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INDUSTRIAL CRISES,

THEIR CAUSES AND REMEDIES.

By H. BOWLBY WILLSON,
NEW YORK.

(FROM THE REPORT OF THE CONGRESSIONAL COMMITTEE ON DEPRESSION IN LABOR AND BUSINESS.)

1879.

WASHINGTON:
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INDUSTRIAL CRISES,

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By H. Bowlby Willson.

49 West Forty-eighth Street,
New York, September 16, 1878.

Gentlemen: I avail myself of your kind invitation to "communicate, in writing," my views relative to the subject-matter of your investigations.

1. This, I understand, is to ascertain the causes, as far as possible, of the present depression in the industries of the country, and to receive suggestions on the subject of remedies within the domain of legislation.

2. As a starting point, I admit the premises, namely, that the country has been passing through one of those periodic crises, in nearly all its industries, since the panic of September, 1873. But, at the same time, as a student of economic phenomena, I cannot admit that the causes which led to this panic differ materially from those of other similar experiences, of which a large number of business men and economic authorities, still living, are cognizant, and of others, recorded in the commercial history of the world, since the commencement of the present century. I also question the assumption of some who have testified before your committee, that the stagnation in business since 1873 has been greater than existed in 1835, 1837, and 1857; to which two latter periods my own personal reminiscences extend. Furthermore, I am of the opinion, founded on my own particular avocations, and a general knowledge of industrial pursuits, more particularly in Ohio, and other Western States, and in Canada, that the present crisis has nearly run its course, and that we are entering on a new era of prosperity. Entertaining these general views on the subject-matter of your inquiries, I feel bound to suggest that any remedies attempted by Congress should be general in their character, and be framed with the view to the prevention of future crises by removing or diminishing the intensity of their causes.

3. I have been engaged for a third of a century in what may be called railway business, as contractor and financier, and shall contine the facts I have to communicate chiefly to my own branch of industry. My first labors in this business were directed to the furthering the construction of railways in Canada and Michigan; and in 1851 I removed to London, where I devoted some years to raising British capital for railway construction, so that my experience has had a wide range. More recently, in 1872, I undertook the construction of a line in Ohio of considerable magnitude, only a small part of which is as yet completed, owing to the panic of 1873, and that part I built last year.

4. At the time I took the contract, in 1872, there prevailed throughout the country vast activity in the railway business. The annual construction of new lines had risen to no less than 7,000 miles. This unwonted and vast expansion of the railway business gave employment, directly and indirectly, in construction and providing rails and other materials and equipment, to not less than one million of men, representing a population of probably not less than four millions, who lived by this vast branch of industry. A superabundant paper currency had inflated all values, the market value of labor included. The capital expended was partly raised in many of the localities where the lines were located, and partly in Eastern cities and in Europe. New York, London, Paris, and Frankfort bankers reaped immense profits by "floating loans" on mortgage bonds for railways sometimes existing only on paper; and many of the "land-grant" projectors simply divided the proceeds among themselves, without building a mile of railway. In North Carolina there were seven lines which had been partly built by State grants, whose managers got the State to appropriate $16,000,000 more of its bonds, under the pretext of "completing the State railways"; and eleven millions of such bonds were brought to New York and were sold or hypothecated at from 30 to 60 per cent., and, with only one or two insignificant exceptions, the whole cash so raised was stolen. What took place in North Carolina was repeated, to a greater or lesser extent, in all the States under carpet-bag rule. According to a statement

made by the late Horace Greeley, about one hundred millions of dollars of Southern States bonds were thus put on the market, and every dollar they were sold or pledged for was totally misapplied or stolen by gove ors, United States Senators, members of Congress, and other Federal and State officials.

