CHAPTER I.

Losses in our Mechanical Industry resulting from our Reliance upon Gold and Silver as the Basis of our Currency and Credit.

Our national industry now averages about four thousand millions of dollars per annum. In the most prosperous years, it probably amounts to five thousand millions. In the least prosperous years, it probably falls down to two or three thousand millions.

Thus it is proved that our industry is capable of producing five thousand millions in a year. And if it produce that amount in one year, it ought to be made to produce it in every year. But there is a falling oil; in some years, of two or three thousand millions. The average falling off is doubtless one thousand millions per annum, or one fifth of what our industry proves itself capable of.

Here, then, is a loss, in some years, of about one half; and an average loss of one fifth, of what our industry is capable of.

Great as it is, this loss of one fifth of our industry could be born with comparative ease, if it came uniformly in each year, and fell equally upon all in proportion to their property. But it [*4] comes at intervals, and falls
unequally. And it falls most heavily upon those least able to bear it. In the first place, it falls, in a greatly disproportionate degree, upon those who labor for daily or monthly wages; depriving them of a large part of their usual means of subsistence, compelling them to consume their accumulations, and often reducing them to absolute suffering. In the second place, it is attended with a fall in prices, which sweeps away, at half its usual market value, the property of thousands, in payment of debts, that had been contracted under high prices; thus bringing upon such persona either utter bankruptcy, or grievous impoverishment. In this way a large portion of the people are kept in perpetual poverty; whereas if their industry were but uninterrupted, and the prices of property stable, nearly everybody would acquire competence. Thus the inequality, with which the loss falls upon the people, makes the loss a far greater evil than it otherwise would be.

So large a portion of our industry depends upon credit, that it is probable that the entire difference between our industry in the most prosperous, and in the least prosperous, years – a difference of two or three thousand millions of dollars – is attributable solely to the great extension of credit in the former years, and the suspension, or restriction, of credit in the least prosperous years.

The suspension of credit operates principally to suspend mechanical industry. And the great losses, before mentioned, in our aggregate industry, are really little or nothing else than losses from the suspension of our mechanical industry.

That the suspension of mechanical industry is, in this country, attributable directly and wholly to a suspension of credit, is just as apparent as it is that the water wheel stops because the water is shut off from it.
Under our existing system of currency, these suspicions of credit are inevitable. They arise from various causes, which are inherent in the system, and can be avoided only by a change of system. [\textsuperscript{5}]

One of these causes is the occasional exportation of specie. Our credit being based upon our paper currency, and our paper currency being based upon specie, (that is, being legally redeemable in specie on demand), it follows that whenever any considerable exportation of specie occurs, the paper currency, having in part lost its basis, or means of redemption, must necessarily contract in a corresponding degree.

And here comes in a point to be noticed, viz: that even a small contraction in the currency is sufficient to produce a general suspension of credit; and not merely a suspension corresponding in amount to the contraction in the currency. The reason of this is that, as a general rule, any contraction of the currency operates equally upon all debtors in proportion to the amounts of their indebtedness respectively. That is to say, if the amount of currency in circulation be diminished to the extent of ten per cent. of the whole amount, each and every debtor, as a general rule, will find his facilities for meeting his engagements diminished by ten per cent. of what they were before. If the amount of currency in circulation be diminished to the extent of twenty per cent. of the whole amount, each and every debtor, as a general rule, will find his facilities for meeting his engagements diminished by twenty per cent. of what they had been. If, now, a man has been using his credit to its full limit, the diminution of his facilities, to the amount of ten or twenty per cent., is as fatal to his credit as the entire annihilation of those facilities would be. Because all his engagements stand on the same footing, and a failure to meet one is a failure to meet all. He cannot pay ninety per cent. of his debts, and refuse payment of the other ten per cent., and yet retain his credit, and continue his business. When, therefore, the currency contracts by the amount of ten per cent., this contraction, operating, as a general rule, upon all debtors alike, compels every debtor in the whole...
community to fail, except those whose margins of resources are twenty per cent., above all their liabilities. When the currency contracts by the amount of twenty per cent., every debtor in the whole community must fail, except those whose margin of resources are twenty per cent. above all their liabilities. When the contraction of the currency is still greater than ten or twenty per cent., a corresponding margin of resources, above liabilities, is required to save a man’s credit.

