

Remarks and suggestions upon the state and national system of banks, upon the expansion of currency, the advance of gold, and the defects of the internal revenue bill of June, 1864 ...

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Stephen Caldwell

REMARKS ON

Gold, Banks, and Taxation.

Caldwell.

1864

<i>The Associated Banks and Mr. Chase, . . .</i>	<i>page</i>	<i>3</i>
<i>The State Banks,</i>		<i>10</i>
<i>Domestic Exchanges,</i>		<i>14</i>
<i>The National System of Banking—Its Merits and Demerits,</i>		<i>16</i>
<i>A Bullion Bank,</i>		<i>32</i>
<i>National Loans,</i>		<i>36</i>
<i>Expansion of Currency—Inflation of Prices—Advance in Price of the Precious Metals,</i>		<i>42</i>
<i>The Price of Gold,</i>		<i>47</i>
<i>Taxation—Faults of our Present System,</i>		<i>54</i>

REMARKS AND SUGGESTIONS

UPON THE

State and National System of Banks,

UPON THE

EXPANSION OF CURRENCY,

THE ADVANCE OF GOLD,

AND

THE DEFECTS OF THE INTERNAL REVENUE BILL

OF

June, 1864.

BY STEPHEN COLWELL.

PHILADELPHIA:

SHERMAN & CO., PRINTERS.

1864.

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REMARKS

ON

GOLD, BANKS, AND TAXATION,

THE ASSOCIATED BANKS AND MR. CHASE.

THE retirement of Mr. Chase and the advent of Mr. Fessenden as Secretary of the Treasury, furnishes a suitable occasion for a review of national finances during the last three years. The management of Mr. Chase has, by the friends of the administration and of the country, been regarded as able and successful, but it must have proceeded from more than human wisdom if serious mistakes and omissions have not occurred in a period of such difficulties and such extraordinary emergencies.

On this account it seems proper now carefully to survey the past, and if any practicable corrections are to be made, or any changes attempted, to make the effort at once to propose and carry them into effect. If the friends of Mr. Chase should regard the remarks which may follow as unfavorable to him, they are assured in advance that we are not prepared to name the man who upon the whole could have done better, or committed fewer errors. It is a public duty to study

well the whole financial career of Mr. Chase, to see what useful lessons may be drawn from it.

It would certainly not be easy to imagine greater difficulties than those which beset Mr. Chase when he entered upon his office. The administration of the national finances by his predecessor, the rebel Cobb, had been destructive to public credit,—wasteful and foolish enough to make the public treasury contemptible. Mr. Chase was at once confronted by the Rebellion and its stupendous national expenditure. It would be attributing to him greater fitness than he or any other man could claim, to suppose that he could half appreciate the nature and extent of the task before him. Relief came to him in that eventful hour, and his merit and good sense as a minister are shown by his prompt acceptance of aid which some men in his position would have refused. The officers of the leading banks in the United States, those of Boston, New York, and Philadelphia, saw most clearly, from their position, the utter helplessness of the Secretary of the Treasury, and the importance of prompt and wise measures. They saw that the Secretary, in the then state of public credit, could only borrow at the most ruinous rates, and that loans at such rates would increase distrust and sink public credit lower and lower. They saw but one course for the Secretary,—that of issuing treasury notes as a currency, and in such quantities as to swamp the banks, disturb domestic trade, and destroy that private credit, on which alone any public credit could be built.

These banks, after some partial conferences among themselves, gave such intimations to the Secretary as soon led to formal negotiations. The discussions which ensued gave Mr. Chase an opportunity of receiving

early and important lessons in finance. As the bank officers were not unanimous as to the course to be pursued, the debates brought the whole subject fully before the Secretary. The result was a loan of fifty millions,—subsequent discussions and conferences, and further loans, amounting in all to nearly two hundred millions.

This was an extraordinary liberality on the part of the Associated Banks,—a liberality which should stand to their credit in the history of the Rebellion, among its memorable instances of patriotism. Doubtless there was much that was commendable and skilful as a public man in Mr. Chase's conduct of this business. By entering into it, he escaped not only from the immediate alternative of an immense issue of treasury currency, but from the grasp of greedy individual capitalists, who were ready to accommodate the Government at rates involving disgrace and lasting discredit. This class of men loudly censured Mr. Chase for placing the country in the power of the banks.

At the very time of this happy intervention of the banks, Mr. Chase committed a mistake so grave that its evil effects will be felt for years to come. He no doubt learned much from his conferences with the banks, but from fear of future clamor, or influenced by those who were afraid of the power of the banks, his mind took a wrong direction.

The Importance of the Associated Banks as a Financial Help and Agency to the Public Treasury.

Mr. Chase failed to comprehend the immense utility of these Associated Banks as a financial agency of the treasury. Their power to promote the interests of the

treasury throughout the war was far greater than any other the Secretary could concentrate or command.

These banks aided him at a most critical moment, and to the full extent of their lending power. This aid reinstated the national credit. It became then the part of sound financial wisdom in the Secretary to strengthen the banks, as the best agents he could have in future operations. These Associated Banks, possessing a capital of one hundred and twenty millions, and commanding, from their position in the centres of trade and industry, a vast amount more, could by their correspondence and their relations with the capital and business of the whole country, have performed the same office for our treasury which the Bank of England does for the British Exchequer, and even more effectively; for, a hundred banks in New York, Boston, and Philadelphia, could wield a helping power beyond that of the Bank of England. By making these banks his fiscal agents, the Secretary would have secured not only watchful advisers, whose interests, bound up with those of the public treasury, would have held them firmly to their posts, but brought a great host of friends with them. Mr. Chase did not give these and similar considerations sufficient attention, and thus lost advantages not easily regained.

Not only so, but in the very moment of receiving this aid from the banks, he failed to appreciate their position, and seemed to disregard their interests; he weakened them needlessly, when in fact their strength was so much financial power for him. The banks, whilst making these large advances, asked to be made the depositories of the amounts advanced, to be drawn for by the Secretary as required by the progress of public

expenditure.* This, in fact, was the usual mode of using bank loans, and was a reasonable and proper request, because their notes were in the highest credit in every State, and the checks of the Secretary on these banks would have commanded the money, or been received in payment throughout the loyal States. It would have greatly increased their power of usefulness. Mr. Chase declined to grant or favor this request of those who were conferring such a favor upon him and the country. He insisted upon having the amount advanced him in gold, and thus scattered abroad the specie which might have become a useful reserve, not only for the banks, but for his own subsequent issues of paper currency. The dispersion of this gold now constitutes a large element of the present disastrous speculations in gold. This unhappy refusal of a legitimate favor to the banks was the beginning of a coolness towards Mr. Chase, which he has since increased by a policy not sufficiently friendly to these banks.

The error we wish here to specify is not so much the unfriendly attitude on the part of the Secretary towards the Associated Banks, as the failure to appreciate the additional services they could render him and the country, and to employ them accordingly. Their fidelity to the country was certainly assured by their large advances in specie to the public treasury. Their hearty co-operation in the matter of the public loans was cer-

* It is true that some legislation on the part of Congress was necessary to make these banks legal depositories of the treasury, which Mr. Chase could have obtained without difficulty, so far as the Associated Banks were concerned. It should have been obtained, and the propriety of obtaining it is not diminished, for these banks should now be employed with the National Banks as agents of the treasury.

tain, as by them they were to be reimbursed. Their assistance could then have been relied upon in all future emergencies of the treasury, if they had been the chief distributors of the public loans. It would not have been difficult nor costly to obtain from them the surrender of their privilege of issuing bank notes, and the agreement not only to employ treasury notes in their business, but to protect and manage the public issues with a care and skill, and a knowledge of the money market, to which no Secretary of the Treasury could attain. It is not a sound objection to this plan, that it would have been confiding too much to them. They enjoy the full confidence of the largest capitalists of the country, and the amount confided to them by the most skilful business men of the country is far beyond what is ever contained at one time in the Treasury of the United States. Taking the directors of all the Associated Banks as a body, no safer men could be found to whom the pecuniary interests involved could be intrusted. Representing as they do different localities, and differing and often opposing interests, they would have been as careful of the concerns of their public as of their private customers. It is very true that these banks would expect to be remunerated by a profit proportioned to the services rendered, but it is equally true that such services as they would render could not be obtained at as low a rate from any other agents, nor in fact could they be had elsewhere at any price.

It is possible that when Mr. Chase determined upon his great measure of a National banking system, he feared the opposition of these city banks, and that he did not deem it wise to strengthen them, or remain in

any degree in their power. However that may be, or whatever may have been the cause, the National banking scheme, as managed by the Secretary, soon took an attitude which was regarded by a large proportion of the State banks as hostile to them. It was openly proposed in Congress to tax their circulation out of existence. This, with other propositions unfriendly to existing banks, but especially the amazingly mistaken one of requiring all the State banks to drop their proper names, on becoming National banks, arrayed against Mr. Chase's scheme a powerful and wide-spread resistance. Old and well-known banks could not brook the humbling and unnecessary process of giving up their honored names and well-established reputation to become confounded in the mass of first, second, and third, up to tenth, twentieth, or fiftieth National bank, in some one of a thousand towns or cities. A more needless sacrifice was never asked or imposed. It was worse than a mistake,—it was a blunder.

Yet all this and more of the like kind was in the face of the clear proposition, that the first care of the minister of finance in reference to the contemplated National system should have been to secure the assent and co-operation of the State banks, by such measures as would at least bring in all the strongest and most trusted of these institutions.

It is true that a statesman who is obliged to deal with the world as it presents itself must make a choice among difficulties; but in the present instance, every consideration demanded that there should be no strife between the old and new systems. A great effort should have been made to withdraw the strongest supports of the old system, before exposing the new to a

hostility which might not only be formidable enough not merely to retard the progress of the new system, but able to sweep it out of existence, convulse the money markets throughout the country, inflict great loss upon its trade and industry, and make it next to impossible ever hereafter to establish a National system of banking.

