing to buy and sell, is so universally desired. And money, besides being a most valuable material of commerce, is its governor and regulator, like the instrument which governs the movement of an engine by regulating the supply of steam automatically as a part of the machine itself.

Here, as far as it goes, that is, omitting the resulting loss, is the true paper-money doctrine laid down by the senior President Adams:

> A certain sum of money is necessary to circulate among society, in order to carry on their business. This precise sum is discoverable by calculation, and reducible to certainty. You may emit paper money or any other currency, for this purpose, until you reach this rule, and it will not depreciate. After you reach this rule it will depreciate, and no power or act of legislation hitherto invented can prevent it. In the case of paper, if you go on emitting forever, the whole mass will be worth no more than that which was emitted within the rule.

During a long experience in business, and careful study of the money question, I have been in the habit of estimating the currency in relation to population as the only known quantity on which a calculation can be based. With singular uniformity, before the financial operations for the war in 1861 threw all calculations into confusion, I found $20 per head to be the turning point of the course of exchange; hence, I came to the conclusion that the relations of capital and population were such that $20 per capita was the extreme normal proportion of money, as the circulating equivalent, to the capital of the country. But this was during a period of usual and uniform increase of population. The following is the calculation of the currency that I made nearest to January 1, 1861:

Bank notes in circulation	$202,005,767	
" current deposits, as reported	257,229,562	
balances due to banks	61,275,256	
" current deposits in California, esti mated	8,663,922	
Deduct	$529,174,507	
Specie in banks, as reported		
Specie reserve in California banks, estimated	$87,674,507	
	3,500,000	91,174,507
Currency of bank debt, net . .		
Add		$438,000,000
Specie in banks as above.........................		
hands of the people and in the government Treasury, say	$91,174,507	
Currency of money	108,825,493	
Counterfeit, probably		200,000,000
Total currency		2,000,000
		$640,000,000

Of the California currency there were no returns. Assuming the ratio of capital to population to be the same in California as in the other States collectively, her currency must have been in the same ratio, i.e., $20 per head. The large amounts of bullion deposited in the banks of San Francisco, waiting distribution, not having entered into circulation, cannot be reckoned as currency any more than the gold and silver in the mines.

If the rate of increase of population from 1840 to 1860 had continued, the aggregate population of the United States would be at the present time 48,000,000; but according to the census of 1870, that rate—say 3½ per cent per annum—has not been maintained, while it is obvious that the rate of increase of capital has advanced. Such vast resources in abundant crops, mechanic and mining products, and circulating and fixed capital of every sort, in relation to population, the nation never before possessed. Capital being thus increased out of proportion to population, it follows that the due proportion of money per capita must have advanced; how much is somewhat conjectural, but if we assume the extreme number, 45,000,000 for population, and say, $22% per head for money, we should have the sum of $1,000,000,000, which is the utmost *weight* of gold and silver, in my opinion, that the capital of the nation can or could maintain, if we had it, in an average activity of circulation. In dull times we could, perhaps, hold more.

It must be understood that a dollar is a weight of metal, and, our standard being gold, it is 25.8 grains, an unequal fraction of a troy ounce of gold nine-tenths fine, or so much weight of silver as is equivalent in value to 25.8 grains of gold. So far as silver is overvalued in coinage, it is a token currency and not money; but silver bullion, coined or uncoined, is always money for its marketable worth in pure gold, and gold bullion is always money for its marketable worth in pure silver. A nation may choose its standard of gold or silver, and have its currency of either metal, or of paper, but it cannot "demonetize" money. Hence I look upon the words "demonetize" and "remonetize," so commonly used of late, as barbarisms.

