THE CURRENCY QUESTION.

LETTER TWELFTH.

Dear Sir:—

Side by side with the question of protection, and equal with it in its importance, stands that of the Currency, to which I propose now to ask your attention.

Had it been possible, on the 4th of March, 1861, to take a bird's-eye view of the whole Union, the phenomena presenting themselves for examination would have been as follows:—

Millions of men and women would have been seen who were wholly or partially unemployed, because of inability to find persons able and willing to pay for service.

Hundreds of thousands of workmen, farmers, and shopkeepers would have been seen holding articles of various kinds for which no purchasers could be found.

Tens of thousands of country traders would have been seen poring over their books seeking, but vainly seeking, to discover in what direction they might look for obtaining the means with which to discharge their city debts.

Thousands of city traders would have been seen endeavoring to discover how they might obtain the means with which to pay their notes.

Thousands of mills, factories, furnaces, and workshops large and small, would have been seen standing idle while surrounded by persons who desired to be employed; and

Tens of thousands of bank, factory, and railroad proprietors would have been seen despairing of obtaining dividends by means of which they might be enabled to go to market.

High above all these would have been seen a National Treasury wholly empty, and to all appearance little likely ever again to be filled.

Why was all this? The laborer needing food, and the farmer clothing, why did they not exchange? Because of the absence of power on the part of the former to give to the latter anything with which he could purchase either hats or coats.

The village shopkeeper desired to pay his city debts. Why did he not? because the neighboring mill was standing idle while men and women, indebted to him, were wholly unemployed.

The city trader could not meet his notes, because his village correspondents could not comply with their engagements. The doctor could not collect his bills. The landlord could not collect his rents; and all, from laborer to landlord, found themselves compelled to refrain from the purchase of those commodities to whose consumption the National Treasury had been used to look for the supplies upon which it thus far had depended.

With all, the difficulty resulted from the one great fact already indicated in regard to the laborer. If *he* could have found any one willing to give him something that the farmer would accept from him in exchange for food—that the farmer could then pass to his neighbor shopkeeper in exchange for cloth—that that neighbor could then pass to the city trader in satisfaction of his debt—and that this latter could then pass to the bank, to his counsel, his physician, or his landlord—the *societary circulation* would at once have been re-established and the public health restored.

That one thing, however, was scarcely anywhere to be found. Its generic name was *money*, but the various species were known as gold, silver, copper, and circulating notes. Some few persons possessed them in larger or smaller quantities; but, the total amount being very small when compared with that which was required, their owners would not part with the use of them except on terms so onerous as to be ruinous to the borrowers. As a consequence of this, the city trader paid ten, twelve, and fifteen per cent. per annum for the use of what he needed, charging twice that, to the village shopkeeper, in the prices of his goods. The latter, of course, found it necessary to do the same by his neighbors, charging nearly cent. per cent.; and thus was the whole burthen resulting from deficiency in the supply of a medium of exchange thrown upon the class which least could bear it, the working people of the country—farmers, mechanics, and laborers. As a consequence of this they shrunk in their proportions as the societary circulation became more and more impeded, while with those who held in their hands the regulation of the money supply the effect exhibited itself in the erection of those great palaces which now stand almost side by side with tenement houses whose occupants, men, women, and children, count by hundreds. The rich thus grew richer as the poor grew poorer.

Why was all this? Why did they not use the gold of which California had already sent us so many hundreds of millions? Because we had most carefully followed in the train of British free trade teachers who had assured our people that the safe, true, and certain road towards wealth and power was to be found in the direction of sending wheat, flour, corn, pork, and wool to England in their rudest form, and then buying them back again, at quadruple prices, paying the difference in the products of Californian mines! Because we had in this manner, for a long period of years, been selling whole skins for sixpence and buying back tails for a shilling! Because we had thus compelled our people to remain idle while consuming food and clothing, the gold meanwhile being sent to purchase other food and clothing for the workmen of London and Paris, Lyons, Manchester, and Birmingham!

Why, however, when circulating notes could so easily be made, did not the banks supply them, when all around them would so gladly have allowed interest for their use? Because those notes were redeemable in a commodity of which, although California gave us much, we could no longer retain even the slightest portion, the quantity required abroad for payment of heavy interest, and for the purchase of foreign food in the forms of cloth and iron, having now become fully equal to the annual supply, and being at times even in excess of it. That demand, too, was liable at any moment to be increased by the sale in our markets of certificates of debt then held abroad to the extent of hundreds of millions, the proceeds being claimed in gold, and thus causing ruin to the banks. To be out of debt is to be out of danger, but to be in debt abroad to the extent of hundreds of millions is to be always in danger of both public and private bankruptcy. *The control of our whole domestic commerce was therefore entirely in the hands of foreigners who were from hour to hour becoming richer by means of compelling us to remain so dependent upon them that they could always fix the prices at which they would buy the skins, and those at which they would be willing to sell the tails.* As a necessary consequence of this, the nation was not only paralyzed, but in danger of almost immediate death.

Such having been the state of things on the day of Mr. Lincoln's inauguration, let us now look at the remedy that was then required. Let us, for a moment, suppose the existence of an individual with wealth so great that all who knew him might have entire confidence in the performance of what he promised. Let us then suppose that he should have said to the laborers of the country, "Go into the mills, and I will see that your wages are paid;" to the millers, "Employ these people, and I will see that your cloth is sold;" to the farmers, "Give your food to the laborer and your wool to the millers, and I will see that your bills are at once discharged;" to the shopkeepers, "Give your coffee and your sugar to the farmer, and I will see that payment shall forthwith be made;" to the city traders, "Fill the orders of the village shopkeeper and send your bills to me for payment;" to the landlords, "Lease your houses and look to me for the rents;" to all, "I have opened a *clearing house* for the whole country, and have done so with a view to enable every man to find on the instant a cash demand for his labor and its products, and my whole fortune has been pledged for the performance of my engagements;" and then let us examine into the effects. At once the societary circulation would have been restored. Labor would have come into demand, thus doubling at once the productive power of the country. Food would have been demanded, and the farmer would have been enabled to improve his machinery of cultivation. Cloth would have been sold, and the spinner would have added to the number of his spindles. Coal and iron would have found increased demand, and mines and furnaces would have grown in numbers and in size. Houses becoming more productive, new ones would have been built. The *paralysis* would have passed away, life, activity, and energy having taken its place, all these wonderful effects having resulted from the simple pledge of the one sufficient man that he would see the contracts carried out. He had pledged his credit and nothing more.

What is here supposed to have been done is almost precisely what *has* been done by Mr. Lincoln and his Administration, the only difference being, that while in the one case the farmers and laborers had been required to report themselves to the single individual or his agents, the Government has, by the actual purchase of labor and its products, and the grant of its pledges in a variety of shapes and forms, enabled each and every man in the country to arrange his business in the manner that to himself has seemed most advantageous. To the laborer it has said, We need your services, and in return will give you that which will enable your family to purchase food and clothing. To the farmer it has said, We need food, and will give you that by means of which you can pay the shopkeeper. To the manufacturer it has said, We need cloth, and will give you that which will enable you to settle with the workman and the farmer. To the naval constructor it has said, We need your ships, and will give you that which will enable you to purchase timber, iron, and engines. In this manner it is that domestic commerce has been stimulated into life, the result exhibiting itself in the facts, that while we have in the last three years increased to an extent never known before the number of our houses and ships, our mills, mines, and furnaces, our supplies of food, cloth, and iron; and while we have diversified our industry to an extent that is absolutely marvellous; we have been enabled to lend, or pay, to the Government thousands of millions of dollars, where before, under the system which made us wholly dependent on the mercy of the "most wealthy capitalists" of England, we found it difficult to furnish even tens of millions. The whole history of the world presents no case of a financial success so perfect.

In the physical body health is always the accompaniment of rapid circulation, disease that of a languid one. Now, for the first time since the settlement of these colonies, have we had experience of the first. Every man who has desired to work, has found a purchaser for his labor. Every man who has had labor's products to sell, has found a ready market. Every man who has had a house to rent, has found a tenant. And why? Because the Government had done for the whole nation what Companies do for localities when they give them railroads in place of wagon roads. It had so facilitated exchange between consumers and producers, that both parties had been enabled to pay on the instant for all they had had need to purchase.