It is fully believed that not only the Associated Banks but a great many others of high credit and solidity could have been induced to come early into the National system, upon unexceptionable terms, and that through their example most of the others would, without delay, have followed. This would have saved the National system, and avoided a controversy between the two systems, which, if it comes, will be fraught with grievous and lasting evils, among which not the least will be the subjection of intricate and important questions of banking and currency to the blind and unprincipled strifes of mere party men.

THE STATE BANKS.

IF the system of joint stock banks of circulation were understood anywhere it should be in the United States. We have had some fifteen hundred of these banks with public charters; we have had some score and a half of legislative bodies almost yearly discussing the subject. Every State admitted to the Union became a new arena

for discussion and legislation, with all the light of their predecessors to guide them. After all, who among us, with all this experience, can say that the subject is well understood, and show that the later attempts are any real improvement on those which have preceded them? Great misconceptions have run through all this legislation upon a subject which has been as jealously watched as any which has occupied the attention of American legislators. It has been assumed that the circulation of bank notes is the feature of these institutions requiring the action of legislators; the chief object of legislation being to enforce their redemption.

In forming a new system of banks, it is essential that those who are to shape and prepare the new, should understand the functions of that which is to be replaced, and especially is this necessary in a matter of so much public concern and delicacy. It is not the chief business of the banks as now constituted to issue their notes or any circulating currency. It is a small part of their operations. If the whole of the banks which associated to aid the Government, with their hundred and twenty millions of capital and their business of many hundred millions daily, were to cease issuing their own notes altogether, the public would scarce notice the fact. The real functions of the chief joint stock banks throughout the United States is to carry on the domestic exchanges, and to originate and manage the fund which is the chief medium of payment in all the leading operations of domestic trade and industry. The sum of the payments thus effected amounts to hundreds of millions of dollars daily.

Proceeds of Discounts—A Deposit Fund. Its Use in the Adjustments or Payments of Trade.

The manner of effecting such vast payments by means of the banks is at once simple and complete. The promissory notes and bills of exchange issued by individuals in the regular course of trade and industry, are received by the banks as offered by the holders, and credit given for them, less the interest, for the time to their maturity. The credits thus given constitute nine-tenths of the deposits in the banks, and these deposits are the fund in which as great a proportion of the commercial debts are paid. The banks thus create out of individual commercial paper, a fund which, standing to the credit of its owners on their books, is capable of a movement and employment in paying debts, to which no possible circulation of coin or bank notes could ever attain. Individuals thus deposit the paper taken from others in their business, and receive a credit in a bank, upon which they can draw to pay the paper given by them to others. As these credits constitute the fund employed in paying debts, they are in such demand as to be applicable in all domestic transactions, for every purpose for which money is required. Men never look for other means of paying debts than that which is acceptable to the creditor. As the banks hold individual paper for the whole amount of credits they issue, the return of any sum of these credits redeems or pays an equal amount of individual paper. The banks keep the interest or discount, as compensation for their agency. Deposits are moved in any amount, merely by a check, and may change owners many times daily; the bank on the books of which

stands a million of credits or deposits, may record the payment of several millions during a single day, and hold the same amount at night as in the morning. The sum of such payments in a thousand banks is greater than most people could grasp even in idea.

This, then, is a principal function of the banks, by which they render a benefit of incalculable advantage to trade and industry. And this function, though vastly superior in importance to anything pertaining to the circulation of bank notes, is scarcely recognized in the legislation respecting banks. Whilst the interest of the holders of bank notes is carefully recognized and protected by legislation, the interest of the depositors is scarcely noticed. In the five Middle States, the deposits stand to the circulation as 267 to 82 millions, and in the Associated Banks as 220 to 17 millions. It is sometimes said that bank notes are in the hands of men who cannot afford to lose, and should, therefore, be specially guarded. This is a mistaken view; the deposits are made chiefly by men of business who are employers of and dealers with poorer men, whom they cannot pay if they lose their deposits. So far as legislation is concerned, all classes dealing with banks should be equally protected, as the surest mode of securing the interests of the laboring population.

DOMESTIC EXCHANGES.

A highly important function of the State banks has also failed to become an object of legislative notice and favor. It is mainly by the operation of banks and their mutual correspondence that the domestic exchanges of the whole country are accomplished. It is well known that the commodities of trade and industry are sent from the region or locality of their production to that of their consumption or their export abroad without the process of payment at every movement; that the payments corresponding to the wholesale changes of ownership are made by notes of purchasers, which are collected or discounted by the banks. The result of all which is, that the region or locality where the production takes place is paid by that which exports or consumes the products. Ohio is to be paid for its pork, beef, and grain; Illinois, for its wheat, and beef, and pork; Missouri, for its beef and hemp; Kentucky, for its beef, tobacco, and mules; Louisiana, for cotton and sugar; the Eastern and Middle States, for their manufactures and imported articles. So far as the banks are concerned in the paper issued in this interstate trade, and that is for not less than nine-tenths of the whole amount, they receive the commercial paper to which it gives origin, and which involves vast sums, in the aggregate not less yearly than a thousand millions of dollars. All this is collected, managed, and distributed by help of the banks, with great economy of money and currency. The whole of the credits and debts involved in this great interchange of commodities, is adjusted within less than ten per cent. by the settlement between

the banks, which have so far merely kept the books of the parties concerned. Hundreds of millions in debts are thus paid by set-off, by balancing accounts on the books of the banks, or by their simply drawing one upon the other. In effecting this important adjustment, the banks are for nearly the whole amount debtors to the public. Their responsibilities in this respect are many times greater than those which arise from the issue of bank notes. The whole public is interested in the solidity and good management of these banks, and as much entitled to favorable legislation as the holders of bank notes.

We have thus specially indicated these two departments of banking, the creation of the fund of which bank deposits mainly consist, and by movement of which on the books of the banks debts are mainly paid, and the accomplishment of the domestic exchanges, as instances among many of the useful agency of the banks, which had not received the legislative attention lavished on other departments of banking. The legislation of the States in reference to the banks, it is thus seen, has not been dictated by an enlarged view of the subject, or by due regard to the various classes of men concerned.

THE NATIONAL SYSTEM OF BANKING—ITS MERITS AND DEMERITS.

THE National system proposed by Mr. Chase, has been drawn up under the same confined view of the subject, and does not fairly embrace the real purpose of banking. The State laws on the subject of banking were too much in the mind of the writer.

In entering upon a National system, there was the more need that a comprehensive and thorough grasp of the subject should guide the projectors and the legislator. This unhappily has not been the case. In all the States, it would be difficult to find a more exceptionable act for the establishment of banks than the one under which our National system commenced. It was evidently written by some one who did not once rise to the conception of a banking system for the United States. The Comptroller of the Currency, in his report to Congress on the subject, has very aptly noticed some of its defects, but he refrained from pointing out all, or characterizing the whole in the terms which might be justly applied to it. In the view of its enemies, it has one merit, that is, the provision that it may be repealed; in the view of the best friends of a National banking system, its greatest merit is, that it may be amended.

It was much improved at the session of Congress (1863-4), but falls yet far short of what is needed in a National system. The chief features of the whole act are, the provisions which relate to the manner of depositing the securities of the United States on which the circulation is based, the making and issuing of the

notes to the banks by the Treasury Department, and measures to secure the prompt and faithful redemption of the notes by the banks, in lawful money. The details of this act are exceptionable in so many respects, that we shall not attempt to discuss their fitness. It is a serious error that it does not contain adequate inducements to the State banks to come into the National system. To leave them outside is a mistake so fatal, that it is difficult to conceive how any statesman could fail to see it. The fault of the present banking system of this country, as existing under the legislation of more than a score of States, is, that it is a score of systems, a diversity amongst banks which are constantly in correspondence, and doing business with each other, and whose efficiency as financial and business agents depends mainly on unity of action, and uniformity of principles and accountability. It was an evil ever extending with the increase of the States, with every hope of remedy constantly lessening. It was, under this separate system, in the power of any State, or of any dominant party in any State, to inflict vast injury upon the pecuniary interests of banks and individuals of all of the other States,—a power but too often exercised.

Another objection to the National bank act which deserves consideration and remedy when a favorable opportunity offers, is, that its notes are a legal tender only between the Government and its creditors and debtors. This discrimination should be avoided. It will become inconvenient, and tend to create political trouble, to render the whole system unpopular, and ultimately to assist the party which may attempt to overthrow it. The National bank currency should be

convertible on demand into legal tender notes, at all the depositories of the United States, or be made directly a legal tender. There should not be two National currencies, of unequal value. One or both will be seized upon by the bulls and bears of speculation and the vultures who surround them. The currency of the National banks, as guaranteed by the Nation, should be made as good as if issued by the treasury. If this end is not secured, it would be far better that no notes should be issued by these banks until the close of the war, the Nation taking in the meantime the benefit of the whole circulation of currency until peace returns. As the matter now stands, the National treasury loses the profit of circulating three hundred millions of notes, and the country incurs the risk of losing the National system by repeal of the act. The hue and cry will be raised against a currency which the Government can force on the people, but which the people cannot force upon one another. No feature of the system needs modifying more than this in the special interest of the public Treasury. This, too, is worse than a mistake.

Few acts of national legislation previous to, or since the Rebellion, could be more important to the country, than a well-devised National system of banking, not merely for the good which it might do, but for the prevention of evil otherwise inevitable. To establish a National system, however, without including the State banks, may make the confusion worse, and enhance the evil. This will become so evident, that it can not be long before the needful amendments will be made to absorb the State banks, by making it so clearly their interest that they can not hesitate.