Our population at the beginning of 1861 was 32,000,000, and the currency averaged $20 per head. During the fiscal year ending June 30, 1860, the exchanges were generally unfavorable, and the export of specie was larger than in any other year before or since; but, late in 1860 and early in 1861, the commercial failures, anticipating the rebellion, diminished the currency rapidly by largely annihilating bank deposits, turned the course of exchange strongly in favor of the country, stimulated and maintained a continued import of specie, until Secretary Chase's operations in demand notes, and, with the banks, by discounting government bonds into supposititious dollars, expanded the currency again, brought about an adverse course of exchange, and a demand upon the banks to pay their imaginary dollars in money for export, which, of course, they could not meet, and they stopped payment in December, 1861.

I estimate the currency now as follows, being careful to avoid duplicating in the liabilities any portion of either item:

Demand debt of the National banks in notes, current deposits, and balances due to banks, net..........	$850,000,000
Demand debt of the State banks in current deposits and balances, net..	150,000,000
Government demand notes..	350,000,000
Gold and silver coin and bullion...............................	150,000,000
Total currency...	$1,500,000,000

The vast amount of indebtedness and the complication of embarrassment necessary to make and maintain this currency, with the small proportion of money which is the only regulator of exchange value, have so disorganized capital and demoralized the exchanges that industry and trade have languished, and the currency has not had an average activity of circulation. It is as if a considerable portion of it were hoarded. General prices, therefore, do not correspond with the inflation; although still too high, especially for provisions and many of the commonest necessaries of life, they are not nearly so high as they would be if so much currency could be brought into active circulation. But the currency would become surprisingly active at once in a demand for money if gold could be had for the bank and government debt in it at par, and money would pour out of the country under an adverse course of exchange until another suspension, which would not be many weeks or days behind the resumption.

I believe that $500,000,000 of this currency must be contracted before a paper currency can be kept in circulation at par with gold; that is to say, the currency must be diminished to the natural money volume, which I believe to be $1,000,000,000, unless government chooses to tax out of existence the bank currency, prospectively, and meantime maintain two separate currencies, one of paper and the other of gold and silver, which in my opinion would be the best plan as well for the benefit of banking as of all other business. Probably no business has suffered more of late, and is still suffering, than banking. More than any other, that business requires the presence and the regulating power of capital in money.

Resumption is not a question of the premium on gold, for that is merely the relation between the real and the fictitious dollar, both of which are degraded by the "paper money," but of the value of money in average prices. The value of money must rise in a fall of prices to the level of the earlier part of the year 1861, and effectually secure a favorable course of exchange, before a resumption of money payments can be successfully accomplished.

Now it is being continually dinned into the public ear by unpracticed thinkers on the subject, that specie payments are near in proportion to the reduction of the premium on gold, and that resumption can only cause a fall of three per cent in general prices, because three per cent happens to be the gold premium at the present moment. This does not follow. The same mistake was made in England by the economist Ricardo when resumption was under consideration there and the gold premium had fallen to three per cent about the year 1817. Ricardo was then the most influential adviser of the government and of the Bank of England. "Resumption," he said, "is only a question of three per cent in the fall of prices"; but the fall was more than thirty per cent, as is shown in lists and quotations of prices by Doubleday in his *Financial History of England;** and we must expect a similar fall of prices to take place here from the same cause if we ever reach specie payments again. It is because money is degraded below its

* DOUBLEDAY'S LIST AND QUOTATIONS OF PRICES

Dates	*Wheat per quarter* s.	*Mutton per stone, 8 lbs.* s. d. s. d.	*Beef per stone, 8 lbs.* s. d. s. d.
January, 1819	64 to 82	5 0 to 6 4	4 0 to 5 0
July, "	58 " 80	4 6 " 5 2	4 6 " 5 4
January, 1820	54 " 70	3 4 " 4 4	3 4 " 4 8
January, 1821	40 " 62	3 0 " 4 0	3 2 " 4 2
July, 1821	36 " 63	2 2 " 3 4	2 8 " 3 8
January, 1822	30 " 66	2 2 " 3 2	2 0 " 3 0
July, 1822	30 " 56	1 10 " 2 6	2 0 " 2 10
January, 1823	30 " 50	2 4 " 3 0	2 4 " 3 0
July, "	46 " 67	2 8 " 3 6	2 4 " 3 0

normal value in high prices without regard to the paper price of gold.