Important, however, as is all this, it is but a part of the great work that has been accomplished. With every stage of progress there has been a diminution in the general rate of interest, with constant tendency towards equality in the rate paid by the farmers of the East and the West, by the owner of the little workshop and by him who owns the gigantic mill. For the first time in our history the real workingmen—the laborer, the mechanic, and the little village shopkeeper—have been enabled to command the use of the machinery of circulation at a moderate rate of interest. For the first time have nearly all been enabled to make their purchases cash in hand, and to select from among all the dealers those who would supply them cheapest. For the first time has this class known anything approaching to real independence; and therefore has it been that, notwithstanding the demands of the war, capital has so rapidly accumulated. The gain to the working people of the Union thus effected, has been more than the whole money cost of the war, and therefore has it been that all have been able to pay taxes, while so many have been enabled to purchase the securities offered by the Government.

Further than all this, we have for the first time acquired something approaching to a *national independence.* In all time past, the price of money having been wholly dependent on the price in England, the most important intelligence from beyond the Atlantic was that which was to be found in the price of British securities on the Exchange of London. With each arrival, therefore, we were, to our great enlightenment, and that too by means of flaming capitals, informed that Consols had risen or had fallen, our railroad shares then going up or down because the Bank of England had seen fit to purchase a few Exchequer bills, or had found it necessary to part with some of those it previously had held. In all this there has been a change so complete that the price of British Consols has ceased entirely to enter into American calculations. The stride, in this respect alone, that has been made in the direction of independence, is worth to the country more than the whole money cost of the great war in which we are now engaged.

The time had come to make it, the course of Britain having recently been in a direction that limits the circulation and insures a rise in the rate of interest. The Bank of England is limited to £14,000,000 as the amount of notes that may be issued in excess of the gold actually in its vaults. All other banks being limited to the amount that existed on a certain day in 1844, and some of them having since that time gone out of existence, the result exhibits itself in the fact that the total machinery of circulation supplied by the banks is less now than it was twenty years since. As a consequence of this, and in despite of the extraordinary influx of gold from California and Australia, the rate of interest charged for the use of such machinery has been for some years past higher than that paid in any of our Atlantic cities, the fluctuations in regard to paper of the highest character having been between six and ten per cent. By the last accounts it had fallen to $5\frac{1}{2}$, and that is now, as English journalists advise us, as much to be regarded as the normal price of money as was 4 per cent. before the discovery of California mines. The danger of dependence upon the British money market, always great, has now been much increased; and it must become greater with every year, so long as British banking operations shall continue to be governed by that wonderfully absurd system for which the British people stand to-day indebted to the financial ignorance of Sir Robert Peel.

Great and obvious as have been the benefits derived by the country from the system inaugurated under the administration of Mr. Lincoln, they are, as we are assured, counterbalanced by their tendency to produce inflation, and thus to increase the price of gold. How little truth there is in this, I propose to show in another letter, and meanwhile remain, my dear sir,

Very truly and respectfully yours,

HENRY C. CAREY.

Hon. SCHUYLER COLFAX.

PHILADELPHIA, Feb. 13, 1865.

THE CURRENCY QUESTION.

LETTER THIRTEENTH.

DEAR SIR :—

That the currency has been, and is, inflated, is beyond a question. Whence, however, has come the inflation? What has caused the existence of disease? Such are the questions to which an answer must be obtained before we undertake to prescribe the remedy to be adopted. Failing to do this, we shall certainly kill the patient.

By all the currency doctors, both here and abroad, the cause of financial crises is found in the circulation; and hence it has been that both here and elsewhere the world has been furnished with so many laws in regard to it, none of which would ever have existed had the matter been properly understood. To that question it was that Sir Robert Peel addressed himself when he framed a law that has already twice broken down, and that must continue to break down on each successive recurrence of the state of things it was intended to prevent. The statute-books of nearly all of our States present to view similar laws, all of which have proved as utterly worthless, and some of them almost as injurious, as that British one above referred to.

The circulation needs no regulation, and for the simple reason that the people regulate it for themselves. For proof of this, look, I pray you, to the fact that the Treasury has been for several years past engaged in trying to obtain for small notes a circulation amounting to fifty millions, and yet has not, at this hour, one of even the half of that amount. Why has it not? Because the people need no more than twenty or twenty-five millions. If they did need more, they would gladly take it. When Congress had before it a bill authorizing the emission of that description of currency, it would have been deemed rank heresy to say that no limitation was needed, yet has experience proved that such was certainly the case. Had they omitted all restriction on the "greenbacks," they might perhaps have found, as in the case of the smaller notes, that the people understood better what they needed than did their legislators. That they would have done so, I regard as beyond a question.

It is constantly assumed that it is the banks that determine how many notes shall be in use, and yet the experience of each and every individual in the community proves that exactly the reverse of this is true. That you, my dear sir, may satisfy yourself of this, I pray you to look for a moment to your own constant action in regard to the question now before us. On a given day you receive a quantity of bank-notes, which are *then* in circulation. What do you then do with them? You place them in a bank, and thus put them *out of circulation.* On the following day you perhaps take them from the bank and pay them out, thus putting them *again in circulation.* What control did the bank exercise over these several operations? None whatsoever. It is you, your friends, neighbors, and fellow-citizens generally, that regulate the circulation, and it is just as wise to pass laws limiting its amount as it would be to pass other laws determining the quantity of coal, iron, sugar, or coffee to be provided for their use.

To this it is due that in communities that are really independent the circulation is so very nearly a constant quantity. That of the Bank of England, in the eventful period from 1832 to 1841, averaged £18,000,000, and although it embraced the time of one of the greatest excitements and one of the most fearful reverses ever known in that country, the circulation never went beyond that average to the extent of five per cent., nor fell below it to that of eight per cent. The differences exhibited are less even than might be reasonably looked for by any one familiar with the fact that during several of the years every workingman had been fully employed, while in several others a large portion of the manufacturing population was either idle or but half employed.

Take now the following figures representing, in millions, the circulation of the New York banks, and see how uniform was its amount until the withdrawal in 1857, by the banks, of many millions of *loans that had been based upon deposits,* had almost annihilated the commerce of the country, and thus deprived our people of the power to make use of notes.

1855 . . . 41	1859 . . . 36	1862 . . . 42
1856 . . . 41	1860 . . . 38	1863 . . . 42
1057 . . . 41	1861 . . . 36	1864 . . . 40
1858 . . . 35		

In every case, as here presented, reduction had been a *consequence* of stoppage of the societary circulation, and *not a cause of it.*

We are told, however, of the depreciation of Continental money, French *assignats*, and Confederate notes, and are threatened that we shall here experience the same result; but those who present such views can scarcely properly appreciate the difference between the conditions under which such paper was emitted and those in which we stand. The first was issued by a Confederation that was little better than a rope of sand, and that had no certain power to provide for the ultimate payment of either principal or interest of any debt it might contract. The second were at first receivable only in payment for confiscated property, and were of no value for any other purpose. As the country became more and more "a scene of rude commotion," and as employment for the people passed away, their quantity was more and more increased, and they then were made a legal tender, but there existed then no organized government capable of giving protection to either property or life—none capable of making secure provision for any ultimate assumption of payment by the State. The last has been issued by an authority the permanent maintenance of which has been so much doubted that few have held its securities longer than was required for enabling them to pass them off to some one else. They have been received by a community that has been cut off from the outer world, and whose single source of wealth has wholly disappeared. They are now used by one whose numbers are constantly diminishing, and over a surface that is becoming daily more and more circumscribed. When the notes were few in number the Southern people were still rich, and, with the exception of Maryland, the notes circulated in every State south of Mason and Dixon's Line, the Ohio and the Missouri. Now, when they so much abound, the rich have become poor, the poor have become poorer, rich and poor to a great extent have passed out of existence, and the theatre of circulation has become limited to portions of half a dozen

States. No one desires to convert Confederate paper into a permanent security, it being clearly obvious that of security for future payment there can be none. The notes will still at some price help to pay for a negro or a horse, but the bonds will not do so at any price whatsoever.