Notwithstanding this omission in the act, for which there may have been reasons unknown to us, we are grateful to Mr. Chase for a beginning. Intelligent merchants and bankers, for years past, although fully sensible of the extreme desirableness of a National banking system, never entertained a gleam of hope that such an object was attainable. For having brought forward this measure, and for urging it through Congress, Mr. Chase should be held in honor; it is evidence of great courage and statesmanship, despite all its faults. These defects may be removed, but after the war, no such measure as a National banking law could overcome the opposition it would encounter.

Short Settlements and Prompt Payments between Banks indispensable to the National System. Magnitude of Bank Operations.

It would have added incalculably to their strength, if the banks, under the new law, had been required to pay daily or weekly, according to their locality, all their debts to each other. It is of the first importance that banks should be able to know and trust each other. The more completely they are united by mutual confidence and correspondence, the more fully and promptly they can accommodate the public. There is no method more effectual to insure careful banking and solidity of the banks, than requiring constant and punctual settlements and discharge of debts between themselves. The bank which can not pay its debts to other banks every week is unworthy of confidence. So vast are the transactions and the amounts involved between banks, that any delay in payment is injurious; the banks which do not receive promptly

what is due to them from other banks, can not pay their customers, redeem their notes, or pay other banks. Thus the failure of a single bank to meet its debts to other banks entails injury and want of confidence through a circle which widens as it goes, disturbing business far from the origin of the default. The best remedy is daily or weekly payments. In this measure, the redemption of the notes should be included. These measures would secure from banks a rigid care and great watchfulness over each other. The more frequently the circulation of a bank is returned to it, the more care must be taken to be ready to take it up. Every bank is interested to take up the circulation of others, and substitute its own, a policy which is sure to be followed if considered safe. In every aspect of it, the act should contain an effective provision securing prompt payment of every liability of one bank to another.

The banks should then be made fully secure in their dealings with each other, and should render monthly a public account to a common office, to be thence transmitted to all others, so that each should thus be monthly informed of the progress and condition of all the others. Watched by all, and held to short and prompt settlements, they would become National banks in usefulness as well as in name, and constitute by their correspondence and mutual dealings, a great clearing agency for the whole country.

The economy in the domestic exchanges thus effected, the friction thus saved, the confidence and credit thus established, would make the National banking system a boon to trade and industry, far beyond any facility of the kind ever enjoyed.

The magnitude of the transactions passing through banks well affiliated, and having great mutual confidence, is far beyond any conception of those who have not given special attention to the subject. The clearings of the New York banks amount weekly to five hundred millions, making twenty-six thousand millions yearly. This by no means exhibits the extent of their business, for the movement of deposits, in each bank, which does not go to the clearing house, may be safely approximated at two hundred millions weekly, making the weekly payments effected through the banks of New York seven hundred millions, and the annual payments thirty-six thousand four hundred millions, without including the payments made outside of the banks.

If the banks of Philadelphia and Boston together, effect payments to half the amount of those in New York, or eighteen thousand two hundred millions yearly, this would make, for the three cities, fifty-four thousand six hundred millions. All the other banks of the country, more than a thousand in number, would certainly equal the aggregate of the three cities, and make one hundred and nine thousand millions of dollars, without reckoning the vast aggregate of payments not made in or through the banks.

From this indication of the nature and extent of the business performed by the banks, it is easy to see how comparatively little must be the portion of it which is done by the circulation of bank notes. Legislation then should be directed by intelligent and well-informed persons to the other functions of banks, that all may be strengthened and facilitated, and that the whole subject may be regarded in its larger aspects.

The whole of the paper circulation of the country, even at this period of alleged expansion, does not much, if at all, exceed one half of one per cent. of the amount of the payments effected yearly by aid of the banks. The office of the circulating notes of banks is to make payments out of bank, and this circulation gives little aid to the vast sum of payments made through the banks by checks, bank drafts, and correspondence. It can be easily seen what a large additional sum of circulation must be absorbed in this business at times, without any expansion. It is often the doctrine and the cry of expansion which does the mischief. It should be noted that no possible circulation of notes could effect such payments. The processes by which they are effected are of course more important than anything pertaining to circulation.

Too Exclusive a Devotion to the National System.

Mr. Chase having once determined upon a National system of banking, pursued it with great vigor, and soon became of opinion that it would prove at once an available and permanent aid to the treasury. He committed himself to its promotion so earnestly as to forget what more might be done by the banks already in existence, before a system like that he had in view could be matured and put in operation. It was another mistake. One of the chief considerations in regard to the new system was overlooked. What was required was the conversion of the old system into a National system. The country was not suffering for want of banks, but for want of an improved National system, stripped of the complication of a score or

more of State systems. The usefulness of that complication of banks had been continually marred by its want of uniformity in plan, and still more by its want of harmony in operation.

To leave this double system upon the country was an evil which Mr. Chase did not make an adequate effort to avoid. To find some mode of reconciling the interests and wishes of the old banks, already in possession of the ground and the business, was undoubtedly a difficult and delicate task, but it was a difficulty to be met, and not avoided. It was to be met, not by a contest and an attempt to tax the old banks out of existence. This idea was often suggested by men who were politicians, rather than statesmen or financiers. It was a plan sure to land the whole subject of banking in the mire of party politics, and to disturb the operation of credit for a generation. Especially was it needful that the strongest banks in the Union—those in the Atlantic cities—should be secured, not only as friends but as co-operators in the new system.

Mr. Chase not only omitted to carry the Associated Banks with him, but permitted estrangement to grow up between them and himself, to a degree fraught with mischief. These banks, after parting with nearly all their present means, were still unimpaired in credit, and in possession of power beyond any financial power in the country to assist the Government. There was need of legislation, it was true, to enable Mr. Chase to make the most of that power and credit. He could then have bound these banks to the treasury and his new system by ties of interest, securing not only their aid, but zealous co-operation. He could have employed the circulation of a hundred banks; he could have retained

the gold which the banks had lent him to sustain that circulation; he could have redeemed that circulation with his legal tenders, and still retained and increased his reserve of gold for future operations. This or a similar policy adopted at that time, would have assisted to repress the rise of gold, and discourage those who were disposed to speculate in it, and, with the aid of the banks, it would have enabled the Secretary to issue his bonds, with interest payable in legal tenders. It seemed, no doubt, a happy thought to promise the interest in gold, but it at once established a distinction between the treasury issues and gold unfavorable to the former. This gave countenance, and impulse, and strength to the speculation and gambling in gold.

The more difficult and delicate such questions are, the greater should be the anxiety and effort to settle them in a manner to avoid future trouble. We have no hesitation in saying, that the city banks which come heartily into the National system should be compensated by a share of the public deposits, and that the surrender of their circulation by the country banks should be paid for, taking into account the average profits of several years before the Rebellion. Any policy having for its object to force the State banks into the National system, is impolitic, and may be disastrous; it may be the means of placing the whole subject within the grasp of party politicians, who would exact black mail from both classes, and sacrifice besides the interests of both industry and trade.

Whilst the importance of a general banking system for the United States can not be over-estimated, it is

well to remember that the States are deeply interested in the business of banking, and that it is considerable sacrifice of patronage and authority to surrender it. It may be replied to this, that the opposition to the State banks has, during their whole history, been powerful and persevering, and that many of the mischiefs and evils complained of arose from the fact that they were State banks, and not part of a system which embraced the whole country. It is well known that the trade and business of this country have suffered immensely from the disjointed banking system of the States, and from fraudulent and ill-managed banks; it had become as necessary and as proper for Congress to exercise its power over the subject as over that of coinage.

We are looking back, however, not for the purpose of criticism, but for lessons to serve us at the present. The opportunity of doing what Mr. Chase should have done then is past, and regret is unavailing. His mind was so absorbed in carrying his bank act through Congress that he gave too little care to its substance and details. He planted the tree, and left it to be trimmed and pruned by others.

The speculation in gold ensued, and he failed to give it that early attention which its importance and mischievous character deserved. This was unfortunate; for, in addition to the other causes which sustained it, were the deliberate efforts of rebels, and of Northern and English sympathizers, who made money by adding their capital and cunning to the other means used to advance gold, that other prices might be thus also increased against the Government and people, and that speculation might

be safely indulged in as to every commodity needed by the Government.*

Demand for Gold from Abroad enforces Contraction at Home.

We can scarce over-estimate the vast advantage of one general, instead of a score or more of State systems of banking, but we specially wonder that Mr. Chase did not introduce into his project a remedy for one of the worst features of the State systems, and one which specially demanded a national remedy. Under that system the circulation and deposits professed to be convertible on demand into specie, and the legislation on which they were founded was directed mainly to secure that end. In the ordinary domestic business of the country and the regular course of foreign trade that convertibility was maintained with a constancy quite creditable to the banks.

We are subject in the United States to extraordinary demands for specie from two causes. When over-dealing in stocks or in goods in foreign countries brings on commercial revulsions, large amounts of American securities are thrown back upon our markets, sold, and the proceeds taken home in gold, for which the demand falls thus suddenly upon our banks.

* The course of events furnishes a remarkable instance of the manner in which great evils sometimes carry compensation with them. The high price of gold caused a great demand for the gold-bearing bonds of the United States, and carried off the five-twenties at the rate of two or three millions daily. The high prices of manufactures, agricultural products, and of labor, were for a time regarded as a great boon to large classes of the people, and helped to reconcile them to the hardships and sacrifices of the war. To whatever extent the advance in gold is chargeable to Mr. Chase's acts of commission or of omission, this compensation may be placed as a credit.

The other, when an adverse balance of trade occurs, and a high exchange forces merchants to resort to gold as a means of remittance. Our foreign trade is so largely in the hands of foreign merchants that overtrading in imports very often occurs without our own merchants having transcended in any degree the proper bounds of business. In the latter case, too, the demand for gold falls upon the banks and those dependent on them. Our banks have thus been made to take the attitude of promptly supplying the wants of speculators, and overtraders in Europe, whilst at the very same time they commenced a contraction of business and circulation at home, which brought their own American customers to bankruptcy or to long-continued distress and heavy sacrifices.