The so-called Restriction Act of Parliament, which was the legal authority for the action of the bank, limited the period of suspension; but it had to be renewed and extended over and over again until 1819, when Peel's bill granted four years for resumption. Meanwhile the bank went on turning the screw of contraction, which had already, from 1814, broken hundreds of country banks, until 1821, when, the gold premium, which had ranged from 2¾ to five per cent for four years, being wiped out, and the course of exchange effectually turned in favor of England, resumption was accomplished without waiting for the maturity of the Act. The Restriction Act really amounted to nothing in this case; it was like instructing or commanding a man to die when his breath and brains were out. The bank paid specie as long as it could till February, 1797, when that Act was passed, and it made the conditions by contraction which enabled it to pay specie again in May, 1821.

So must it be here. The Resumption Act of 1875 amounts to nothing. The leading banks of the three cities, Boston, New York, and Philadelphia, which chiefly caused the suspension by discounting for Secretary Chase government bonds out of themselves into one hundred and fifty millions of supposititious dollars in 1861, must make the conditions for resumption by contraction, as they made the suspension, by expansion. We must simply retrace our steps.

The greenbacks had nothing to do with the suspension; not a dollar of them was issued till four months after that event, and their redemption and destruction now, if practicable, would only

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These are the prices of Mark Lane and Smithfield:

		£	***s. d.***		£	***s. d.***	
Iron went down from		12	10 0	to	8	10 0	per ton.
Havana Sugar	"		60 0	"		42 0	per cwt.
Coffee	"		158 0	"		110 0	
East India Cotton	"		1 8	"		9	per lb.
Tobacco	"		1 1	"		7	
Memel deals	"		22		"	1 7	per load.

cause the banks to fail for want of greenbacks as they have already failed for want of gold and silver. The old demand notes of the government for $50,000,000, issued in 1861, were the only element in the cause of suspension except the bank debt; they are now out of the way, and the whole power to bring about resumption lies in the strong creditor banks of the three cities which hold a relation to the other banks of the United States similar to that of the Bank of England to the other banks of the United Kingdom.

It is marvelous and unaccountable that the methods of science should be so utterly neglected in the treatment of the money question as they are in the present financial crisis. What is science but experience classified and recorded? We may know from the experience of England what we must do to resume money payments, if we are to maintain the English system of an uncovered currency of bank debt. Clearly it is to offset the bank demand debt against the bank loans until the interchangeable liabilities of the banks and the government with the coin and bullion in circulation are contracted to the natural amount which we should have in real money without any other currency. As I have said, I believe this amount to be approximately $1,000,000,000.

35

Of the Balance of Trade and the Course of Exchange*

The late William M. Gouge, one of the best political economists of the United States, says, in his *History of Banking,* "Nothing is more certain than political economy. Nothing is more uncertain than political arithmetic." Now the "balance of trade," as it is understood in Washington, is a sort of political arithmetic that is very unsound political economy. It is relied upon by our political leaders in legislating for a resumption of specie payments; as if an excess in the value of exports over imports is necessarily a balance of account returnable in money.

The doctrine of the "balance of trade" was exploded by Adam Smith a century ago, and is emphatically contradicted by statistics —especially in England. In the *Statistical Abstract of the United Kingdom,* copies of which are before me beginning with 1854 and including 1875, there is not during the whole twenty-two years a single year in which the imports do not exceed the exports of merchandise in money value very largely. The returns for the three following years present, in Federal money at $4% to the £ sterling, a fair average example of the whole period:

Years	*Imports*	*Exports*	*Excess of Imports*
1854	$ 742,896,633	$ 564,627,823	$ 178,268,810
1858	802,346,181	681,441,048	120,905,133
1875	1,822,955,438	1,372,860,075	450,095,363

* Reprinted from *Bankers' Magazine and Statistical Register,* XXXII (June, 1878), 949-54.