It is because few of the men, doing business on credit, have a margin of resources, above their liabilities, corresponding with the contractions which take place in the currency, that these contractions prove fatal to so large numbers of them; and correspondingly fatal to the industry of the country.

The author’s system of currency would save all disasters from this cause. Requiring very little specie itself, the exportation of specie would have no influence upon the amount of currency in circulation, or upon the stability of credit.

Under our present system, these exportations of specie, by suspending credit, and thus suspending our mechanical industry, occasion the loss, sometimes, of two or three thousand millions of dollars in our industry, in a single year. They undoubtedly occasion the loss of one thousand millions of dollars per annum, on an average. This is about ten times the amount of the whole stock of specie, that we usually have in the country. So that, by relying upon specie, as a basis of credit and currency, we lose, in our industry, annually, on aim average, ten times more than our whole stock of specie is worth. And this loss falls, almost wholly, upon our mechanical industry. Is there any wonder that we cannot do our own manufacturing? Or that our manufacturers cannot compete with those of England in the markets of the world? Give us uninterrupted credit, and an abundant currency – a system of credit and currency that cannot be affected by the exportation of specie, and under which manufacturing industry need never be suspended, and our manu–[*7] facturing
capacities would stand on a wholly different basis from what they do now.

A second cause for the suspensions of credit is, that under our present system of currency, the avarice of the money lenders finally destroys the very business that employs their money.

Thus after a general suspension of credit, and of mechanical industry, there being no use for money, the rate of interest falls to a low figure, say three, four, or five per cent, and no calls at that. When this state of things has continued until the money lenders are out of patience at the non-productiveness of their capital, their selfishness manifests itself in apparent liberality; and they are ready to lend money at such low rates as to induce mechanics to undertake business. Industry and commerce revive slowly; but gradually improve, and finally become active and profitable. This increased activity and profit are of course attended with an increased demand for credit and currency. And there being but a limited supply of currency, the rate of interest rises with the demand for it. Until finally, when credit has become most diffused, and industry, production, and commerce are at their height, the competition among borrowers, and the necessity which each one is under to fulfil his engagements, enable the money lenders to raise the rate of interest so high as to swallow up all, and more than all, the profits of business, and compel it to stop.

If the money lenders could all act in concert, so as never to raise the rate of interest beyond what industry would bear, they would doubtless promote their own interests by so doing. But as no such concert among them is practicable, each one acts by himself, and takes advantage of the general competition among [*8] borrowers, and grasps at the most he can get for the time being, because he knows that, if he does not, some body else will. In this way the greed of the money lenders themselves finally destroys the very industry, which their own capital had created.
Under the author’s system of currency, this cause of the suspension of credit and industry could never exist; for there would always be such an abundance, and even superabundance, of currency to be loaned, that the rate of interest could never be raised. Currency, in any possible amount that could be used, would always be seeking borrowers at the lowest rate at which the business of banking could be profitably done.

A third cause of our suspensions of credit is, that under our present system of currency, there are several times, perhaps many times, as much indebtedness outstanding, as there is of real credit; or as there is of real credit needed for doing the same business. In other words, substantially the same debt is due several, perhaps many, times over, by as many different individuals; when, under a proper system of currency, a single one only of these individuals would have needed to contract the debt.

To illustrate this idea, let us suppose that A is a wool grower in Vermont, and that he sells his wool, on credit, to B, who is a manufacturer at Lowell; that B sells his woollen goods, on credit, to C, who is a jobber of woollens in Boston; that C sells a piece of woollen goods, on credit, to D, who is a general retailer in New Hampshire; that D sells woollen for a coat, on credit, to E, who is a tanner in New Hampshire; that E sells leather, on credit, to F, who is a leather dealer M in Boston; that F sells leather, on credit, to G, who is a shoe manufacturer in Lynn; that U sells shoes, on credit, to H, who is a shoe dealer in Boston; that H sells shoes, on credit, to I, who is a jobber in Tennessee; that I sells shoes, on credit, to J, who is a retailer in Tennessee; that J sells a pair of shoes, on credit, to K, who is a farmer in Tennessee.