This severe contraction, to which our banks have often been driven, spreads like a pestilence over the land, and inflicts loss and injury, to many times the amount of gold exported. It reaches and ruins those who have not the remotest idea what set the stone in motion which has crushed them. Very often the censure fell unjustly on the banks, and aided to increase that odium under which they have long had to struggle.

Such contractions have inflicted a damage upon this country of fearful magnitude in the aggregate; a damage greater than the expenditure of any year of this war. Men have looked upon them as the inevitable accidents of trade, to be placed along with accidents of steam, or bolts of lightning; with shipwreck and conflagrations.

The real difficulty, however, in the way of remedy, lay in the number of legislatures whose action was to be invoked.

The establishment of a National system of banking,

without incorporating in it a remedy against this great national commercial evil, is, to say the least, unpardonable in a man of state or a man of finance.

It has been remarked, that the chief aim of the legislation of the different States respecting banks, has been to secure the convertibility of their circulation, and incidentally of their deposits. The object was the safety of the banks, it being assumed that the banks would be solvent and sound so long as they could pay specie on demand for such portion of their notes and deposits as might be so required. It was not the intention to furnish the domestic trade with this facility to obtain specie, for no such facility was ever needed; coin was little employed in the domestic trade. Such convertibility as was attained by this legislation was never any proof of the solvency of banks, because ordinarily the demand made upon them was much too small to be either trial or test of their strength.

The gold then which the banks engaged to pay on demand was not asked for by the people, nor used by them to the extent of even one per cent. on their whole payments; it was only required as mentioned above, to make remittances abroad upon an adverse balance of trade, and for the proceeds of American securities thrown back on our market, as the result of some revulsion in the commerce of foreign countries. This legislation failed then in securing convertibility, to the extent of making the banks safe or strong. The amount of specie which the banks are ordinarily called upon to disburse for the home trade, is too insignificant to be an object of attention. The result has been, not the attainment of the object chiefly aimed at, nor of any important benefit at home, but a

very great advantage to foreign nations trading with us, or dealing in our securities. When any necessity befalls them of obtaining it, our system of banking at the risk of ruinous contraction furnishes at par, that for which otherwise they would have to pay the market price. It is a proper law of trade that every class of dealers shall, as far as possible, be made to pay the penalty of its own mistakes or overtrading. If men issue their own paper too freely, they must meet the sacrifices necessary to pay it, whether a high rate of interest or by selling goods at a loss. If importers or merchants who send us goods from abroad overtrade, and a high exchange ensues, this penalty should fall upon them; but our unqualified system of specie payments gives them full relief at once. In England, this difficulty is met by the control which the Bank of England has over the rate of interest and the whole money market. It is not met even there, however, adequately by raising the rate of interest and limiting the range of discounts. The object, in our case, is to compel the small class of men who deal in foreign goods and in our securities, to abide by the rate of foreign exchange, which is mainly affected by their own operations, or to make them pay for gold, if they demand it, according to the urgency of their need.

The banking system, proposed by Mr. Chase and enacted by Congress, has no remedy; our State system has none; and there is no power in this country corresponding to that of the Bank of England, furnishing a check to the evil. Our banks can only save themselves by the fearful process of contraction, which spreads dismay, distress and bankruptcy over the land, inflicting injury in a few months far exceeding in

amount all the specie in the country, through the sacrifice of goods, the fall of prices, and enormous rates of interest.

All our lessons of commerce, banking and finance of the past teach us to lose no time in securing our home interests from these irregular attacks from abroad; and if these be not warning enough, let the present extraordinary and injurious speculation in gold warn us not to let the control of the specie in the country again pass so completely beyond the reach of the Government and the banks, as that speculators can obtain and hold the balance of power in all that pertains to its movements. The treasury of the United States has thus encountered a gambling power capable of inflicting a loss on the nation of at least five hundred millions, if not twice that sum,—a power against which the Bank of England could not continue its payment of gold one week, but for its facility of raising the rate of discount. Shall this game against us be continued now, and be repeated hereafter?—this game of speculation, obviously upheld by the friends of those who fight us in the field, and not less obviously by all sympathizers with them in Europe.—Are we to remain helplessly in the power of such a combination?

Transfer and Deposit Banks.

It would prove a public advantage and convenience, if provision were made in the National banking law for a system of transfer and deposit banks, having no view to the circulation of bank notes of their own issue. Let the power and facility be afforded to any parties holding not less than a million of public bonds

of any one loan, to become incorporated as a bank of transfer and deposit, giving up their bonds, and receiving in place of them an inscription of one million to their credit, on books to be provided for that purpose in the treasury. The interest upon the amount thus inscribed would be paid in one sum to the bank at the same rate and times the individuals composing the bank would have received it, to be distributed by the bank at its own counter to those entitled. So far, no change would occur to the holders of this stock; but the act should further give them the privilege of transferring this public stock, no longer having the form of bonds or coupons, at the pleasure of the holders, and in any form which the bank itself would prescribe. This transfer and circulation to be only on the books of the bank thus established, but in sums or fractions which the rules of the bank might permit.

Banks thus constituted might receive deposits and employ them as other banks, without blending them, in any degree, with their public stock and its circulation on their books. The movement of the deposits and the movement of the stock being kept separate, the stock should be made by law a security for the deposits. Such banks might transact all the usual business pertaining to money and banking, except the issuing of their own notes, and be employed by the Government as depositories of the treasury, as occasion required.

A BULLION BANK.

IN a country so extended as ours, having so many great marts of domestic trade and so many centres of industry and wealth, there should be, not only from public but from individual considerations, some concentration of the movements in coin and bullion, if on no other account, for the sake of economy, expedition, and safety. There should be a great bullion bank, in which large sums could be deposited and transferred by check, without any necessity of transportation or other exposure to risk. All the chief movements of bullion in the United States could be made in one depository in New York. Banks and bankers, from New Orleans to Boston, would have more advantage from their coin at New York, with the facility of transferring it by check, than they could have at home. In fact, as the great office of specie is the payment of domestic and foreign balances of trade, and as those balances are generally ascertained and paid for this country in New York, the specie should be largely, if not chiefly concentrated there, for more rapid circulation, and to be more attainable in cases of emergency. The banks and the Government would be the chief depositors, and would of course have the chief voice in its control. It should be so constituted as to support the issues, both of the public treasury and the banks, and should, of course, be intrusted with the needful discretion.

It would be rare that the domestic balances would need any other aid from this bullion bank, than what would be afforded by the local banks and their deposits

in it. But adverse national balances may often require special treatment, with a view to the public interests and the prevention of panics. Foreign debts are properly payable through the foreign exchange, by simply setting off the debts due us from foreigners against those we owe to foreigners. If we have over-imported, and there is an adverse balance, exchange rises, and the parties to this over-importation, upon whom this advance properly falls, should meet it as they meet other incidents of their trade.

When the alternative of remitting gold is tried, there is just the same reason why gold should rise as exchange; that is, a special demand, and those who hold the specie have as good reason for exacting an advance as the dealers in exchange. In such cases as this, a bullion bank could deal with the facts as the public interests and the interests of trade would dictate. It should never be in the power, nor should it be supposed to be in the power, of those who may have incurred a heavy foreign debt, to indemnify themselves against a high exchange by throwing the burden on the banks, and, through them, on the country at large, by the process of a contraction of the currency, or a reduction of bank accommodation.

The details of the formation and establishment of a bullion bank in New York, would be numerous, and would require careful elaboration to adjust them to the actual modes of business, to the interests of the treasury, the interests of trade, domestic and foreign, and especially to the interests of the city and country banks. Into these details it is not our purpose to enter here, and we do not even advert to many points and considerations which would be prominent in such an insti-

tution. It should form a part of the National banking system, as soon as the leading city banks had become incorporated in it.

Further Suggestions for the National System.

There are other important modifications of the banking system of this country, which should be introduced into the National system. One of the most useful and effective offices performed by our banks, as already mentioned, has been the discount of commercial paper. Before the outbreak of the rebel war this business has been carried on by the banks to the extent of from one to two thousand millions of dollars yearly; that is, individual or corporate paper, averaging three months to maturity, has been discounted during the year to that amount. For this vast sum, the parties at whose instance the paper is discounted receive a credit on the books of the banks for the proceeds, transferable at pleasure, or they take the notes of the bank. It is this process of discounting which furnishes the great fund which figures in the statements of the banks as deposits. And as these deposits, which a few years ago averaged throughout the country about three hundred millions, might be moved in the course of payments through the banks once in each week, they would effect payments to the amount of fifteen thousand six hundred millions in the course of the year. So far as the payments of domestic business are concerned, this is the mode in which nine-tenths of the whole are paid. Its effectiveness will be understood by referring to its operation in a single case. A man in business, whether merchant or manufacturer, may have taken the notes

of his customers for one hundred thousand dollars, and given his own for eighty thousand; he can have so much of the paper in his hands discounted as will pay and take up his own as they mature. What one does all do. It is a process of setting off or clearing, or it may be regarded as book-keeping applied on a large scale.

It should be noted in this connection that as domestic trade is now conducted, it proceeds directly and by the shortest modes to its final results. The credits accruing as sales proceed, are secured by individual paper, and the whole process of payment by the division of labor falls to the banks, bankers, and brokers. The buying, selling, weighing, measuring, examining, insuring, transporting, delivering, belong to one or more classes of men; so all the payments accrued are managed by separate classes.