This exhibit, it will be observed, is of merchandise only. The imports of bullion and specie were not registered at the British customhouse till the month of November, 1857; they exceeded the exports of the same every year from 1858 to 1875 inclusive, with the exception of small balances in 1860, '61 and '72, the two former, '60 and '61, being years of contraction of the currency here by the repudiation of Southern debts, failures in business, and consequent annihilation of current bank deposits, at the beginning of the rebellion. This contraction turned the course of exchange effectively against England in favor of our loyal States. In the eighteen years, '58 to 75 inclusive, the British imported $2,520,-744,676, and exported $2,099,745,190, of gold and silver, the excess of imports being $420,999,486, notwithstanding the so-called adverse balance of trade every year of the whole series.

The imports of money exceeded the exports of the same $47,-101,030 in 1858, and $27,479,141 in 1875. Add these balances to the merchandise returns, and with such figures before him, can an intelligent merchant say that the balance of trade is against Great Britain? If I send out a foreign adventure costing $20,000, and get as a final recompense $25,000 of money value in merchandise in return, I think the balance of trade is $5,000 in my favor; if I get back but $15,000,1 think the balance of trade is $5,000 against me; and it is in favor of or against my country as it is in favor of or against the merchants of the country altogether. The true balance of trade, then, is a balance of profits.

Great Britain receives interest on her foreign loans in her imports; but that does not begin to account for the great excess and continual increase in the value of her imports over her exports. The truth is she maintains, under the screw of the Bank of England, a better currency, i.e., less currency in proportion to capital, than most of the commercial nations, and consequently a higher value of money, so that she produces cheaply and sells steadily at a profit; but there is room for improvement; the seesaw of her currency by the Bank of England, in fickle and fictitious expansion by discount deposits, alternated by sharp contraction, is distressing; we can do better if we will.

Because of her restricted territory England does not feed her own population, nor supply nearly sufficient raw material for her manufactures, directly with her own products; hence the preponderating volume of her foreign commerce. Obviously she must import and export more than countries which utilize their own products more directly and more extensively. The balance of trade, except as a balance of profits, is a chimera; there are no figures to be found for it.

But the balance of exchange is another matter and a very simple one. It is the difference in the exchange value or purchasing power of money in different cities and countries. Of course, the exchange value of money is to be found in what money will fetch in other things; that is to say, in general prices reduced to bullion value. If general prices in real money are sufficiently high here and low elsewhere, it is clear that we must buy goods and sell money. If such prices are sufficiently low here and high elsewhere, it is equally clear that we must sell goods and buy money. We may make high and false prices with false money in overvalued silver or in uncovered promises of banks or government, convertible or otherwise; but foreign merchants will not pay such prices for our commodities; they will sell us their commodities abundantly at such prices; they will take here our overvalued currency of silver and paper, but they will carry away specie at the bullion value for it; and, if we are so ignorant of political economy as to make the spurious currency interchangeable with real money by legislation, we lose the difference infallibly. Foreigners get the high prices of our false money for their goods, but leave the dross with us, taking away our good gold in exchange for base money at par. This is what Secretary Sherman and his questioners of the Congressional Banking and Currency Committee ought to know, but do not. Another thing they do not seem to know is that the current demand deposits of banks form the chief part of the currency; the bank deposit being the principal item in the running cash balance of every merchant and man of enterprise. This is too plain a fact to admit of argument, yet it is constantly ignored in legislation upon the currency.

I have now to say, if Mr. Sherman directs legislation, or takes his measures, after his notion of the balance of trade, and expects to maintain specie payments by accumulating a hundred or two millions more or less of coin, he will be cruelly disappointed whenever business assumes an average degree of activity. Rapidity of circulation is a prime element in the value of money—it raises prices. A rise of prices and a fall in the value of money are one and the same thing, and any appreciable fall in the value of money below its present level will send it out of the country rapidly under an adverse course of exchange.