Contrast here, my dear sir, the circumstances above described with those under which our "greenbacks" have been issued. They have gone out in payment for property purchased of, or services rendered by, persons who have freely sold the one or rendered the other. The authority by which they have been issued is one quite as capable of binding posterity as was the Government of Washington and Adams. They are used by a people whose numbers are constantly growing, and whose productive powers are steadily increasing in the ratio which they bear to population. The man who receives them finds himself surrounded by other men who gladly give him houses and lands at prices little greater than those he would have paid ten years since, and before the great free trade crisis of 1857. In all this the Government co-operates by authorizing him to deposit with its officers, for periods long or short, any amount for which he may not have present use, receiving in return certificates by means of which he can withdraw the amount on giving certain notice; or at his pleasure receive bonds payable in three, four, ten, twenty, or forty years, receiving interest in gold or paper, according to the terms agreed upon; and here we have a security against depreciation the like of which the world had never seen before. It is a *safety valve* such as could not have been provided by any of the authorities to which the world has been indebted for those chapters of financial history which are connected with the Continental paper, the Assignat, or the Confederate notes.

Having thus shown what had been the circumstances under which the "greenbacks" have been offered for acceptance by the world, I propose now to show what is the extent to which they have been issued, and what have been the gold phenomena by which that issue has been attended.

The first batch of notes amounted to $60,000,000, and were issued under laws passed in July and August, 1861. Nearly the whole of these have since been withdrawn and cancelled.

The second emission was under a law of February, and the third under one of July, 1862, giving us at the close of that year a total

Government circulation of little less than $300,000,000. The price of gold as yet had changed but slightly. In June, 1862, it still stood at 104. In July and August it fluctuated between 109 and 119. In October it rose to 124, and for the rest of the year it varied between 130 and 137. Compared with what we since have seen, the advance thus far seems as very trifling; and yet the amount of legal tender notes then existing bore a very much *larger proportion* to the number of persons to whom a currency was to be supplied—to the business that was to be transacted—and to the surface that was to be covered than is at this moment borne by the notes now in circulation. Such being the case, as I propose to show it is, we must certainly look elsewhere for the cause of the present price of gold.

In February, 1863, that price rose to 171. Why was this? Not certainly because of any increase in the "greenback" circulation, the further emission of these having been accompanied by the withdrawal of the original $60,000,000 of treasury notes of which but $3,351,000 remained out in the following June. The amount of circulation must, therefore, have been but little more at this time, when gold was at 171, than it had been in the previous autumn when its price ranged between 115 and 124.

In the following month a further issue to the extent of $150,000,000 was authorized, and, according to the generally received theory, gold should now have risen. Did it so? On the contrary it fell, and in July, although the greenbacks then outstanding amounted to $400,000,000, was as low as 124. As it seems to me, we cannot in this direction find the cause of changes such as these.

In September the greenbacks issued had risen to $415,000,000, and the price of gold to 143. The two, however, could have had no necessary connection with each other, gold being now much *lower* than it had been in the previous February, while the circulation was *higher* by little less than $100,000,000.

By the act of March, 1863, the Secretary had been empowered to issue interest-bearing notes, legal tender for their face, to the extent of $400,000,000. Of this power no use appears to have been made prior to the first of October of that year. In that and the following month there were issued of greenbacks $15,000,000, and of interest-bearing legal tenders $35,000,000; and it is fair to assume a further issue for December of $30,000,000, bringing up the total amount to nearly $500,000,000. What was the effect of this upon gold? Did it carry it up to, or beyond, the price at which it had stood in the previous February? On the contrary, although in the meantime $200,000,000 had been added to the legal tenders issued, it remained 20 per cent. lower, the price on the first of January being only 151. How the opponents of what is called "the paper money system" can reconcile these facts, I do not clearly see.

Since then the price has been nearly as follows:—

January	157	May	192	September	220
February	159	June	240	October	220
March	165	July	276	November	230
April	178	August	257	December	220

Throughout the whole of these latter months there had been the most violent fluctuations, but these figures will, I think, suffice to give you, my dear sir, a general idea of the whole movement.

What, in the meantime, had been the course of the Treasury in regard to the issue of legal tender notes? For a reply to this question I must refer you to the following figures exhibiting the state of that portion of the public debt on the first of November last:—

I.	Of greenbacks the amount then outstanding was	$433,000,000
II.	Of one year notes	43,000,000
III.	Of two year notes	16,000,000
IV.	Of two year coupon notes	61,000,000
V.	Of three year notes	102,000,000
		$655,000,000

The amount is here shown to have been greater by about one hundred and fifty millions than it had been a year before, but of this how much was there that really remained in circulation? At the present moment, as I am assured, two-thirds of Nos. II., III., and IV. have been absorbed by individuals and institutions, and have ceased to constitute any portion of the circulation. Such, likewise, is the case with a portion of No. V. Admitting, now, the quantity since issued of this last to be equal to the amount of the others so absorbed in the last three months, we obtain, as a deduction from the above *apparent* circulation, the large sum of $80,000,000, and thus reduce the real amount to $575,000,000.

Is this, however, all the deduction needed to be made? By no means! Throughout this period banks have been parting with their gold, and substituting for it United States notes, both demand and interest-bearing, and individuals, to a vast extent, have followed their example. The farmer pays for what he needs in local notes, but he puts aside his "greenbacks." The miner and the mechanic—the laborer and the village shopkeeper—the soldier and the sailor—the immigrant who is seeking to invest his little capital, and the sempstress who is trying to accumulate the means with which to purchase a sewing-machine—all of these have become hoarders of "greenbacks," which have thus been withdrawn from circulation, and have, for the time being, no more influence upon either the gold or produce markets than they would have had they been altogether blotted out of existence. Adding now together all these quantities, we shall, as I think, readily obtain the sum of $75,000,000, and thus reduce the actual Treasury circulation to the precise point at which it stood at the close of 1863, when the price of gold was 151.

There is, however, another portion of the circulation which now demands attention. At the date of which I have spoken there were in existence 631 national banks, with an authorized capital of $428,000,000, to which there had been *issued* notes amounting to $72,000,000. To what extent those notes had then been *circulated* we cannot tell, but we know, from the Report of the Commissioner of the Currency, that on the first Monday of the previous October their actual circulation amounted to only $45,260,000, to meet which, and to provide for payment of their depositors, they held, in "specie and other lawful money," $44,801,000. Of the first, the quantity held is likely to have been very small indeed, but admitting it to have been even as much as $10,000,000, and that another sum of equal amount had been in the form of interest-bearing legal tenders, the quantity of "greenbacks" held by them must have been $25,000,000. This would reduce their *apparent* addition to the quantity of "paper money" to but $20,000,000; but when we take into view the fact that in the year embraced in the Report 168 State banks had become national institutions, and that, to the extent of their issues, the new notes had been mere substitutes for those previously in existence, we see that the *real* addition thus made to the circulation had been a quantity too small to be worthy of any serious attention.

At the date of the battle of Gettysburg, say July 3, 1863, the legal tender circulation was, as has been shown, $400,000,000, with gold at 124. With a present circulation of only $500,000,000, gold is above 200; and yet, as I propose now to show, its amount is *very far less*, in proportion to the space over which it is circulated, to the population to be supplied, and to the work to be done, than it was at the date to which I have referred.

At that time we had secure possession of scarcely any portion of the country south of Mason and Dixon's Line, the Ohio and the Missouri. We did, it is true, still hold Washington, but a rebel army was then in Maryland. South of that, in the Atlantic States, we held Fortress Monroe, Norfolk, Newbern, Hilton Head and its immediate neighborhood. Kentucky was then exceedingly disturbed, while Tennessee was mainly occupied by rebel armies. Missouri was, in almost its whole extent, a "debateable land," while rebel forces occupied nearly the whole of Arkansas and by far the larger portion of Louisiana. On the Mississippi we held Memphis at the north and New Orleans at the South. Throughout the border and Southern States, therefore, there was little work being done, and little use for circulation of any description whatsoever; and of what was used nearly the whole consisted of Confederate notes.