This great business, which is immensely more important to the country than anything pertaining to the circulation of bank notes, has been impeded and embarrassed by being confounded with other processes of the banks. It needs no intervention of specie, for it is purely a business of adjustment, as much as balancing books of account. The parties who give and take notes, drafts, and bills of exchange, express the values in a manner they perfectly understand. The banks employ the same scale of values, and the same modes of expression. As checks drawn against credits or deposits may be for any sum or any fraction, there is no need of employing coin, and, indeed, it is seldom done, either as small change or for the payment of balances.

The banks should, therefore, be required to confine this business to its strict limits, and not to blend it with any elements which can disturb or endanger its regu-

lar progress. They should not be allowed, as the proceeds of paper payable on time, to enter upon their books a credit payable on demand in coin,—a demand which, if made, they cannot by any possibility meet. For though the demand is too small to create peril or alarm, the power to make such demand is full of danger in times of distrust. These credits are, by the present mode, so mingled with cash deposits, and bank circulation, that in periods of commercial revulsion, the banks are compelled to save themselves by contraction, with its widespreading evils and paralyzing influences.

At such a time the banks hold the paper of their customers for about three hundred millions, running to maturity in an average of ninety days, and their customers hold upon them a claim for nearly the same amount, payable in coin on demand. The banks should not be permitted to place themselves in a position so false, nor to incur obligations which no power in the country could enable them to meet.

NATIONAL LOANS.*

WE have already paid our tribute of thanks to the Associated Banks for having given such prompt and efficient aid to the treasury at the outbreak of the Rebellion, and for having thus lifted the public credit from the mire in which it had been nearly swamped by traitors holding the keys of the treasury. It must

* This subject deserves a volume. We confine ourselves to a few passing remarks.

be added, too, for having at such a critical moment rescued the Secretary of the Treasury from the grasp of capitalists, who would have raised the rate of interest on the public loans to ten per cent. and upwards. The confidence of the banks in the resources of the nation and the management of the treasury was followed by that of the people, and it became evident that six per cent. bonds of the United States would command the needful money for national expenditure, civil and military.

Mr. Chase's policy, after cutting loose from the Associated Banks, has been popular. It was certainly the most successful period of his financial administration. There was a wide field before him; he selected a path which gave satisfaction, and supplied the treasury for two years under the unprecedented expenditure of from one to three millions daily. It is not our purpose now to discuss Mr. Chase's system of loans. It is a large subject, and we restrict ourselves to saying here, that its greatest fault was want of simplicity and comprehensiveness. He had too many loans on the market. He should not have attempted loans at five per cent. nor for short periods. But he was successful for a time, and we should not complain.

The necessity of stopping specie payments by the banks was very clear, for the continuance of such payments opened a door by which foreign enemies, domestic traitors, and the rebels themselves could constantly find entrance, to disturb our public finances, destroy private credit, and spread commercial alarm.

The issue of the legal tender treasury notes was a necessary measure, and although strongly denounced, time has fully evinced its wisdom. The notes thus

issued not only commanded full confidence at once, but became more popular than any paper currency ever issued in the United States. This confidence is unimpaired, in spite of the constant assertions of the English journals and disloyal press at home, that it was largely over-issued. The people at large did not believe it, but many intelligent persons gave it so much credit as to be seriously disturbed, and to anticipate an early and grand collapse of our finances, and an utter failure of our national resources. No assurances from better informed persons could establish their faith. Since the entire failure of their evil prophecies, they have subsided into comparative silence. They wonder why such a fearful issue of treasury currency did not utterly ruin the country; and according to their theories and their fears, the country ought to have been ruined. Some, whose wishes are father to the thought, say that financially the country is ruined, and point at the depreciation.

We know that the price of gold is not the measure of the depreciation of our currency. The popular voice declares that gold has risen, and the reasons for its increasing in price are of such a character, that those who will not see their influence and effect cannot be changed by either fact or argument. We assert confidently that the legal tender treasury notes were at no time over-issued to the extent of causing depreciation. It is true that the amount of paper currency in circulation was much greater than at the beginning of the war, but not greater at any time than the increased need of currency to meet increased activity in the payments for supplies necessary for the army, and to furnish the increased currency required in the business of

the country, carried on more by means of cash than had been the case for many years. This variation in the amount of cash employed in business is a fact well known to bankers, who have long noticed that the amount of bank notes employed at certain seasons of the year, especially out of the cities, is from a third to a half more than at other times, according to the exigencies of each district.

It seems that Mr. Chase himself was somewhat moved by this incessant cry of over-issue and ruin.

It produced in him excessive caution, which, if there was any tendency to go too far, effectually averted the danger. Mr. Chase at no time, by the amount of the issues of the treasury, transcended the bounds of prudence or safety. He acted with commendable caution from his point of view. But an immense advantage might have been gained for the country by a management dictated by a fuller knowledge of the laws of currency.

It is our belief that a vastly better result could have been obtained, if Mr. Chase had, as we have said above, arranged with the Associated Banks to manage this whole business of the extent and mode of circulating the treasury currency. No institutions, no individuals, in the country were better qualified for this task. They could gradually and safely ascertain the extent to which this currency could be issued without depreciation. They could earliest detect the first symptom of depreciation. Their interests led them strongly to fear and repel any measure calculated to reduce the value of that currency which they were constantly receiving in payment. They could have been confided in for this work, for their skill, knowledge, and their interests

corresponding with those of the nation. The opportunity was allowed to slip, and our economy of millions upon millions went with it.

These banks were allowed to drift, at least a portion of them, from the service of the country into that of its enemies; for, doubtless whether intended or not, their financial power, which might have been kept on the side of Government, has been largely employed by the men who have raised and are now holding up the price of gold. No doubt, the banks of New York are making money indirectly by this stupendous speculation, as very large numbers of their customers are deeply engaged in it. Their position is such, indeed, that they must either make war upon it, or appear not to notice it. The Government of the United States could well have afforded to double their capital to secure their open and determined opposition to this vast public evil, to which the great advance in prices must, in a large degree, be ascribed. For, when people were told that the currency was depreciated from 20 to 50 or 60 per cent., they easily determined that their prices should go up from 50 to 150 per cent.

Very soon after Mr. Chase found the credit of the treasury high enough to borrow with facility, he was seized with what one of his assailants calls an "insane desire" to reduce the rate of interest. Without in any degree justifying this harsh term, it may be remarked that it was a mistake to begin then to repulse the growing desire to aid the treasury. It would have been better to hold out the idea, that those who were disposed to call in their money, and place it in the treasury, should be certain of obtaining six per cent. at least. The first mention of a five per cent. loan was a

check upon the efforts of those who were making preparations to invest in public securities. This mistake of Mr. Chase was of considerable importance, but certainly deserves no harsh censure.

When Mr. Chase found that confidence in the public securities was restored, and that they could probably be disposed of in such amounts as to support the expense of the war, it belonged to his position to study at once the best methods of offering his securities to the public. It was to ascertain how he could best accommodate those from whom he expected to obtain the money. The eyes of the Secretary could only be directed to those who had money to spare. Money-lenders consist of many classes, but for his purpose they could be divided into those who could lend for a few weeks, those for a few months, those for a few years, and those who wished the most permanent investment they could obtain. It was needful to consult the convenience of those who were remote as well as those who were near to Washington.

Besides these, to meet also the wishes of those who desired to obtain interest immediately, but to have time to make choice of the special security they would prefer. In a considerable degree, Mr. Chase met these different classes by offering loans to suit, but not systematically, simply, clearly, and as fully intelligible as the circumstances required. There was a complication about his loans much to be regretted. The ten-forty loan, the legal tender five per cent., and the compound interest notes, were serious mistakes.

It must be said that no man could have anticipated any more than Mr. Chase the growing magnitude of

the public expenditure, and perhaps no one could better have met the difficulty of obtaining the needful legislation.

**EXPANSION OF CURRENCY—INFLATION OF PRICES—
ADVANCE IN PRICE OF THE PRECIOUS METALS.**

No controversies are so difficult to comprehend and adjust as those in which there is much excitement and some truth on both sides. Such especially are the differences of opinion prevailing as to Treasury notes, the National bank currency, and the rise in price of gold. It is said by some that the difference between gold and the National paper is wholly owing to depreciation of the paper, and by others that it is wholly due to the advanced price of gold.

In a large degree the discussion on this subject is chiefly between those who take different sides in reference to the administration or the war, and so far the opinions of both lose some weight as partisan opinions, not formed upon any calm or unprejudiced consideration of the questions involved.

All the inquiries connected with these topics are of such a nature as to admit of only an approximative solution. In such complicated matters it is easy to make unfounded assertions, which very few people can

refute at once. The needful approximations, however, are only to be arrived at by close investigation; by calm and candid attention. The nature of these questions is precisely the same which men meet daily in the ordinary course of business. It is only by series of approximations that merchants and manufacturers make up their minds as to the prices they are willing to give for the commodities they purchase. As this is purely an individual affair, every one takes the risk of his own decisions, and submits, so far as he is concerned, to the decisions of others. When questions of this nature are attempted to be settled in the mass by those who have no special advantages for deciding, their opinions may be safely disregarded.

There is a class of minds not able to understand that gold can vary in price. Not a few authors of repute have assisted in the spread of this doctrine. No man who cleaves to this opinion, contradicted as it is by the experience of merchants in all ages, can, by any possibility, understand or make any progress in such an investigation. In what we shall say, it will be taken for granted that gold is subject to the universal law of varying price, except so far as its price is fixed by law, where it is made the only legal tender. When the law prescribes that a certain quantity of gold shall be worth a dollar, or five, or ten dollars, the tendency to vary in price is diminished, for it must be taken at that rate, whatever change may occur; but where gold is released from such binding legislation, it at once takes its place among the commodities which vary in price according to the influences which bear upon market value.