Money is simply a commodity when employed in commerce; that is to say, it is a material value that is bought and sold, and, like every other commodity, as already demonstrated, it will be exported when cheaper and imported when dearer at home than abroad. Every bond we owe in Europe might be returned here for sale at once without causing the export of a dime of specie, if w[T]e should maintain money at a higher value than merchandise, as we can by suppressing the uncovered paper currency, including the fictitious discount "deposits," the current uncovered inscribed credits of the banks. We should necessarily export the more merchandise, and have more and a brisker business. We have an abundance of capital for this purpose, but it is disorganized by a currency which, to create and maintain it with false prices, involves in needless debt and embarrassment almost every enterprising businessman in the nation. What we want to obviate this difficulty is simply noninterference with the normal value and circulation of money.

The currency now organized by the banks and the government, and waiting demand with a crippled business, is more than the capital of the country can maintain in active use. Including specie, the currency is, I think, some $500,000,000 beyond the natural money volume with which capital can be circulated at its bullion price and value, and an active, healthy, business conducted; it is so much more than can be maintained under specie payment. Accumulating specie, therefore, is not the thing to do, especially at the cost of interest by increasing or maintaining the bonded national debt. The true policy is to reduce the paper currency, and the reduction should be of that which costs interest, viz.:—the bank currency. Doubtless the banks would object to this. I believe they would be benefited by it in the long run.

I have endeavored to show in previous contributions to the Banker's Magazine, that the principle of discounting an evidence of debt out of itself, and lending credit as money, is damaging to the business of banking in the end, as well as to all other business. It is making false money, raising price without value, and imposing an obligation upon the bank customer to return real money or value for it, which obligation, multiplied by circulation, must end in bankruptcy somewhere, since there is no real money or value created or existing to pay it with. Ultimately it reacts upon its creator, the bank, and bankruptcy becomes, in specious phrase, "the suspension of specie payments." The losses that are falling upon the banks at this time, and have yet to be set off in their accounts between their loans and their liabilities, form a practical illustration of this truth.

But I wish to repeat, what I have formerly said, that no one objects to the lending of credit, as credit, by a bank any more than by a merchant. A merchant may buy goods on his own credit, or on a letter of credit of a bank or banker, with no more or different effect upon the market in the one case than in the other. In either case the credit is not offered or mistaken for money; it enters into no cash account; it is an honest, undisguised postponement of the use of money; it is lending credit in borrowing capital without completing the exchange. What possible difference can it make whether the credit so employed is that of the merchant or the banker? All that is necessary for legitimate and useful banking in the case is, that the banker shall pay his debt in money, like the merchant, when the use of money is required to complete the exchange; that is, when payment is demanded, so that fictitious dollars shall not be created in the transaction. The seller then recovers his capital in a commodity that everybody wants—the most desirable commodity known to commerce. It is therefore simple nonsense to prate of money as a mere medium of exchange, the purpose of which may be served by an evidence of debt which pays nothing. Clearly it is the object of exchange, in *value* as the common equivalent, which constitutes the essence of money.

The question of profit to the banks is, whether they can make as much by lending their credit as money, with their loans consequently crippled by current uncovered demand liabilities, as they could make by borrowing and lending capital at a proper difference of interest through the instrumentality of money, with no such demand liabilities and all the loanable capital of the country to borrow from. The capacity of the banks to lend does not depend upon their power to produce currency in notes or current deposits, nor upon the quantity of currency or money in the country, except so far as money is capital; it depends upon the quantity of loanable capital at their command, for the same dollar of currency will serve to circulate in banking, as in any other business, many times its amount of capital according to the activity of circulation.

It is simply impossible to have too little currency, as such, and equally impossible to have too much capital, including money, since the less currency we have in relation to capital the higher is the value of our money, or, what is the same thing, the lower are our general prices, so that we necessarily keep the course of exchange in our favor, produce cheaper, attract more trade and sell at a greater profit than nations having relatively more currency and less capital. It is not as currency, therefore, but as capital that we gain by the increase of money, and the more circulating capital of any sort, the wider is the field for banking. A sluggish commerce and a steadily favorable course of exchange are incompatibilities; they cannot exist together.