Each of these persons, except K, we will suppose, has capital [*9] enough of his own to carry on his business, if he could only sell for cash, instead of on credit. But K, having no credit at bank, where he ought to have it, if he is worthy of credit at all, is under the necessity of getting credit of retailers, among the rest, of J, for a pair of shoes, of the value of one
dollar. J, being under the necessity of giving credit to K, is himself compelled to get credit with I, the jobber in Tennessee. And I, being under the necessity to give credit to J, is himself compelled to get credit with it, the shoe dealer in Boston. And H, being under the necessity of giving credit to J, is himself compelled to get credit of U, the shoe manufacturer in Lynn. And thus the indebtedness runs back to A, the wool grower, who, from selling his wool on credit, may have been obliged to get credit of some retailer, who again was obliged to get credit with some jobber, who was obliged to get credit with some manufacturer, and so on, until the credit stopped in the hands of some one, who could wait for his money until it should come from K, through all the line of intermediate debtors and creditors.

This dollar, which was at last credited by J to K, in the shape of a pair of shoes, is in reality one of those dollars, which were originally credited by A to B, in the shape of wool; all of which have now become scattered over the country by the same process of repeated credits, by which this dollar came at last into the hands of K.

Here, then, were ten, twelve, or more times as much indebtedness created, as there was of real credit given, or needed. K was the only one of the whole number, who really needed credit. If he could have obtained it at bank, where he ought to have obtained it, he would have paid cash, and all this unnecessary indebtedness would have been avoided. But there was no bank in his neighborhood, where he could get credit, and he was therefore obliged to get credit with the retailer. The retailer was obliged to get credit with the jobber, the jobber with the manufacturer, and so on.

Under the author’s system of currency, all this unnecessary [10] indebtedness would be avoided. Banks would be so numerous, that every body, who needed and deserved credit, could get it at bank; and all traffic between man and man would be cash. And thus all that superfluous indebtedness, (over real credit,) which now furnishes perhaps four fifths,
or perhaps nine tenths, of all the materials for a “panic,” or “crisis,” or general suspension of credit, would be avoided. And such an event could never occur again.

A fourth cause of the suspensions of credit, that now occur, is that the credit itself, that now exists, is, in its very nature, unsound, by reason of the basis of each credit not being definitely known to the creditor himself. That is to say, no specific property is holden for a specific debt, as in the case of a mortgage. Every thing, in this respect, is loose. The creditor, in each case, has only a general confidence, based upon circumstances, and not upon any intimate knowledge, that all of his debtor’s miscellaneous assets will prove adequate to meet all of his miscellaneous liabilities.

This looseness is carried to a great extent, and necessarily grows out of our present system of currency. Our banks are so inadequate to supply directly all the credit that is needed, that nine tenths, or perhaps nineteen twentieths, of all credit is given by men who are themselves debtors. The same individual gets credit, on the one hand, from every one who will give him credit, and then himself gives credit, on the other hand, to all who will offer him such profits as, in his opinion, will justify the risk—a risk, which, in many cases, is all the more adventurous, because he knows that it must really be run by his creditors, rather than by himself.

In this chaotic mass of indebtedness, no specific property is holden for any specific debt. Every man’s solvency depends upon the solvency of other persons, whose real conditions are unknown to him. The banks depend for their solvency upon the solvency of their debtors; and these latter upon the solvency of their debtors; and these latter upon the solvency of still other [“11] debtors; and so on indefinitely. To add to the confusion, every man’s debtors are entangled with every other man’s debtors, by an almost infinity of cross credits, whose ramifications no one can trace. The debtors of many creditors being scattered all over the country, where the law can give the creditors no practical protection.
Thus nearly all credit proceeds avowedly upon the principle of risk – even of great risk – and not of certainty.

Under the author's system of currency, credit would scarcely partake of the character of risk in any degree. In the first place, the banks would be, of themselves, absolutely solvent, and not dependent upon the solvency of their debtors. Next their debtors would be solvent, and known by the banks to be so; because substantially all temporary credit would be obtained at bank, and all trade between man and man be cash. As each man, who should get credit at all, would get it at bank, and generally get all his credit at a single bank, the bank would of course make itself acquainted with his precise condition. And the debt would be virtually a sole mortgage covering his whole property. Thus every debt would be virtually a mortgage upon specific property. With scarcely a qualification, therefore, it might be said that all credit would be perfectly sound. Not even wars, nor political convulsions of any kind, would have any effect upon the stability of such credit. Consequently wars and political convulsions would neither interrupt industry, nor obstruct commerce, nor strike down prices, in any such degree as they do now.