To-day, the Federal circulation is needed throughout Maryland, the larger portion of old Virginia, Kentucky, Tennessee, Missouri, Arkansas, much of Mississippi and Louisiana, parts of Georgia, Alabama, and North Carolina, and throughout the whole region bordering on the Mississippi. It is needed, too, by every emigrant to Minnesota, Nebraska, Colorado, and Nevada; and thus, while we have, in the last eighteen months, added largely to the population to be supplied, we have almost doubled the territory within which that population may be found.

Simultaneously with all this we have added little less than one-half to the productive powers of our people, and to the transactions for facilitating which a general medium of circulation is required.

Having studied these things you will, my dear sir, as I think, be disposed to agree with me in the conclusions at which I have arrived, as follows:—

That the circulation bears now a much smaller proportion to the need for it than it did at the time when gold stood at 124.

That to this is to be attributed that the "greenback" is frequently so scarce as to interfere, and that seriously, with the operations of the Government; and

That, if we desire to find the cause of the present high price of gold, it is in quite another direction we must look for it.

What that direction is I propose to show in another letter, and meanwhile remain,

Yours, very truly,

HENRY C. CAREY.

Hon. Schuyler Colfax.

Philadelphia, February 13, 1865.

THE CURRENCY QUESTION.

LETTER FOURTEENTH.

DEAR SIR :—

The power of a bank to make loans is derived from the use of its capital; from its power to furnish circulation; and from its further power to apply to the purchase of securities the moneys standing to the credit of those with whom it deals, and known by the name of *deposits.*

That it is not to the use of the first we are indebted for the inflation now complained of is very certain. That variations in the second have been only those consequent upon changes otherwise produced has been already shown. There remains, then, only the third, and to that it is that I now propose to call your attention, first, however, asking you to accompany me for a moment in an examination of the effect which necessarily results from the loan by banks of moneys for which they themselves are indebted to others, and which they may, at any moment, be called upon to refund.

Let us suppose you, yourself, to have received on any given day notes, or specie, amounting to ten, fifteen, twenty, or fifty thousand dollars, and that while waiting to re-invest them you have placed them in your safe. Going now on change, you find that sum to be there represented by *yourself alone.*

Let us next suppose that instead of so placing them you had had them put to your credit in a neighboring bank, and that the bank had forthwith lent them to a dealer in money, or in stocks. Going on change under these circumstances you find your money *twice represented;* first by yourself who have it, as you suppose, in the bank; and next, by the man who had borrowed it and had had it put to *his* credit precisely as it had previously been placed to *yours.* Here is a very simple operation by means of which the amount of deposits has been doubled *by the action of the bank itself;* and here it is that we find the cause of all the inflation of which we so often have had reason to complain, and to which, as I propose to show, we chiefly owe the numerous and extraordinary changes in the price of gold.

By the last report of the Superintendent of the New York banks the amount for which they then stood indebted to individuals, called depositors, was nearly $250,000,000. The owners of this vast sum might be seen passing up and down Wall Street, as fully ready to purchase stocks or notes as they could have been had it been in their private safes. Side by side with them, however, might be seen other individuals to whom *that same amount* had been lent, and who were equally ready to bid for any securities that might be offered. The $250,000,000 of *capital* had thus become $500,000,000 of *currency*, so to remain until the owners might claim to be repaid. The bank then making the same demand upon its debtors the $500,000,000 of currency would forthwith shrink into its original dimensions, and become once again but $250,000,000.

No such general demand would, of course, ever be made, and that none such has been needed for producing the crises of the past, or the gold excitements of the present, will be seen on an examination of the following figures, presenting, in millions, the movements of the New York banks before and after the great crisis of 1857:—

	June '56.	Sept. '56.	June '57.	Sept. '57.	Dec. '57.
Capital . . .	92	96	104	107	107
Circulation . .	31	34	32	27	24

Leaving the circulation now wholly unprovided for, we will take the amount of the so-called deposits, and set against these latter the whole amount of specie with a view to ascertain what had been the amount of currency created by *the ballooning system*:—

Deposits . .	103	104	109	85	83
Specie . . .	14	15	14	14	29
Lent out . .	89	89	95	71	54

In the first two of these periods 89 millions of real capital had become 178 of currency. In the third *that* currency had risen to 190. In the last it had, by the simple process of calling in loans, been carried down to 108.

The facts here exhibited in regard to the circulation are—

First, that up to the moment just preceding the explosion there had not only been no increase, but an actual reduction in its amount; second, that that reduction had been *consequent* upon a closing of workshops and suspension of business otherwise produced; and third, that, notwithstanding the almost entire suspension of business, the apparent reduction was but $8,000,000. That the real one must have been very far less than this will be obvious to all who know how large is the amount of notes of other banks remaining unexchanged, and for the time being out of circulation, at a time of financial ease, compared with that which is so retained in a period of crisis as severe as that now under examination.

Those exhibited in regard to the process of *duplication* to which your attention has been called, are as follows:—

First. The very small increase that had been required for producing the largest excitement throughout the country at large. The total amount from June, 1856, to June, 1857, was, as here is shown, but six millions; and yet there had been thus produced an inflation of the value of property throughout the country to the extent of many hundreds of millions:

Second. The very small reduction required for precipitating a whole community into a state of absolute and entire ruin, such as existed at the date of the last returns here given. The whole reduction had been but forty-one millions, and yet the changes in the value of property thereby produced counted certainly by thousands of millions.

What caused the rise? The use *by* banks of the property of others. What caused the fall? The demand *of* the banks for payment by their debtors. Who suffered? Every man who was in debt. Who profited? Every one who had the command of money. The rich were thus made richer and the poor made poorer by means of an inflation caused by the action of those very bank managers who, in all times past, had largely profited of such changes.

With all this, as has been shown, the circulation had nothing whatsoever to do, nor could it have, for the reason that *that* portion of the currency is governed by the people themselves, and not in any manner controlled by bank directors. Nevertheless, all our laws are framed as if the circulation were really the portion which needed regulation.

Following out the view thus presented I give you now, in the following figures, the movement of the same institutions in the past four years:—

	June '61.	June '62.	Dec. '62.	June '63.	Sept. '63.	Mar. '64.	June '64.	Sept. '64.
Capital	110	109	109	108	109	109	108	107
Circulation	26	39	39	32	33	31	32	33

In the first of these periods the circulation was small because our people were almost wholly unemployed. This was a *consequence* of error elsewhere, and not itself a cause of error.

Deposits and bank balances .	139	206	258	272	288	354	298	297
Specie and bank balances .	60	55	65	63	53	46	43	40
Lent out	79	151	193	209	235	308	255	257

The duplication of these vast sums, consequent upon the very simple process of placing money to the credit of A, as a depositor of his own property, and to that of B as a borrower of the same money, gives the following very remarkable figures:—

	158	302	386	418	470	616	510	514
Price of gold at same dates	par	103 to 109	131 to 133	147	128 to 142	161 to 165	195 to 245	255 to 191

The seventh column gives the precise period of the agitation caused by the passage of *the gold bill;* and from that to the eighth we have in the price of gold the effect of the extreme depression of the public mind of July and August last. It is by no means to be assumed that the gold variations have been altogether caused by the inflation above exhibited; but, that they have to nearly their whole extent been so, the figures above most clearly prove. Were bank loans reduced to the point at which they stood three years since, gold would be now as cheap as it was then.

The *addition* to the currency that had thus been made by the banks of the single State of New York, in comparing March, '64, with June, '61, appears to have been precisely $229,000,000. In all such movements the rest of the country, although at a long distance, follows suit to New York city. Three years since, when gold was still at par, the debts, called deposits, of the Pennsylvania banks, stood at $25,000,000. A year since, with gold at 165, they had already doubled; and since that time the movement in the direction of expansion has been at a greatly accelerated pace. In the last twelve months the deposit line of the Philadelphia banks alone has increased $14,500,000, most of their gold meanwhile having been converted into interest-bearing legal tender notes. As a consequence of all this, the interest-bearing securities held by them are little less than quadruple the amount of their capital. The inflation of this city alone is greater than was that of New York city prior to the great crisis of 1857.