The returns at Washington show that the loans of the commercial banks, so long as they maintain specie payments, do not exceed their capital more than about two-thirds on the average, taking the years together. According to this an average bank of $600,000 capital would lend $1,000,000, and probably in the Atlantic cities the interest would average six per cent per annum, say $60,000 gross income for the year. A bank that should make one per cent per annum on its loans by borrowing the excess and lending ten times its capital of $600,000 would aggregate the same income without inflating the currency or crippling its business or the business of the country with fictitious money. Now there are trust companies in the Atlantic cities lending twenty times their capital, and savings banks, with no stock capital, lending twenty millions of dollars each; they are enabled to do this business because they lend only what they own or borrow; they avoid the pernicious principle of lending their credit as money; hence they do nothing to degrade the value of money or to force it abroad.

There is no reason in the world that I can discover why commercial banking should not be done upon this plain, honest principle, which would put an end to the ruinous fluctuation of prices and the vast amount of needless bad debts that result from the operations of the present system, and are as injurious to banking as to any other business. I say, then, in view of the great losses they bring upon themselves periodically with their fictitious money, I believe the banks would make greater profits in the long run by abandoning the principle of discounting an evidence of debt out of itself, which is the groundwork of false money in banking.

Goethe makes Mephistopheles say: "It is a law binding on devils and phantoms that they must go out the same way they stole in." The phantom of "paper money" stole in through legislation; it must go out through legislation, or it will ruin not merely the dominant party but the politics, industry, commerce, and social order of the country. The true policy, in my opinion, is to tax out of existence the uncovered bank currency, prospectively, and then gradually retire the greenbacks, or cover them with specie, so as to keep the foreign exchanges continually in our favor, until, by exporting merchandise and importing money, in addition to the product of our own mines, the money channel is filled with the solid capital in gold and silver which belongs to it. This will, if adopted, set industry in motion, silence the idle brawling of labor against capital, and the more reasonable and just complaints against privileged legislation for the banks; it will cause the production and export of merchandise, and the addition to our active circulating capital of some eight hundred millions of dollars that we cannot have while the present paper blockade is maintained; it will give an immediate start to shipbuilding, and ready employment of navigation for the shipment of bulky cargoes abroad; it will give security to property and contracts in the future, and success to the well-planned enterprises of honest men; and it will dry up that fountain of needless debt which overwhelms in bankruptcy some time in his life, or leaves in poverty at his death, nearly every man who ventures into trade.

The key to this policy is to be found in the course of exchange; let us keep this in our favor, by adherence to natural laws, and we command the commerce of the world until we have, as capital in the product of labor, an excess of money when we shall have a desirable commodity to dispose of profitably, like an excess of wheat or cotton, instead of selling it for nothing under the degrading power of an overvalued currency.

Whether we shall do well or ill in this matter depends chiefly, as we see, upon the management of the banks either by themselves or by the government. A sluggish and an obstructed circulation reduces prices, as if the currency were partially hoarded, and accordingly raises the value of money; it may extinguish the gold premium entirely and make a temporary show of specie payment, but that the export of money can be checked for any considerable time, and specie payments maintained with the demand liabilities of the banks and the government as they are now, or within several hundred millions of their present amount, I conceive to be impossible.

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Of the True and False in Money and Banking*

Two elements determine the value of money, as the true measure of price; one is the volume of currency, estimated in gold, in relation to the quantity of circulating capital; the other is the rapidity of circulation. Obviously, if money does not circulate, it has no effect upon prices; and it has more or less effect as the circulation is more or less rapid. To the average trader it is all the same whether he receives twice as much money for his sales in a given time because the volume of currency is doubled, or because the rapidity of its circulation is doubled. He has no occasion to know why the money comes; all he cares to know is that he gets it. Keeping a certain quantity of goods on hand all the time, by buying and selling, he will discover the varying proportion of his money to his goods and raise his prices the same in the one case as in the other. On the other hand, he will reduce his prices the same when he finds but half as much money offered, whether because of a contraction of the currency or because of a contraction of its circulation.