What folly is it to build our industry, as we do now, upon great rickety fabrics of indebtedness – five, ten, or perhaps twenty times larger than they need be, (five, ten, or twenty times as much indebtedness, as of real credit,) every part bound to every other part, in the universal entanglement of indebtedness, and every part trembling and creaking with the weakness of every other part, and the whole standing poised, like an inverted cone. upon a small movable basis of specie, which is sure to give way; when prices, credit, and industry must all tumble into [*12] ruins. Yet this we do over and over again. When the disaster comes, we for a while stand aghast at the wreck; then proceed to build up a precisely similar fabric of folly again, knowing that the same catastrophe will overtake it, that has overtaken nil its predecessors.
A fifth cause of our suspensions of credit is the lack of variety in our manufactures, and the consequent over-production of particular commodities. A very large share of the manufacturing capital, both in this country and in England, is in large masses, and employed by large companies, that have been long established, and are engaged in the production of a limited variety of commodities. The consequences are over-production of those particular commodities, slow sales, low prices, long credits to purchasers, and also credits extra hazardous. All these are had elements in the money market. The only remedy for them is to introduce a greater variety in our manufactures. And a more diffused credit is the only means of introducing this greater variety. Old companies, composed of many individuals, employing large capitals, their machinery all adapted to their peculiar kinds of manufactures, and having established commercial connexions, cannot easily divert their industry into new channels. In fact, it is nearly impossible. As a general rule, therefore, it is only young men, commencing business, and employing only small capitals at first, who can make experiments easily, and without much risk, and thus introduce new varieties of manufacture. Old men, with large capitals, and established business, rarely think of such things. But every young man, on first setting out in manufacturing business, naturally desires to engage in the production of some commodity, that will not expose him to the competition of older establishments. And if lie succeed in so doing, it is a most favorable circumstance both for himself and for those who would otherwise be his competitors. Both are relieved from a competition, that would have been injurious, and perhaps dangerous, to them.

In this way variety in manufactures is greatly increased. And [*13] the greater this variety, the less over-production will there be of any particular commodity, the quicker will be the sales of all commodities, the higher the prices of all, the more cash payments, the shorter the credits, amid the safer the credits, and consequently the less liability to any suspension of credit.
This greater variety in manufactures is as desirable for the community at large, as for the manufacturers themselves. A man’s enjoyable wealth is measured by the number of different things he possesses, rather than by the quantity of any one thing. Thus a man may have a thousand times as much wheat as he can eat, and yet, if he have no other wealth, he will be a poor man. But if he can exchange his surplus wheat for a thousand other things, which he desires, his enjoyable wealth will be multiplied a thousand fold. He will then be rich.

For the same reason a nation is rich, or poor, according to the greater or less number of different commodities, which its people possess. Hence the industry of a nation should be devoted, not wholly to the production of any one commodity, nor even to the production of any small number of commodities, but to the production of as great a variety as its soil, climate, its opportunities for foreign commerce, &c., &c., will justify; the end, to be kept constantly in view, being that the nation may have the greatest variety of commodities, which its people can either produce directly by their own industry, or procure by an exchange of their own productions for those of other nations.

If the industry of a people be but devoted to the production of a sufficient variety of commodities, we need have little doubt, either that there will be a sufficient quantity of each, or that the commodities produced will be of the highest quality. These matters will take care of themselves; since where there is no over-production of any commodity, the active demand for it, and the high price it will bear, will not only stimulate the industry of those engaged in its production, but will incite them to the acquisition of all the science, skill, machinery, &c., which will enable them to produce the commodity in the greatest abundance and of the highest excellence. [*14]

Hence, wherever we see the greatest diversity of industry, there we see the highest skill and science, and the most perfect machinery, employed
in each and every department; anti consequently the greatest aggregate production.

Wherever there is little diversity in industry, there is little energy, skill, science, or machinery; and the aggregate amount, neither of labor performed, nor of wealth produced, hears any reasonable comparison with that where industry is diversified.

But so great, and so constantly increasing, is this combined power of science, skill, and machinery, in the production of wealth, that unless new commodities were being constantly invented, production would outrun demand, and industry would stagnate. But as nature has set no limit to human ingenuity, in the invention of new commodities, no limit can be set to the increase of wealth, if only the necessary facilities shall exist for producing these new commodities as fast as they shall be invented.