It is not denied by any that every commodity, except gold and silver, passing through the channels of

trade, or being an object of private sale, is subject to change of price. But even this truth, obvious to the most inattentive observer, was not perceived by a class of thinkers of the same mould as those who hold that gold cannot change in price. They insisted that the price of all commodities was entirely regulated, or rather mathematically determined, by the quantity of money. The quantity of money and the quantity of commodities in a country, in their view, were exactly proportioned, and prices changed only as the quantity changed. This idea clings to many minds even yet, and thus has had a reign of over a hundred years since it was propounded by Montesquieu. Every man of business knows this theory to be false, for he knows that every article has its own law of change, and that some are advancing in price at the same time that others are declining. He knows that he can point out the reasons of the change both ways, and that often it has nothing to do with changes in the currency.

The influences which have chiefly governed prices since the beginning of the Rebellion, may be briefly stated as follows. Cotton, rice and tobacco went up first, for reasons patent to all. Then articles of food, clothing, and army consumption advanced, under the vast demands of the Government. Then great armies were called to the field, and men were called in large numbers from their customary occupations. The consequent demand for laborers increased the rate of wages in all departments of industry. As wages advanced, all commodities the product of labor went up, and the laborer soon found that his advanced wages were still insufficient for his support, and another advance took place. All classes of society soon felt the cost of living

to be advancing upon them, and every man endeavored of course to indemnify himself by increasing the price of whatever he might have to dispose of. When the raw material of every article of manufacture advances, the manufacturer must advance his rates.

These causes, and many others, have continued to operate for three years. The demand for labor still increasing, the laborer's power to fix his own wages increases. The farmer has the same power, and so have many others. The great fortunes made by unscrupulous speculation, and by great army contracts, have thrown upon the market a host of people who are able and willing to give any price for indulgences which are new to them, and thus even luxuries follow the general tendency. The large circulation of currency produced by the immense public expenditure and the increased prices, no doubt stimulates increased consumption, which reacts upon prices. To all these, and many other causes of a more special nature, is to be added the heavy taxation now pressing upon the whole country, which cannot but have its effect upon prices. There is still another general cause which is known to have had great influence in raising the price of many things. It is always the case, when there is an unsettled state of trade, that men are found shrewd or bold enough to practise upon the wants of a community, by seizing upon and holding for high rates articles of necessity or demand.

We do not offer these statements as proof that there has been no inflation of the currency, but we think that those who assert that the general advance of prices is due to the inflation of the currency, are bound to give full measure and due weight to these

considerations, before they can be qualified to decide how far any inflation of the currency has caused the advance.

The increase of the currency has doubtless had its influence upon general prices, as well as upon that of gold, but that influence is not to be measured by the general rise of prices, nor by that of gold. To reach any reliable conclusion, all that affects prices must have due weight, as well as the increased volume of the currency.

There are few subjects with which men of business are more familiar than the constant variation of prices, and many of the causes are as familiar to their minds as the changes. There are hundreds of causes, some wholly imaginary, which are at all times exerting their influence upon general and special prices, and by these causes men are guided in the business of life. To pass over all these, and say that a general or special advance of prices, such as at present, is caused solely by the increase of currency, exhibits a disregard of the main elements of the question.

Besides the class of causes affecting prices, there is another of no small potency, which must not be overlooked. It is well known that sellers are constantly trying all means to obtain higher prices for what they sell, and that buyers are as constantly struggling to reduce the prices of what they purchase. Circumstances are constantly occurring to help or hinder them. It is not uncommon to hear men denounced for their success in raising, or in combining to raise prices,—denounced by those who in the next breath ascribe the advance to the expansion of the currency.

In the present case, there has been a general ad-

vance. Those, however, who attribute the advance wholly to the depreciation of the currency, must deny that prices ever vary from any other cause, before they venture to make the rate of the advance the measure of the depreciation.

THE PRICE OF GOLD.

No inquirer who is not candid enough and intelligent enough to weigh all the influences which affect the prices of commodities, can be trusted to decide upon the value of the currency, or to determine the rate of its depreciation. Another important inquiry must be made with equal fairness and intelligence before the rate of the depreciation of the currency can be ascertained; that is, the actual rate of the advance of gold. It is assumed by not a few, contrary to the experience and language of the mercantile world, that gold does not vary, and has not in the present instance varied in price. The fact that the price of gold has been quoted in the price currents of Europe for centuries, does not move them, nor the fact that it is now quoted constantly as an article varying in price. When the banks paid gold on demand, it could not advance, because it could be had for the bank currency at par. When the banks

ceased so to pay, it went to a premium immediately, simply because those who held it could exact a premium. So has it been since; the holders sell it at the highest price they can obtain. The theorists, however, assert that gold is fixed, and that the whole currency of the country goes up and down from day to day; nay, from hour to hour, and even from minute to minute.

Our commercial history teaches us that in periods of quiet, when trade, both foreign and domestic, runs in its ordinary channels, and no unusual events disturb its course, there is almost no use made of gold, and no demand exists for it, except to pay the balance of trade, when against us. It also teaches us that in times of war, commercial revulsion and disturbed or destroyed credit, a demand for gold arises as for a commodity always safe to hold until the storm is past. It goes at once to prices proportioned to the urgency of the demand, and continues to advance precisely on the same principles and influences which govern other articles of trade. But gold for many reasons is more sensitive than most other commodities of trade. It is only wanted for an emergency; when this ceases, the price recedes, and the emergency can seldom be measured as to time or intensity. Gold produces nothing while in the hands of the holder; he will, therefore, not be a holder a moment longer than the occasion lasts. Or, if he must continue to be a holder, his effort will be to increase the disturbance, that gold may increase in price so long as he holds it.

The advance in this country, as expressed in a currency so little depreciated as our legal tender notes, is extraordinary, and must be owing to causes much out of the ordinary course. Previous to the outbreak

of the Rebellion, gold had been in demand only for export, and to save any advance in exchange. On the stoppage of specie payments by the banks, gold made a small advance. It was soon seen, however, by dealers in gold, that the demand would be large, and the price began to advance upon the opinion formed by bankers, merchants, and speculators.

1. It was seen that the duties, equal to fifty millions yearly, would have to be paid in gold, which could not be obtained from the banks.

2. That timid people, alarmed at the proportions assumed by the Rebellion at the outset, would hoard gold to a large amount. The demand for this purpose exhibited itself at once.

3. That the sympathy of leading capitalists and the aristocracy of England and France for the rebels and their cause, and the intensely depreciating tone assumed by the leading journals of England, as to our national strength, solvency, and ability to overcome the Rebellion, would frighten the holders, and throw back upon us great amounts of our securities, the proceeds to be taken back in gold.

4. It was supposed that our Government would be compelled, as its chief resource for carrying on the war, to issue such inordinate quantities of treasury notes as would quite unsettle prices, and give great advantage to holders of gold.

5. In the progress of the war, and after the Associated Banks of the cities had aided the public treasury to such extent as to give vigor to public credit, the large loans began to be freely and rapidly filled, with interest payable in coin; it was then seen that as the

public debt would necessarily be large, a very heavy semi-annual demand for gold would arise.

6. These aspects of financial affairs taken together opened a wide field for speculation, and excited in men who are constantly on the alert for chances of realizing great gains by their wits, the most intense efforts to turn the necessities of the country and this state of things to their private account.

The commercial world has not, for more than a century, witnessed a speculative movement so strongly sustained, and involving such vast sums. In gold, there is no record of such a movement. No doubt there has been a large mistake in the first instance, which opened the way to so huge a mischief. It should now be well studied, that the lesson it teaches may not be misunderstood nor lost in our financial history.

7. A further support was given to the speculation in gold by a measure very proper in itself, but of evil results in the disordered state of the gold market,—the addition of fifty per cent. to our import duties. They should have been doubled, the increase payable in currency.

8. As the activity of our home industry and our abundant currency made our country a grand market for foreign products, they were poured upon us in a flood. The holders of these goods, who had to pay the high duties in gold, became interested upholders of a high price for gold until their goods were sold. They did not desire it to increase in view of future business, but could not afford to have it fall, in regard to their actual condition. They assisted in keeping it up for their purposes, and thus aided the speculators in their work of lifting it to a higher level. Our

finances were in the position of a man who has two ailments, of such a nature that what is good for one is bad for the other. Over-importation tended to raise exchange, and increase the demand for gold; the increase of duties to check importation, increased the demand for gold. Hundreds of millions of dollars' worth of foreign goods, upon which the high duties in gold had been paid, formed at length a broad basis for the speculation. The interest of a thousand millions, payable semi-annually in coin, added breadth as well as firmness to that basis.

9. The increasing price of gold, as the unseen speculators pushed it up, created great alarm. There was a great outcry, in which many journals and people joined who ought to have known better, that our Government currency was so inflated as to create all the difference between it and gold; that our national finances were hopelessly disordered; and many proclaimed that our legal currency would soon reach the depreciation of our old revolutionary issues. All this drove many to purchasing gold, to save, as they supposed, a part, if they could not all their money.

10. But the effect of this was trifling compared to the operations of men who had made vast purchases of domestic commodities, of the kinds the Government was purchasing largely for the army and navy, such as pork, beef, flour, coal, oats, hay, wool, timber, iron, &c. These speculators industriously proclaimed that the high price of gold was the cause of the greatly advanced rates of the commodities in which they were dealing, and they joined in the game of running up gold, as a means of enhancing all other prices, for

every article which advanced helped to increase the rates of those in which they were specially interested.*

11. Within the last year and a half, there have been shrewd capitalists in Europe, who, in spite of all the denunciations of unfriendly men and journals, believe that the cause of the North will prevail, and that our National securities will prove sound and reliable. Such a conviction, coupled with the fact that our currency, for which these National bonds could be obtained at par, could be bought for gold or foreign exchange at such rates as to make an immense gain. The high price of gold enabled them to double any amount invested in our loans. They embarked large sums in this promising adventure, and lent themselves and their means heartily to the measures of the speculators in gold, who had opened for them such an inviting career of profit. It is but recently that three hundred and fifty-seven dollars in gold would purchase a thousand dollars of our National currency, and of course a six per cent. five-twenty bond, paying only in addition about five per cent. premium. So far as confidence exists abroad, this must continue to operate, but with that caution which is needful not to destroy their own game. They will not rush upon their prey, for that would bring down gold with a crash, but will employ one hand in keeping up gold, and the other in purchasing bonds of the United States.