The rapidity of circulation is a somewhat awkward phrase, but it is the best that political economy affords to express the idea, and it is perfectly intelligible to anyone who desires to understand it. It explains significantly the present condition of money and trade.

* Reprinted from *Bankers' Magazine and Statistical Register,* XXXIII (Jan., 1879), 509-12.

A contraction, not of the currency, but of the rapidity of its circulation, has raised the value of money in the fall of prices almost to the specie level; it has crippled trade, sunk assets, ruined debtors, destroyed enterprises, thrown labor out of employment, and caused widespread misery in society. But it is a cause within a cause; it is itself a consequence of inflation with false money, and only the pain of getting sober after the pleasure of getting drunk. It is but the revolt of commerce against the violation of its laws. Commerce requires money, the commodity, the product of labor, as the equivalent of other commodities, and we feed the money channel with debt, the equivalent of nothing, and the very opposite of money. Commerce depends upon capital, and we expel capital to substitute embarrassment, and force the exchanges of commodities through a ramification of debt and credit as utterly needless as a fifth wheel to a coach. Were the currency money, it would be borrowed, as capital, for trade as for any other enterprise, legitimately when needed, and buying and selling would be for cash on delivery of the goods, almost without exception. Ten thousand dollars thus borrowed and employed would support a business of $100,000 a year in the sale of goods, on an average, with ordinary enterprise and industry, and require no indebtedness beyond the $ 10,000. Whereas the same amount of business, under our discount system of making currency, requires the trader on borrowed capital to owe $50,000, and have $50,000 owing to him, besides his profits, which, if he makes any, are almost sure to be unrealized for a long time among lagging and more or less doubtful receivable debts. Moreover he will involve, and be involved with, his friends in the indorsement of discounted paper for probably twenty or thirty thousand dollars on each side at a moderate estimate. And the business of the country, in the aggregate, will be so much the less as there is less capital to do it with in the absence of money.

Instead of permitting money to remain in the country, or flow in from other countries, maintaining its normal value by non-interference, and exporting merchandise, we degrade its value by interference, and export it under such degradation, by paying our own false prices for foreign goods, in absolute loss. Instead of using it as the common equivalent to buy and sell for cash, we entangle ourselves in debt, which, being organized into currency by discounting, occupies and obstructs the money channel, and drives the money out. And this we call the "Credit System." It is a miserable fallacy; more properly, it is the counterfeit system. Money is the product of labor, never of credit. Credit borrows capital legitimately, not by producing currency; when it produces currency it produces false money and is but legalized counterfeiting. Money is naturally in repletion; by no possibility can it be sent out or kept out of the country, till it is in natural excess, but by adulterating it in the currency with false money, so as to make it cheaper than merchandise.

The French economists and bankers understand this, and France has a paper currency issued against, and covered with, specie, but no "paper money." Napoleon the First understood it. On his return to Paris from Austerlitz, "he drove directly to the Tuileries," says Abbot,

> and ascended the stairs, with hasty strides, to his cabinet. Without undressing, or even throwing himself upon a couch for a moment of repose, he sent for the Minister of Finance. The whole of the remainder of the night was spent in a rigid examination of the state of the Bank of France. The eagle eye of the Emperor immediately penetrated the confusion in which its concerns were involved. Writing from the camp of Boulogne, in the midst of all the distractions of the march to Ulm and Austerlitz, Napoleon had thus addressed his Minister of Finance: "The paper of the bank is issued in many, perhaps a majority of the cases, not on real capital, but on a delusive supposition of wealth. In one word, in discounting in this manner the bank is *coining false money*. So clearly do I see the danger of such a course, that, if necessary, I would stop the pay of my soldiers rather than persevere in it."