The *addition* thus made to the currency of Pennsylvania can scarcely be estimated at less than $40,000,000. Allowing now for all the rest of the loyal States only twice that sum, we obtain $120,000,000, which, added to that of New York, gives us a total of $349,000,000.

Of what does this addition consist? Of precisely the same material that is used for inflating all other balloons—gas, *and nothing else.* The slightest pinhole causes it to disappear, and therefore is it that we meet with changes in the dimensions of the machine violent as are those here exhibited in figures representing, in millions, the loans, throughout the past year, of New York city banks:—

January	174 to 162	July	198 to 185
February	163 to 174	August	185 to 188
March	182 to 199	September	189 to 185
April	203 to 194	October	185 to 186
May	198 to 195	November	187 to 192
June	196 to 197	December	196 to 204

At one moment, as we see, gas is injected, and prices of gold, stocks, and commodities generally throughout the country, rise—and then the initiated sell. At another, it is compelled to escape, prices then falling, to the great advantage of those who had so lately sold. Such is the movement that is allowed to remain unregulated, the aid of Congress being meanwhile invoked in favor of establishing control over a circulation already regulated by means of that "higher law" which subjects to the popular will that portion of the financial movement.

Most widely different from all this is the action of that portion of the currency furnished by the Treasury, and known by the popular name of "greenbacks." In the one case, the addition represents nothing but *the will* of certain persons whose interests are to be promoted by expansion, to be followed, on the succeeding day probably, by contraction. In the other, it represents property delivered or service rendered to the Government. In the one, it is local, and the effect upon prices is great in proportion to the limitation of the space. In the other, it is paid out to the soldier, wherever found, whether in the hospitals of New England, the camps of the Centre, or the armies of the South and Southwest. It goes into the pocket of each individual, there to remain until he can find an opportunity to send it home, or in some other manner to use it for his private benefit. It goes into the pockets of farmers, miners, mechanics, laborers, sailors, traders large and small, enabling each and every one to buy for cash, and cheaply, what before he could obtain only at the single shop at which he could have credit. It helps to build ships on the Atlantic and the Pacific, on the lakes, and on the Mississippi; and it pays the men who sail or work those ships. It enters into every home of the Union, and into every old stocking by help of which the sewing-woman is preparing for the purchase of a machine, or the laborer for that of a house. The field of its operation is coextensive with the Union, and its power to affect injuriously the prices of gold, labor, or commodities generally, is in the *inverse ratio* of the extent of that field. Nevertheless, to prevent the possibility of injury from that source, the Treasury has created an acceptable investment, coextensive with the "greenbacks" in amount, by means of which every holder is enabled to convert into an interest-bearing security whatsoever surplus may be in his hands. Having thus provided a perfect *escape-valve*, neither the captain nor the crew need fear explosion.

The banker, on the contrary, desires that there may be no valve whatsoever but that which he himself controls. When it suits him, he injects the gas, and continues so to do until he has arrived as near as he dares to go to the point at which explosion may be looked for. Next he withdraws the gas with equal rapidity, and thus produces crises like that of 1857, the following brief account of which, taken from Gibbons's *Banks of New York*, may now, my dear sir, have some interest for you:—

"The most sagacious of our city bank officers saw no indications of an unusual storm in the commercial skies. When the loans reached the unprecedented height of one hundred and twenty-two millions of dollars, on the eighth of August, they pointed to the annual reduction of ten or twelve millions in the autumn months, as one of the regular ebbs to which the market is subject; but they had no foresight of extraordinary pressure, and no dreams of panic. Credit was extended, but 'the country never was so rich.'

"The banks began to contract their loans about the eighth of August. Securities immediately fell in price at the Stock Board. The failure of a heavy produce house was explained by the depression of that particular interest in the market. A report of dishonest jobbing, and of the misuse of funds in a leading railway company, caused partial excitement, without seriously disturbing confidence in mercantile credit.

"On the twenty-fourth of August, the suspension of the Ohio Life Insurance and Trust Company was announced. It struck on the public mind like a cannon shot. An intense excitement was manifested in all financial circles, in which bank officers participated with unusual sensitiveness and want of self-possession. Flying rumors were exaggerated at every corner. The holders of stock and of commercial paper hurried to the broker, and were eager to make what a week before they would have shunned as a ruinous sacrifice.

"Several stock and money dealers failed, and the daily meetings of the Board of Brokers were characterized by intense excitement.

"Every individual misfortune was announced on the news bulletins in large letters, and attracted a curious crowd, which was constantly fed from the passing throng.

"The Clearing House report for the twenty-ninth of August—the first after the suspension of the Ohio Life Insurance and Trust Company—showed a reduction of four millions of dollars in the bank loans during the previous week.

"The most substantial securities of the market fell rapidly in price at public sale.

"The safety of bank-notes in circulation was suspected or denied. The publishers of counterfeit detectors spread alarm among the shopkeepers and laborers, by selling handbills with lists of broken banks, which were cried about the streets by boys, at 'a penny a-piece.'

"One of the Associated Banks fell into default at the end of August, and a fraud of seventy thousand dollars by the paying teller roused suspicion of similar misconduct in other institutions.

"The regular discount of bills by the banks had mostly been suspended, and the street rates for money, even on unquestionable securities, rose to three, four, and five per cent. a month. On the ordinary securities of merchants, such as promissory notes and bills of exchange, money was not to be had at any rate. House after house of high commercial repute succumbed to the panic, and several heavy banking firms were added to the list of failures.

"The settlements of the Clearing House were watched with the expectation of new defaults; and their successful accomplishment, each day, was a subject of mutual congratulation among bank officers.

"The statement of the city banks for the week ending September 5th showed a further reduction in the loans of more than four millions of dollars.

"Commercial embarrassments and suspension became the chief staple of news in all the papers of town and country. The purchase and transportation of produce almost entirely ceased.

"From this period, there was nothing wanting to aggravate the common distress for money. The failure of the Bank of Pennsylvania, in Philadelphia, was followed by that of the other banks of that city, and by those of Baltimore, and of the Southern Atlantic States generally. Commercial business was everywhere suspended. The avalanche of discredit swept down merchants, bankers, moneyed corporations, and manufacturing companies, without distinction. Old houses, of accumulated capital, which had withstood the violence of all former panics, were prostrated in a day, and when they believed themselves to be perfectly safe against misfortune.

"The bank suspension of New York and New England, in the middle of October, was the climax of this commercial hurricane.

"Such is the outline of the most extraordinary, violent, and destructive financial panic ever experienced in this country. What caused it? To what source or sources can it be traced? Where lies the responsibility of it? What lessons does it teach? What preventives are indicated against the recurrence of similar disaster? These are questions which agitate the public mind, and which ought to be answered, if possible, for our instruction and future guidance."

Seeking an answer to these questions, the author furnishes a full statement of the movement, its result being that of showing, as he says, "beyond cavil, that *the banks*, not the depositors, *took the lead in forcing liquidation.* In the twenty days prior to the 26th of September," as he adds, "the deposits fell off but $341,746, while the resources of the banks were increased $6,694,179."

The men who had taken "the lead" in measures which had prepared for the explosion proved now to be those most active in "forcing liquidation," and thus enabling themselves to purchase, at low prices, stocks, bonds, and real estate which they had sold at high ones. Aided by the large fortunes thus acquired men of the same stamp are this day exercising a power thrice greater than was then exhibited, the tendency of all their measures being in the direction of making the poor poorer and the rich richer than ever before; those of the Treasury, meanwhile, looking in a precisely opposite direction, and tending to lower the rate of interest, while increasing the power over his own actions exercised by the laborer, the miner, the mechanic, and the farmer.

The "greenback" has fallen on the country as the dew falls, bringing with it good to all and doing injury to none. The gas-formed currency, on the contrary, is in the financial world what the water-spout is in the natural one. Whirled about by the wind, and wholly uncertain in its movements, none can predict of this latter when or where its effects will most be felt, and all around are therefore kept in a state of fever closely resembling that which distinguishes the financial action of the present hour. The deluge comes at last, destroying both property and life, and making a desert where all before had been happiness and peace.