If such considerations as those we have presented, and others which they suggest, fail to satisfy the in-

* All the pecuniary losses by sea and by land, inflicted by rebel hands, would fall far short of that inflicted by speculators in gold, and their helpers, the speculators in other commodities. If not traitors, they are certainly robbers of the public and swindlers of the people.

quirer that gold has risen in price, he must be one of those who believe that gold never varies in price. Of all such, as well as of those who still hold that the depreciation of the legal tender currency is exactly measured by the difference between it and gold, we ask why it is that real estate, which is the safest as well as the largest mass of wealth in the nation, can in all the States be purchased with treasury notes and other currency at rates no higher than those which prevailed when the banks were paying gold, and when every one who chose could turn bank notes into gold. It is well known, indeed, that in many places real estate would bring more in gold during the last twenty years than it will now in legal tender currency. Real estate estimated in this currency has not risen, with some exception in the cities, above the average of the last twenty years. No better criterion can be selected to show that the paper has not depreciated. It is the largest single item of the wealth of the nation. It is now selling more freely than for some years, but not at higher rates. This fact is so incompatible with the theory of the depreciation of the currency being in proportion to the difference between it and gold, that it asks attention.

Before leaving this part of the subject, we repeat a suggestion often made, but apparently often forgotten, that the actual advance of prices of the ordinary commodities of trade requires an increase in the quantity of currency fully equal to what has taken place, and this fact is to be taken in connection with another, that cash is now much more employed than before the rebel outbreak. It would be safe to say that it is twice as much employed in ordinary transactions of trade.

It should be noted, too, as evidence that gold has ac-

tually advanced in price, either as a commodity specially wanted or as the object of special speculation, that the demand notes of the Government, which were receivable for duties, rose with gold, and bore, as long as any remained, the same, or nearly the same premium. It is true they were demand notes, but equally true that they were not demanded, but remained in circulation until paid in for duties; that is, for more than a year.

TAXATION—FAULTS OF OUR PRESENT SYSTEM.

THIS topic troubles and burdens many minds. It is not strange that upon the subject of national direct taxation, with which we are so little conversant, there should be much divergency of opinion, and many mistaken views. It is well that it has received so much attention, and that it has been so largely discussed. Perhaps no other subject has more puzzled Congress, for the pressure in favor of ample taxation was great, whilst the resistance of special interests was incessant, and as strong as utter selfishness could make it.

We have not the least doubt that, in one important sense, we are now overtaxed, and that Congress has overdone its task. This is scarcely surprising, though

much to be lamented. It is not so much that the amount to be raised is put too high, as that the burden is badly distributed. Its partiality is absurdly extreme. It does not fall and spread; it strikes. It will not be long before men will find the tax-gatherer at every turn; and it will not be long before a body of tax-gatherers, experienced and hardened in their profession, will become odious, and their demands not merely disagreeable in form but oppressive in fact.

It would be a very safe prediction to make, that the administration or party after the war which enforces the present system of taxation, will be soon overthrown. The experience of the most taxed nations has shown the necessity of keeping the tax-gatherer out of sight. In Great Britain there has been for fifty years a constant diminution, both in the excise and customs, in the number of articles affected by taxation. Nearly half of the excise duties there are now obtained from malt and spirits, and nearly nine-tenths of the revenue from customs come from tea, coffee, sugar, tobacco, and silk. The real problem is not to multiply objects of taxation, but to select such as will spread the burden over the widest surface, and prove the least annoying burden to the person taxed. Many features of the present system appear to be well chosen, but very many are far otherwise, and will certainly prove injurious to the productive power of the country.

It is not our intention now to review the system as recently amended, but one tax may be mentioned as bearing with undue severity on the interests of industry,—that upon manufactures. Large capitalists may stand this, as it promises to destroy the competition which they most dread,—that of manufacturers who,

not having reached the rank of capitalists, are struggling under the first cost of their establishments, and who often make very large sales, with very little profits. A manufacturer may, and often must, sell his products to the amount of fifty or a hundred thousand dollars, without making a profit equal to the amount of his tax, and not unfrequently without making anything. The effect of the tax will be to destroy this second and third class of manufacturers, until the whole business is concentrated in the hands of the first class, who become virtual monopolists. Yet this second and third class are those who should be specially cherished and encouraged as infant manufacturers. The public will pay much higher prices for their commodities as soon as their competition is out of the way. The number of small manufacturers constantly struggling upward is always great in this country, and nothing should be done or suffered to check their progress, for they not only check and keep down the tendency to monopoly of the greater establishments, but they are the most effective friends of the laboring classes, by keeping up a competition for labor. When the great establishments obtain the virtual monopoly of any manufacture, the laborer becomes dependent upon them for labor, and the rate of wages.

In England, great pains have been taken in the interests of industry, to spare the manufacturing class; the rich men in that class are thoroughly reached through the income tax. In one case there, the principle has been signally departed from, with results not less signal in favor of the position we would support. The excise on domestic spirituous liquors is exceedingly heavy. The effect has been to reduce the num-

ber of distilleries in England to some ten or twelve establishments, employing each a capital of many millions of dollars. In this instance, it is perhaps an advantage to the country; but it would be far otherwise were it cotton, wool, silk, or iron.

It may be proper to tax the commission merchant who sells the product, his commission being the same whether his principal makes a profit or not. All taxation should touch the actual labor of the country as lightly as possible; there is a constant tendency of capital to absorb more than its due share of the profits of production, and taxation should counteract this tendency by bearing more on capital and less on skill and labor. It is a happy circumstance indeed that there is such willingness to endure taxation. It is a sure guarantee of the final suppression of the Rebellion. But if this willingness were even more manifest, it would neither be expedient nor politic to take undue advantage of it.

It is a great error to assume that large products imply large or even living profits, and a like mistake is it to assume that the manufacturer can even generally charge the tax on the product.

In most of the large manufacturing establishments, a fair profit is not realized every year; they prosper by obtaining large profits once in several years. Hundreds of thousands of tons of pig iron have been made in this country within the last ten years, on which the profit did not amount to the present tax of two dollars per ton, indeed it may be said on which nothing was made.

So millions of dollars' worth of other commodities have been manufactured within the last fifteen years, on which little or no profit was made, much less the

tax now imposed. Will not such taxes discourage men of skill and men of capital from embarking in those special industries which make us independent of the world? Charging the tax upon the consumer, depends on such a variety of circumstances, that it cannot be relied upon to save the large majority of producers. So many other elements combine to make up or determine the price of any article, that the combined result of the whole must decide whether the tax can be added. If the addition puts the article above the market, it must remain unsold, or be sacrificed.

The enormity of the tax upon manufactures will be understood when we say that the taxes now imposed will equal in many cases from ten to twenty per cent. of the value of the establishment.

A furnace which five years ago cost \$100,000, should make 10,000 tons of iron yearly, the tax on which is now \$20,000 or one-fifth its cost. This mode of illustration may be applied to many other departments of industry, and shows that the taxes imposed are not only inordinate, unequal, and unjust, but absurd and unnecessary. Many methods, less objectionable in every aspect, can be suggested by which as large a revenue, by methods less objectionable, can be obtained. And the sooner some better mode is devised and introduced to the attention of Congress the better, as the sufferers will be more patient when there is hope of relief.

The imposition of such a heavy tax on manufactures as 3 or 4 per cent., or such as two dollars per ton on pig iron, assumes that the manufacturer sells his product and realizes the money for it from month to month. But the fact is, that manufacturers carry a large portion of their product, six, twelve, and eighteen

months, and the actual amount of money they receive is more frequently barely enough to pay wages, and keep up their stock of raw material. This is the case even with prospering establishments. Their gain at the end of the year is in stock. All their money has been necessarily used to keep going, and thousands more have been borrowed: A three or four per cent. tax payable in money, may compel the manufacturer to sacrifice a portion or the whole of his stock, and thus lose the whole gain of the year. It is generally the case that the profit of the year depends wholly upon the producer being able to hold his goods for the full price. Merchants are ever waiting and ready to purchase what the necessities of the manufacturer compel him to sell below the market price. Thus so far from being able in these instances to add the tax to the price, the articles will be sold below the price to pay the tax. It is, as said above, only the very wealthy manufacturer, who can add tax to price, and frequently it will not be in their power, for the forced sales made by the weaker class will so supply the market, that they cannot sell without lowering their rates so as to lose the tax. It cannot be repeated too often, that it is the weaker class of manufacturers who must sell and suffer by the law as it stands. They, however, are needful competitors to the rich ones, and a great advantage to the public as a check upon an undue advance of prices. If this weaker class be destroyed, it will be to the great detriment of the manufacturing power of the nation.

**Taxation—Suggestion of a Remedy for some of the Defects of
the Internal Revenue Bill of June 30, 1864.**

There is no method by which the whole surface to be covered by taxation can be so fully reached as through PAYMENTS. Paying and receiving prevail in all branches of industry and trade, very much in proportion to the magnitude of the operations in each. By levying a tax of one dollar on the thousand, or ten cents on the hundred dollars on all payments, from twenty dollars and upwards, a sum so large in the aggregate will be reached that a very light tax will realize the amount required. The distribution of the burden will be the widest attainable. None that can pay a tax at all, will escape, and all will be taxed in proportion to the actual progress of their business. It is true that persons are not always able to pay in proportion to the sum of their transactions, but the rate of taxation on this plan will be so light that the hardship will be reduced to its minimum, and will always be proportioned to the quantity of money passing through the hands of the persons assessed. A tax may not be heavy in proportion to the property of persons upon whom it is imposed, but may be very heavy in proportion to the amount of money they can command. A tax upon payments divided between the payor and receiver will be upon those who are handling a thousand times as much as the tax, and therefore not likely to be without means of prompt payment.