The Bank of France no longer "coins false money"; it no longer discounts an evidence of debt out of itself, and therefore does not increase the currency, the notes it issues being merely instruments to circulate the pre-existing currency of specie in its vaults, or credits and vouchers unused for money absolutely and honestly borrowed and lent. It is immaterial whether a bank issues notes or inscribes credits in its books for its demand debt. The notes are but items of an account current in principle, the same as the book credits. Debit a bank to the value loaned on its note when the same is received, and credit the bank by the value received when the note is disposed of, and you demonstrate the principle of an account current; but there is nothing of the nature of money in it. You simply lend to the bank for nothing the value of the capital you dispose of for the note; it may be dry goods or groceries or any sort of commodity or labor. The note has nothing to do with money, it does not represent money, unless it is covered with money held in reserve against it; in which case it serves as a certificate to circulate the ownership of the money so held, as a storage certificate serves to circulate the ownership of merchandise. If there is no money received and held, in the one case, or merchandise in the other, the respective certificates or promises are equally false.

The French have a habit of hoarding, and they hoard bank notes as well as specie. A commercial bank is not required or expected to cover its liabilities for borrowed money with specie, any more than a savings bank. Such liabilities are not current deposits; they are invested by their owners and earning interest; there is no principle or effect of currency in them; of course, they do not affect the value of money or general prices. But the deposits in daily use, offered in market as merchandise in store is offered, and liable to be drawn upon as freely as the gold in one's counting-house safe, are current deposits; they constitute, usually, the chief item of running cash in the accounts of merchants and men of business; they are potentially currency, and if they are not money actually in the bank vaults they are a swindle. The true theory of such deposits is safekeeping; they are not lent to the bank nor borrowed by it on any honest principle; and they cannot be lent by it without inflating and debasing the currency, or, in the words of Napoleon, "coining false money." This evil principle the Bank of France avoids, but the commercial banks of England, and of Europe and America, in general, do not. Here in the United States it is the one great temptation to the establishment of banks;

it is the very principle on which banking is supposed to depend for its profit and its existence, and, in the long run, it is the ruin of the business. It is ignorantly and generally believed here that without this paradox of holding while lending—having your cake and eating it too, in the bank deposit—there would be no such business as banking. It is owing to this principle that Germany has been financially ruined, almost, by receiving the war indemnity of $1,100,000,000 which France paid without feeling it. Germany used this money to increase the capital of her old banks, and more than double their numbers in chartering new ones, and the false money they produced was used, as such money always is used, in creating debt, and in promoting extravagant enterprises and wild adventures, that have fallen to ruin. And England is suffering cruelly from the operation of this principle to-day.

The Bank of France, including the branches, held on the 14th November, in coin and bullion, $400,000,000; a sum undoubtedly exceeding its liabilities for the running cash of its creditors, such being all that come within the category of currency. Everything it owes, beyond this, is for capital borrowed in the pre-existing currency, on the principle of a savings bank, to be loaned out without the ridiculous theory of cash on hand to be checked upon at sight, when there is no such cash in existence. Hence, as the bank does nothing to increase the currency, it does nothing to degrade money and drive it away; so that France maintains a metallic system as pure as if there were not a bank in the nation. No one estimates the specie in France at less than $1,300,000,000; some place it as high as $1,600,000,000. She suffers more or less, as every commercial nation must suffer, from the perturbations of commerce and financial mismanagement elsewhere; but her trade is better conducted, more equal and reliable, and less disturbed by defalcations and bankruptcies, than that of any other nation outside of Asia. One would think, at times, that her bad politics would ruin her; but her sound money system outlasts her kingdom, her rotten empire, the crazy commune, and all the wild fancies of the most unpractical and fanatical set of politicians that ever tampered with human government. To-day, if her government should ask for a loan, the requirement would be promptly and far exceeded in offerings of capital by her own people.

I commend to our banks, and our government, the example of the Bank of France, with its devotion to the true principle of banking; in other words, refraining from the making of false money.

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