It is to restrictions upon the formation of the dew that we are now invited, leaving wholly unchecked the action of those who profit of the desolation caused by the water-spout. What are the results that seem to me likely to be obtained as a consequence of acceptance of the invitation, I propose to show in another letter, and meanwhile remain, my dear sir,

Yours, very truly,

HENRY C. CAREY.

Hon. Schuyler Colfax.

Philadelphia, Feb. 15, 1865.

THE CURRENCY QUESTION.

LETTER FIFTEENTH.

Dear Sir :—

The lugubrious predictions of the London *Times* have, thus far, not been verified. The war is now, to all appearance, coming rapidly to a close, and not only are we not yet ruined, but there prevails throughout the country a prosperity such as, until recently, had never before been known. To what causes may this properly be attributed? How has it been possible that a community should have furnished so many hundreds of thousands of men, and so many thousands of millions of the material of war, without becoming even poorer than before? Let us see.

The act of secession *by* the South was an act of emancipation *for* the North. Up to that date the latter had been mere colonies, governed by those "wealthy British capitalists" whose mode of action is so well described in the Parliamentary Report, an extract from which has already more than once been given, but here repeated because of its powerful bearing on the question now before us :—

"The laboring classes generally, in the manufacturing districts of this country, and especially in the iron and coal districts, are very little aware of the extent to which they are often indebted for their being employed at all to the immense *losses* which their employers voluntarily incur, in bad times, in order *to destroy foreign competition, and to gain and keep possession of foreign markets.* Authentic instances are well known of employers having in such times carried on their works at a loss amounting in the aggregate to three or four hundred thousand pounds in the course of three or four years. If the efforts of those who encourage the combinations to restrict the amount of labor and to produce strikes were to be successful for any length of time, the great accumulations of capital could no longer be made *which enable a few of the most wealthy capitalists to overwhelm all foreign competition in times of great depression*, and thus to clear the way for the *whole trade* to step in when prices revive, and to carry on a great business before *foreign* capital can again accumulate to such an extent as to be able to establish a competition in prices with any chance of success. *The large capitals of this country are the great instruments of warfare against the competing capital of foreign countries*, and are *the most essential* instruments now remaining by which our manufacturing supremacy can be maintained; the other elements—cheap labor, abundance of raw material, means of communication, and skilled labor—being rapidly in process of being equalized."

Profiting of its liberty, the North at once determined on the adoption of measures of protection to the farmer in his efforts for bringing the consumer of his products to take his place in the immediate neighborhood of the place of production, and thus to relieve him from the oppressive tax of transportation imposed upon him by the system above so well described. The effect of this now exhibits itself in the facts—

That the development of our mineral resources has been great beyond all former example:

That diversification in the pursuits of our people now exhibits itself in the naturalization of many of the minor branches of industry in regard to which we had before been wholly dependent upon Europe:

That the demand for labor has been so great as to cause large increase of wages:

That the high price of labor has caused great increase of immigration:

That demand for the farmer's products has so largely increased as to have almost altogether freed him from dependence on the uncertain markets of Europe:

That the internal commerce has so largely grown as to have doubled in its money value the many hundreds of millions of railroad stock:

That the prosperity of existing railroads has caused large increase in the number and the extent of roads:

That here, for the first time in the history of the world, has been exhibited a community in which every man who had labor to sell could sell it if he would, while every man who had coal, iron, food, or cloth to sell could find at once a person able and willing to buy and pay for it:

That, for the first time, too, in the history of the world, there has been presented a community in which nearly all business was done for cash, and in which debt had scarcely an existence:

That, as a necessary consequence of this, there has been a large and general diminution of the rate of interest:

That farmers, laborers, miners, and traders have therefore become more independent of the capitalist, while the country at large has become more independent of the "wealthy capitalists" of Europe:

That, so great have been the economies of labor and its products, resulting from great rapidity of the societary circulation, that, while building more houses and mills, constructing more roads, erecting more machinery, and living better than ever before, our people have been enabled to contribute, in the form of taxes and loans, no less a sum than three thousand millions of dollars to the support of government.

These are wonderful results, and for them we have been largely, yet not wholly, indebted to the re-adoption of the protective system. That alone was capable of doing much, but we should have failed in the prosecution of the war had not the Treasury, by the establishment of a general medium of circulation, given us what has proved to be a great *clearing house*, to which were brought labor and all of labor's products to be exchanged. Increased rapidity of circulation was a necessary consequence of this, and to that increase the greatly improved health of the societary body has been wholly due.

Such having been the results of the two great measures by which the first period of Mr. Lincoln's administration had been distinguished, it might have been believed that neither one of them would be abandoned without at least a full and fair inquiry into the probable consequences of any changes that might be suggested. Those who might have so thought could scarcely, however, have reflected upon the general character of our legislation. "No people," as it has been said, "so soon forget yesterday." None take so little thought of to-morrow. No one looks back to study the cause of the good or evil that exists, and it is as a consequence of this that we have so constantly relapsed into British free trade almost at the first moment that protection had brought about a cure of the evils of which it had been the cause. Hitherto, since 1861, our course has been onward, and in the direction that above is indicated. Now, as I propose to show, we are steadily retracing our steps; and if the forward movement has led us to our present prosperous state, it can scarcely well be doubted that the backward one will lead us once again to that calamitous one from which we so recently have emerged.

The most serious move in the retrograde direction is that one we find in the determination to prohibit the further issue of that circulation to which we have been so much indebted. Why is it made? Because journalists fancy that it is to "paper money" they must attribute the, to them, great fact that paper is so high! Because men who depend on fixed incomes fancy that they should live better were the gold standard once again adopted! Because every free-trader in the land charges the high price of gold to the use of "greenbacks," and sees therein the causes why he cannot, with profit to himself, fill our markets with British cloth and British iron!

What is the present effect of the hesitation of the Treasury to use the power that yet remains at its command? It is paralyzing the societary movement, to the great loss of both the people and the Government. Labor is less in demand. Cloth, iron, and a thousand other commodities move more slowly. Why all these things? Because the Treasury does not fulfil its contracts. The unpaid requisitions amount to $125,000,000, and the Treasury is empty. The contractor who obtains a certificate sells it at heavy loss; while many, as I am told, find difficulties interposed in the way of obtaining certificates, most of which have their origin in the indisposition to *acknowledge* debt when there exist no means with which to *pay* it. How it is with the men who are now serving in the field was well shown, a few days since, by Senator Wilson, when he told his brother Senators that "they needed more money than they could obtain to pay their just debts—what they had agreed to pay." "Tens of millions of dollars," he continued, "are now due to our armies, many of whose officers have been unpaid for months; the Generals, meanwhile, holding by handfuls resignations tendered by men who find themselves forced to retire, as the only means now left to them of providing for their families."

Turning now to a letter in this day's *Tribune*, I find a statement of the facts of the case, and their effects, to which you may perhaps excuse me for asking your attention. It is as follows:—

"It is useless to deny the fact that men once ardent in the cause are becoming lukewarm in their attachment to a Government which so sadly fails to discharge, in this respect, its self-imposed obligations, and seems so careless of those over whom specially the ægis of its protection should be thrown. No wonder that the soldier should grow weary when he reflects that his arduous hardships, undergone on long marches, in the trenches, on the picket line, scorching then under the rays of a midsummer's sun, and shivering now in the merciless blasts of winter, exposed to all the inclemencies of a variable climate, are suffered to go so long unrecognized by his Government; no wonder that when every mail brings him the old story of his family's destitution, and when he remembers his inability to aid them, he should grow lukewarm in the cause which years ago he espoused with all the ardor of a man and a patriot. It is in vain that he tries to place country above home—above the wife whom he has solemnly sworn to cherish and protect, the offspring whom Heaven has given him to support, or the aged parents whose infirmities demand his filial consideration; the thought of his domestic responsibilities will absorb all others, and will embitter every hour of his soldier-life.