The tax proposed of one dollar in the thousand (one mill per dollar, 10 cents per \$100) upon payments, should be paid by the receiver, but be divided between

the receiver and payor, the former to have the right of exacting the payor's half.

No tax could be more widely distributed than this, and none could be less burdensome, provided other taxes falling upon those who would be much affected by this were removed.

It would not be difficult of assessment or collection. At least one half, perhaps, two-thirds could be collected by the banks at a cost for collection far below the expense of any other tax.

To estimate what such a tax would yield and indicate how it may be assessed and paid into the treasury, let us look at the payments made through the banks in the city of New York and other large cities, and the mode of reaching them.

The clearings in New York have recently averaged five hundred millions of dollars every week. This is the settlement of the daily claims of the banks on each other, and arises of course wholly out of the business which the banks transact for their customers. It is not proposed to increase the burden of the banks, but through them to reach their customers. As the banks transact business for their customers which does not go to the clearing-house, to as great or even much larger amount, it may be safely assumed that the payments through all the banks which do not go to the clearing-house are nearly half of those settled there, or say two hundred millions weekly. This will give for the payments made through the banks each week seven hundred millions, or yearly thirty-six thousand four hundred millions. This aggregate at the rate proposed would yield thirty-six millions and upwards of revenue, and if all the other payments made in New York, in the

course of the year equal one-fourth those made as above, this would increase the amount to forty-five and a half millions. An amount which would be charged by the banks upon their immediate customers, and by them distributed throughout the whole country. The payment of this tax would be no special burden on New York, it being only in proportion to the business concentrated there. That great mart now pays three-fourths of the duties upon imports, and makes no complaint. The largest portion of this tax would fall upon the banks in the interior, and through them on their customers. New York is the great commission merchant, as well as banker for the United States, and may be made the chief collector of the direct taxes, as she is now of customs.

This tax would reach the dealers in stocks and gold, all the kite-flying and accommodation paper, and all that immense sum of payments now involved in the criminal speculations going on in commodities needed for our armies,—speculations which impose a tax upon the public treasury and the private purses of the country, upon the poor as well as the rich, equal to half the expenses of the war.

That this tax might not bear too heavily on short loans for very large amounts, one half might be deducted for sums payable and paid within fifteen days.

Boston and Philadelphia would yield, banks and all, about fifteen millions each; together thirty millions revenue yearly, to be distributed by them in like manner with New York.

If all the rest of the country including the banks could furnish but seventy-five millions more, making a total of one hundred and fifty altogether, it would

permit the repeal of all the most objectionable taxes in the present system.

This estimate is, of course, but an approximation; it is, however, sufficiently near the truth to enable us to judge somewhat correctly the merits of the plan. Every estimate of the proceeds of any proposed tax must be uncertain; in this case, closer scrutiny would bring this approximation so near the truth as to warrant legislative action.

It would require many well-considered details to make this suggestion practical. In our view, however, they would be fewer in number, more simple and less odious in operation, than any except the stamp taxes.

The banks could collect one half, perhaps two-thirds of the whole tax, at a cost of one half of one per cent.

This would give the New York banks \$225,000 for their collection of forty-five millions, equal to one-fourth of the whole amount of their own taxes as now imposed. If half the estimated tax of one hundred and fifty millions were collected by all the banks, it would yield them nearly half a million of dollars for collecting and paying over.

The trouble and expense of collecting outside of the banks might be greatly reduced by a well-devised system for voluntary payments. Let every person who every quarter should present a list of his receipts and payments with dates be allowed four per cent. on his taxes, and the assessor one per cent., and let this discount diminish to a certain time, and after that be increased in a regular ratio.

There should be no deductions from the amount of this tax, which would give trouble to the collector or

person taxed; the rate is so light that the burden would seldom be felt.

If we apply this method to the case of the manufacturers in place of the burden now imposed, they will experience a great relief. The manufacturer who produces yearly a million of dollars' worth of goods is taxed, say three per cent., or \$30,000. If, as is not uncommon, he have a large stock on hand with very little money in bank, the tax must be paid, though the goods should have to be sold in a dull market at a very heavy sacrifice. His profit depends on his keeping his goods for the full market price. To raise \$30,000 by reducing his price may inflict on him the loss of his year's profit. It must be kept in mind that the heavier the stock on hand the greater the debt of the manufacturer. His sales must cover his tax, his profits, and his debts. Forced sales involve ruin, and such are sales, when there is no demand or when money is scarce. It often requires more discretion and skill to sell goods at a profit than to make them.

By the present system, the maker of ten thousand tons of pig iron, the price of which now is about five hundred thousand dollars, pays a tax of twenty thousand dollars,—a burden which, in ordinary times, would crush half the manufacturers in two years. By the plan as proposed of taxing manufacturers, like all other classes, upon the amount of their sales and receipts, such an establishment would pay five hundred dollars upon the product of the year, as the sales progressed. But it would also pay at the same rate on all the payments incident to the progress of manufacture, which would make nearly five hundred dollars more. But this half a million worth of iron would

give rise, in its subsequent change of form, to a long series of payments, increasing constantly in amount as it increased in value, until it had in the end yielded to the treasury all or more than what it now pays. This amount of tax, however, instead of having been thrown with crushing force upon one man, will probably be divided among ten thousand. The tax, instead of being exacted from the manufacturer, who may or may not be able to pay the amount, will always fall exactly where the money is passing, and where it can be most conveniently paid.

If the mode of taxation thus suggested should appear, upon a close scrutiny, to promise great advantages, it might be doubled, and an equal amount of taxes be removed in cases where they happen to be oppressive.

Capacity of the Country to bear Taxation.

The inquiry as to the sum which should be levied, in the present situation of the country, is one of the greatest public interest, in every aspect, and should engage the attention of all who can assist in its solution. It is not to be solved by the absurd declaration of some, that the measure of taxation now is the whole expenditure of the war, nor the opinion of others, that the Government should take all that can be collected. It would require great space to discuss this subject, but it is not so destitute of elements for its decision as such absurd opinions would denote. If the sacrifice of life, property, and comfort which this generation is making for the highest and best interests of the United States could be fully estimated, they

would many times outweigh the debt we shall leave for our posterity gradually to discharge by payment to themselves, for they will be the chief creditors.

That the United States is a richer country than the world knew or suspected, has been made abundantly clear in the progress of the war. The country itself had never fully understood its own strength or wealth. Our decennial census has never been complete enough to enable us to see the real productive power, or the actual accumulation of the whole nation. Our statesmen have not given to the studies required attention enough to make estimates satisfactory even to themselves. But the war and its expenditures have revealed a wealth and power never before seen in an equal population. Many things have come to light in the investigations of the treasury department, which strikingly confirm this view.*

Notwithstanding the slow and uneven progress of the war, and its discouragements, which would tend to hinder investments in national securities; in spite of the reckless assertions of the pro-rebel press, which has said all that an infernal spirit could invent to discourage lending to the Government; and despite some errors of Mr. Chase, which complicated treasury matters, and produced an alienation between the banks

* We commend to those who wish light on this subject two publications, prepared in the Treasury Department with the utmost care and ability and with all the facilities and access to correct information afforded by the Department: one of which appeared in June, 1863, prepared by Dr. Wm. Elder, entitled "Debt and Resources of the United States," &c.; the other, just published (September, 1864), "Commercial and Financial Strength of the United States," prepared by Lorin Blodget. These short documents show what might be done in the public offices to enlighten the public, if persons of adequate talents and previous training for such work were employed for the purpose.

and himself, it may be safely asserted that the people in the loyal States can lend to the treasury from two to three millions daily. Their accumulations of capital have been not less than a thousand millions annually, for more than a score of years. A vast amount of these savings were expended in railways, manufactories, machinery, in building towns, cities, and in other ways going to increase power, wealth, and the means of adding to both.

This country can now, with this accumulated capital and its annual production, lend to the treasury the full amount needful for its daily expenditure, and it can bear a tax sufficient to pay the ordinary expense of its administration, to pay the interest of the amount lent, and five per cent. towards the extinction of the debt.

This is as much as should be levied. We must beware of absorbing the working capital of the country by taxation. Such a process falls heavily upon the poor, upon industry, whilst borrowing takes only from those who have it to spare, and offer it voluntarily, and who are willing to incur the risk of their country paying the interest, and, in due time, returning their principal.

The sum needed for this purpose would equal the amount of tax levied in Great Britain, which is regarded as a heavily taxed nation. No doubt Great Britain can pay her interest, but few who are competent to form an opinion would say that the debt of that country can ever be paid, whilst many such would say that the United States could pay off that debt in less than fifty years. We can pay off in that time, beyond doubt, the heavy debt we are now incurring, if we are permitted to enjoy peace for that period.

It must not be forgotten that, whilst the accumulation of capital in Great Britain is confined to fewer persons, and therefore larger in single hands, here there is a greater diffusion of capital and enterprise; and whilst in Great Britain there is greater skill and more machinery in some branches of industry, there is here immeasurably more intelligence and inventive power applied to the whole range of the mechanic arts; and machinery, if not so largely applied in some departments of production, has here a much wider range of application; and, on the whole, the power and result of machinery are much greater here than in Great Britain.

In levying taxes, we must be careful not to limit, obstruct, or diminish the progress of this power. Let it grow; it will pay all our taxes; and in a few years, under the protection of our national debt, it will discharge all our national obligations.