Diversity in industry, or variety of production, has the same comparative importance, relatively to foreign commerce, that it has relatively to domestic wealth. Thus new and rare commodities are of most value in foreign commerce. That is, they bring the highest prices in proportion to the labor it costs to produce them. When any commodity becomes common and abundant, it bears a low price abroad, as well as at home, in proportion to the labor it costs to produce it. Other things being equal, therefore, the nation that is most ingenious and enterprising in the invention and manufacture of new commodities, and has the credit and currency necessary for producing them in abundance, and exporting them while they are fresh and new, will have immense advantages, in foreign commerce, over a people less ingenious and enterprising in this respect, or having less facilities of credit and currency for taking advantage of markets before the commodities shall have become stale.

But it is to be borne in mind that this great diversity in industry and production can be secured only by the pre-existence of [*15] such facilities of credit and currency, as will enable individuals to engage in the
production of any and every new commodity, as fast as they shall be invented; no matter how trivial the commodities may be, if only they be such as the community desire. But this universal credit, this indispensable pre-requisite to the greatest diversity in industry, can exist only under some system of currency, other than that we now have. The capacities of the present system are very limited, and are already monopolized. But the author’s system would furnish both credit and currency in any needed abundance.

Those, who oppose the freest credit, and most abundant currency, through fear of competition in their own industry, make a great mistake. Such credit and currency, by diversifying industry and production, tend not only to relieve all branches from competition and over-production, but also to create a new and better markets for every commodity than before existed. The greater the diversity of industry, time fewer will be the producers, the more numerous the consumers, and the higher the prices, of each particular commodity. Every man, who commences the manufacture of a new commodity, relieves the producers of some other commodity of a competitor, and as a general rule, becomes a better customer for all other commodities than lie otherwise would have been.

But this is not all. If credit were stable, and were extended (as under time author’s currency system it would be), still further than it is now in our most prosperous years, mechanical industry would be proportionally increased, and our annual production proportionally increased, over those even of what are now our most prosperous years.

Thieve is abundant room for a great increase of mechanical industry, with a view to both foreign commerce and domestic consumption. Among at least one half our population, occupying touch more than one half our national territory, the mechanic arts are as yet practised but to a very limited extent. An adequate extension of credit would carry with it a corresponding [^16] increase of mechanical industry throughout the country. We have agricultural and mineral resources to sustain an
indefinite increase of mechanical industry. Nothing but credit – that credit which will give to every man the means of applying his labor and ingenuity to the best possible advantage – is needed to give us time benefit of time immeasurable wealth which this increase in mechanical industry is capable of producing. For the want of this credit, a very large proportion of our people are engaged in merely manual labor, unaided by machinery. Such manual labor is, of necessity, heavy, dull, clumsy, stupid unskilful, unscientific, and comparatively unproductive. And the consequence is, that if we are not, as a nation, poor, compared with other nations, we are at least poor, compared with what we might be.

Why should our mechanical industry be made to depend upon the contingency of the holders of specie being either able, or willing, to furnish the credit and currency which that industry requires? Why should all the mechanical labor of the country – labor capable of producing two, three, or four thousand millions of dollars per annum – be compelled to stand still, and the ten or more millions of people, dependent upon the earnings of this labor, be impoverished, and perhaps ruined; whenever time holders of one hundred millions of specie, consulting solely their own interests, decline to furnish the credit and currency necessary to keep this labor employed? Our mechanical industry has no need whatever to ask one dollar of credit, nor one dollar of currency (except for small change), of the holders of specie. There are, in time country, some seventeen thousand five hundred millions of other wealth than specie; an amount of wealth an hundred and seventy-five times greater than the amount of specie. This other wealth, if permitted to do so, is capable of furnishing, many times over, all the credit, and all the currency, which our mechanical industry can possibly require, or use. It can furnish them too, without interruption, at all times, under all circumstances, in peace and in war, in plenty and in famine, in prosper [Document ends]

NOTES
1. If, by relying solely upon specie, as the basis of our currency and credit, we lose annually, on an average, ten times as much, in our Industry, as our whole stock of specie is worth, it is obviously quite time that our currency and credit were based upon something else. Return

2. In speaking of “the avarice of the money lenders,” I do not mean that their avarice is any greater than that of other people. They only take advantage of the markets, like everybody else. The folly is on our part in forbidding by law all credit and currency except those based on gold and silver; and thus giving to the holders of gold and silver a monopoly, which they use for their own benefit, and for our destruction. Return