"Every day resignations are forwarded by officers whom stern necessity has compelled to ask for their discharge from the military service, in order that they may return home to relieve the pressing wants of their families, and shall we say, too, that desertions to the enemy frequently occur whenever men are impelled by the same motives. Officers and men, in making application for leaves and furloughs, are often forced to make the humiliating confession that they desire to go home to restore order to their households, upon which, during their absence, shame and dishonor have fallen, and the plea of their families' extreme destitution is still more frequent. In the name of humanity, then, let the troops be paid with as little delay as possible; the best interests of the service demand it."

Entirely in keeping with this are statements coming from the West, of the great distress of Government contractors compelled to forced sales of the vouchers in their hands—of the great rise in the general rate of interest—and of the extremely sluggish state of the societary circulation. The Government has made itself responsible for the financial movement of the country, and when it stops payment there is stoppage everywhere.

Why has it stopped? Because those in the control of public journals fail to see that the cause of the high price of paper and of gold *cannot* be found in the circulation! Because the Government itself fails to see that the circulation now furnished bears a smaller proportion to the needs of the people, and to the extent of country requiring to be supplied, than did that which was furnished when gold could be bought at an advance of 10, 12, or 15 per cent.! Because all who write or speak on this subject fail to see that, with the extension of the power of the Union over the Cotton States, there must arise an absolute necessity for furnishing to the people of those States machinery of circulation adequate to the performance of the same work that has so well been done in these

Northern States! So far from diminishing the supply of that machinery, there is a pressing necessity for its increase.

Anxious for a reduction in the price of gold, journalists are almost everywhere calling upon Congress to increase the taxes, to give up *selling* machinery of circulation that costs it nothing, and to take to *buying* such machinery at the market price. Obedient to their orders the treasury *is* buying it, and the price at which it buys is shown in the following extract from an advertisement of the loan that is now on sale:—

> "By authority of the Secretary of the Treasury, the undersigned has assumed the general subscription agency for the sale of United States treasury notes bearing seven and three-tenths per cent. interest per annum, known as the SEVEN-THIRTY LOAN. These notes are issued under date of August 15, 1864, and are payable three years from that time, in currency, or are convertible at the option of the holder into U. S. 5-20 SIX PER CENT. GOLD-BEARING BONDS. These bonds are now worth a premium of nine per cent., including gold interest from November, which makes the actual profit on the 7-30 loan, at current rates, including interest, about ten per cent. per annum, besides its *exemption from State and municipal taxation, which adds from one to three per cent. more,* according to the rates levied on other property."

This is certainly a high price to pay for the use of a little money, and the reason why it is so high is that the supply of the commodity needed is diminishing in the proportion borne by it to public and private needs.

We have here, however, only $200,000,000, interest upon which is to be paid in gold three years hence. Six hundred millions more are now asked for, and the demand is, we are told, to be accompanied by a withdrawal of even the existing power to furnish legal tenders bearing interest. As those now existing become more and more withdrawn from circulation, the societary machinery must gradually diminish in its quantity, and that, too, just at the time when the theatre on which it is to be employed is likely to be almost doubled. The necessary consequence of this must be such a rise in the rate of interest as will compel the export of Government bonds, and the rapid increase of dependence on the money markets of Europe—each step backward being thus but the precursor of another and greater one. So long as they shall continue to be sold abroad money will continue to be obtainable; but when the foreign market shall have become fully glutted it will, as in the period from 1837 to 1842, become unobtainable at any price.

The gold interest now payable requires $60,000,000. Adding these new loans, and making their interest payable in gold, we shall, three years hence, need $108,000,000, most of which is likely to have to go to Europe. Add now to this, first, the $30,000,000 required for payment of interest on the old foreign free trade debt; second, only an equal amount for absentees, temporary and permanent; and we obtain a demand amounting to $168,000,000, that *must* be met before we can purchase a piece of cloth or a ton of iron. Where is all this gold to come from?

Tax the people! is the answer. Give us an income tax of 25 per cent.! Tax sales! Tax manufactures! All this is being done, and so thoroughly that important branches of manufacture are likely to be taxed entirely out of existence. Paying his taxes in paper, and obtaining cash for his products, the ironmaster can scarcely even to-day make head against those "wealthy capitalists" of England who have already placed themselves on such a footing, as regards freight and duty, that it is *they* who, under a gold system, will be protected, and not their American competitors. So, too, with paper, the domestic taxes on which are ten per cent., while foreign paper is likely to be admitted at three. So, too, as I understand, is it with leather. Mr. Sherman tells us that $40,000,000 in gold will be required to purchase paper abroad that if made at home would yield $10,000,000 to the treasury. Add to this $100,000,000 to pay for the iron needed for taking the place of that now made in furnaces that will then be out of blast, and we shall have quite enough to pay to those European nations whose markets are now glutted with food, and who have taken from us, in the past five months, of flour, wheat, and corn, just as much, *and no more*, as would command in gold somewhat less than *two millions of dollars.**

The contributions to the internal revenue made by paper, iron, and leather, appear, under the retrograde system now inaugurated, likely to be very small indeed. How will it be with other manufactures, paying as they must, at a gold value, duties that had been laid when two dollars in paper had been but the equivalent of one

* The precise quantities of these commodities shipped to Belgium, France, and Britain, has been: Of flour, 59,998 barrels; of wheat, 1,305,313 bushels; and of corn, 56,933 bushels.

in gold? How will it be with the farmer, obliged to look to Europe for a market for his products? How will it be with the miner and the laborer when rolling-mills are closed and mines have ceased to be worked? The answer to all these questions will be found in the simple propositions, that the power of accumulation increases almost geometrically as the rapidity of the *societary circulation* increases arithmetically; and that it declines in the same proportion as the circulation becomes more languid. In the few years through which we just have passed it has been increasing rapidly, but, under the change of policy that has been now inaugurated, it is already slowly moving in the opposite direction. Admitting the truth of those propositions, then must it be also admitted that, prompted by an anxious desire once again to handle gold, we are killing the goose that has already laid the many golden eggs so well described in the following paragraph, from this day's *Tribune*:—

"The internal revenue for the month of January just past amounted to the enormous sum of $31,076,902 89—over a million of dollars a day, including Sunday! And yet confessedly the machinery for collecting this branch of the nation's income is imperfect and undergoing change. Vast as is that sum of internal revenue, daily and monthly, how light a burden is it to the business of this rich and vigorous nation! And with what patriotic cheerfulness and acquiescence the people pay this tax to preserve their nation and to maintain democracy."

To what do we owe these wonderful results of a state of civil war? To rapidity of the societary circulation, and to nothing else! To what have we been indebted for that rapidity? To protection and the "greenbacks"! What is it that we are now laboring to destroy? Protection and the Greenback!

Let us continue on in the direction in which we now are moving, and we shall ere long see, not resumption but repudiation; not a contradiction but a confirmation of the predictions of the *Times;* not a re-establishment of the Union, but a complete and final disruption of it.

What are the means by which these calamities may be avoided, I propose to show in another and final letter, and meanwhile remain, my dear sir,

Yours, very truly,

HENRY C. CAREY.

Hon. SCHUYLER COLFAX.

PHILADELPHIA, February 17, 1865.

THE CURRENCY QUESTION.

LETTER SIXTEENTH.

DEAR SIR:—

The measures now in preparation, as regards both the customs and internal revenues, tend, as it appears to me, in the direction of stoppage of the societary circulation, of rise in the rate of interest, of increase in the power of men engaged in the creation of financial water-spouts, and of permanent maintenance of a premium on the precious metals. If so, then, if we are ever again to witness here the regular redemption of promises to furnish gold and silver, it must occur as a consequence of the adoption of a course of policy directly the reverse of all that recently has been done, and all that, if we are to credit the public journals, is in the contemplation of those who are charged with the direction of our financial movements.

The existing derangement of the currency is wholly due to the action of those who manage *the windbag system* described in a former letter, and while their operations shall continue to be, as now they are, wholly unrestrained, financial crises must continue to reappear, and the price of gold must continue to be as uncertain as is their course of action. Such being the case, it is of high importance that proper checks be forthwith instituted, and now, for the first time in our history, is it in the power of Congress to let us have them. To that end, let us have a law declaring—

First, that no bank shall hereafter so extend its investments as to hold in any form other than those of gold, silver, U. S. notes, or notes of national banks, more than twice its capital:

Second, that in the case of already existing banks whose investments are outside of the limits above described, any extension thereof beyond the amount at which they stood on the first of the present month shall be followed by instant forfeiture of its charter.

Having thus established a check upon further extension, the next step should be in the direction of bringing the operations of existing banks within proper limits. To that end, let us have a provision imposing on all investments outside of the limits above described a tax which, when added to that already existing, shall amount for the present year to one per cent. In the second year let it be made $1\frac{1}{4}$ per cent. on all over 90 per cent. in excess of the actual capital upon which dividends are paid. In the third, $1\frac{1}{2}$ per cent. over 80 per cent.; and in the fourth, $1\frac{3}{4}$ over 70 per cent. Thenceforth let the tax grow at the rate of a quarter per cent. per annum until, by degrees, all banks shall have so enlarged their capitals, or so reduced their loans, as to free themselves from its further payment.

Holding interest-paying securities 70 per cent. in excess of its capital, a bank would be always in a condition of perfect safety, and could give to its stockholders dividends of at least 8 per cent. Such stock would be preferable to almost any other securities in the market, and there would be no difficulty in so enlarging the foundation as to give to the whole structure the form of a true pyramid, instead of the inverted one which now presents itself to the eye of all observers.

Let us have a law embracing these provisions, and we shall then be fairly on the way towards the establishment of a financial system the most perfect the world has ever seen. Let us have it, and, as you will clearly see, the need for restrictions on the circulation will wholly have passed away. The day, indeed, will then be near at hand when banks will have ceased to be competitors with the Treasury for furnishing circulating notes of any kind, and when the nation may profit to the extent of 50, if not even 60 millions a year of the power to furnish the machinery of circulation.

Simultaneously with the passage of such a law, let the Government determine honestly to pay its debts. The soldier in the field, and the officer who is placing his life in daily hazard, have a right to demand of the Treasury that it shall give them such certificates of its indebtedness as will enable their wives and children to go to the neighboring shop and purchase food and clothing.* The contractor and the shipbuilder have a right to claim that when certificates are issued they shall be in such a form as will enable them to

* The amount now due to the army alone is stated by Senator Wilson at the enormous sum of one hundred and thirty-eight millions of dollars.

avoid the further payment of the usurious interest to which they have so long been subjected. Paying promptly, the Government will buy cheaply; and should such payment have the effect of causing the supply of "greenbacks" to be in excess of the demand, the Treasury will thence derive a double benefit: first, in being thus enabled to borrow what it needs at reasonable rates; and second, in having its need for borrowing diminished by reason of the increased stimulus thereby given to that societary circulation upon the rapidity of which it is dependent for both the maintenance and the growth of the Internal Revenue.

The whole South now requires reorganization, and one of the first steps in that direction should be found in furnishing machinery of circulation. As much in need of this stands the whole of that great West for the development of whose wonderful powers we are now exporting in that direction so many hundreds of thousands of our people. If the Government does not supply that machinery, who is there that can or will do so? Look carefully, I pray you, my dear sir, at the vast field that is to be occupied, and at the great work that is to be done, and then wonder with me that the Government should permit its soldiers to perish in the field, while it is debating the terms of a loan to be made to it by men all of whose interests are to be promoted by a diminution of the circulation and an increase of the rate of interest. Let our soldiers be paid, let the credit of the Government be once again re-established, let the rate of interest be kept down, and let the Treasury reassert its independence, and all will yet go well.

Having thus, as paymaster, re-established its credit, let it next place itself in a creditable position as regards those who had been led to see in the Morrill Tariff a pledge of protection against those "wealthy capitalists" whose fortunes count by millions, and who use those millions as "instruments of warfare" by means of which they are enabled to "overwhelm all foreign competition, and to gain and keep possession of foreign markets." Let it restore those great fundamental branches of industry which constitute the pillars of our national temple to the position in which they stood in 1861, increasing the duties on foreign products by just so much as the taxes since imposed on domestic ones, and the result will then exhibit itself in the fact that sugar, tea, coffee, soda ash, and other raw materials of food and manufacture, will twice over make amends for any loss that may be experienced by the revenue because of the substitution of domestic cloth or iron for that now made in foreign furnaces or on foreign looms.

Let these things be done, and we shall then cease to look abroad for purchasers of our bonds. Let this be done, and we shall soon find ourselves on the road towards becoming purchasers of those now held abroad, *every one of which should be redeemed before we ever again place ourselves in a position to be required to furnish gold and silver in payment of our notes.*

To many it might seem that this would be a postponement of resumption to a date so distant that none of them would live to see it. Let, however, all such persons study what was done in this respect in the brief period of the existence of the tariffs of 1828 and 1842; let them next look to what has been done in the past four years; and they will see that all that I have indicated as what is needed to be done, is only what, under a sound and permanent system, *may be done before the lapse of the next decade.*

As a rule, reformers desire to move too rapidly, and therefore fail to attain their objects. They omit to see that when Nature has important purposes to accomplish, she works slowly and with almost invisible machinery, as when she sends the daily morning dew. When she desires merely to destroy a ship or to root up a forest, she sends the tornado or the water-spout. Let us follow her example. We have a great work to accomplish, and we should now profit of the lesson read to the world in that period which followed the close of the great war of the French Revolution, and exhibited a scene of destruction that had never before, in time of peace, been witnessed. Believing it to be one that should be carefully studied, I now invite you, my dear sir, to accompany me in a brief review of the facts in the order of their occurrence.

For twenty years the Bank of England had been injecting gas into the currency, but with the return of peace it became necessary that it should be steadily withdrawn. In the two years from 1815 to 1817, the bank directors had, by means of the very simple operation of calling in its claims on one hand, and reducing its liabilities on the other, reduced the apparent quantity of money at the command of the community to the extent of £12,000,000, or little short of $60,000,000. So far as regarded the operations of society, this had been equivalent to a total annihilation of that large sum, and to that extent a contraction of the standard by which the community was required to measure the value of all other commodities and things. Had the yardstick been doubled in length, or the pound in weight, for the benefit of all persons who had contracted to purchase cloth or corn, the injury inflicted would have been trivial by comparison with the change that was thus effected. As compared with the property of the people of Great Britain, that sum was utterly insignificant, yet did its abstraction cause an arrest of the circulation almost as complete as would be that produced in the physical body by stoppage of the supply of food. Farmers and merchants were everywhere ruined. Of the country banks, no less than two hundred and forty—being one in four of their whole number—stopped payment; while one in ten and a half became actually bankrupt. "Thousands upon thousands," says Mr. McCulloch, "who had in 1812 considered themselves affluent, found they were destitute of all real property, and sunk, as if by enchantment, and without any fault of their own, into the abyss of poverty." Throughout the country, there was, to use the words of Mr. Francis Horner, "an universality of wretchedness and misery which had never been equalled, except perhaps by the breaking up of the Mississippi Scheme in France." *In the midst of all this ruin, however, the bank, which had supplied the gas, prospered more than ever, for the destruction of private credit rendered its vaults and its notes more necessary to the community.*

The groundwork having thus been laid by the bank, Parliament passed, in 1819, an act providing for the resumption of specie payments, and thus re-established, as the law of the land, the standard that had existed in 1797—among the most remarkable measures of confiscation to be found in the annals of legislation. For more than twenty years all the transactions of the United Kingdom had been based upon a currency less in value than that which had existed in 1796. In the course of that long period, land had been sold, mortgages given, settlements made, and other contracts of a permanent nature entered into, to the extent of thousands of millions of pounds, the terms of all of which were now to be changed for the benefit of the receivers of fixed incomes, and to the loss of those who had land, labor, or the produce of either, to sell. As a necessary consequence, land fell exceedingly in price, and mortgagees everywhere entered into possession. Labor became superabundant, and the laborer suffered for want of food. Machinery of every kind was thrown out of use, and manufacturers were ruined. Manufactures, being in excess of the demand, were