5. What materially tended to intensify the general railway inflation were the large sums voted by Congress for subsidized national lines. These were called "Pacific railways," whether they ran North or South, East or West; and, as the government stood in the position of second-mortgage bondholder, the first-mortgage bonds were, in most cases, as good as government securities. Thus it happened that government furnished, in nearly all cases, the entire capital expended in the construction of some thousands of miles of railway, while the speculators, by means of *Credit Mobiliers* and other devices, realized out of the company's bonds and stock a clear profit exceeding the entire cost of these so-called "Pacific railways." It is easy to perceive how these vast national and State grants stimulated the building of other "unsubsidized" lines, and how the total expenditures inflated all other branches of industry. So long as prices, whether for labor, or materials, or food and clothing, lands and tenements, and securities continued to rise, everybody fancied they were growing rich. In 1869 I published in Washington, and circulated in Congressional circles, a pamphlet entitled "The Science of Money," in which I pointed out, concisely and clearly, what the inflation of the currency was leading to. I pointed out how the market value of labor and goods first felt the delusive influences of such a currency, and how lands and houses followed, and how their value would subside when the bubble burst; but no one then heeded such information. I allude to this brochure, because the remedies for future crises must be founded on a radical change in our system of banking and the methods of issuing currency, wherein the incipient causes of crises have their origin.

6. Though railways stood most prominently forward in the list of causes leading to the panic of 1873, and the stagnation that has since existed, all other industries partook of the intoxicating draughts administered by the national and other banks, and the government itself, and the "carpet-bag" State administrations. To illustrate the effect on the cost of railways and the wages of railway "navvies," I must return to my efforts to construct the line in Ohio in 1872. Prior to the overissue of national-bank notes, after the establishment of that system in 1864, the rate paid for skilled labor, on railways, was about $1 a day, or $26 a month; and the price of iron rails, in Ohio, was about $40 a ton. The price of laborers' board, before the war, was about $2 a week. In 1872 similar labor was $2 to $2.25 a day; board, $4 to $5 a week; iron rails, $80 a ton; and all other materials, including engines, cars, &c., in proportion. I now come down to present prices. Last year I paid $1 to $1.15 for "navvy" labor; for board, $3 to $3.50 a week; $35 a ton for iron rails at mills; and now I have offers of labor at 80 cents to $1 a day, or $20 to $26 a month; board at $2.50 to $3 a week, and boots and clothing at ante-war prices; and iron rails, for cash, at mills in Ohio, per ton of 2,240 pounds, $33.

7. The cost of railways, like the cost of houses in cities, was more than double, during the period of inflation, what they can now be built for. Leaving the "watering" process out of sight, a standard-gauge line cost about $25,000 a mile in Ohio to build and equip during those days of greatest inflation; and the speculators, bankers, managers, and promoters added $25,000 per mile more, and, in some cases, $35,000, for their profits. Now, I can build an average standard-gauge line in Ohio, or almost any Western State, for from $8,000 to $10,000 a mile cash, including all materials, but ex equipment. But it is more difficult to raise $10,000 a mile now than it was then to raise $25,000. Good substantial narrow-gauge lines over an average of Ohio country, laid with 35-pound iron rails, can at present be built, ballasted, and fenced for from $6,000 to $7,500 per mile.

8. These facts are both interesting and instructive, as bearing on one of the largest branches of our industry. Our railway system is less than half completed. The people perceive that by putting their own means into cheap narrow-gauge railroads, they can make them pay. Hence there is in the West quite a revival in the construction of these cheap lines, hereafter destined to take the place of common highways, to a large extent, which will serve as feeders to the old standard-gauge, highly-watered trunk lines. Let me here suggest to your committee the desirability of constituting a national railway department after the model of the British Board of Trade, but with more comprehensive powers. If there is no warrant for such a board in the organic laws of the nation, then let Congress take measures to amend those laws. The civilization and prosperity of nations are in the ratio of their facilities for transporting persons and property. The National Legislature is less likely to abuse such powers than State legislatures, whose members are "bought and sold like sheep in the shambles," by speculators and capitalists, for money and interests in public undertakings. We know from unquestioned testimony, before a Senate committee in this State, that over one and a half million dollars were expended by two great railway companies to influence legislation in a single session. Members of Congress will hardly again become

members of Credit Mobilier companies. But it is quite easy to so construct the suggested railway department as to keep it "like Cæsar's wife—above suspicion."

9. It will be recognized as a great, if not a self-evident truth, that when we have been able to state authoritatively the causes and effects of our financial crisis, with its long chain of disasters, the wreck of industries, and the general social ruin attendant thereon, we have only been illustrating a class of evils resulting either from bad legislation or the imperfections of human society. But here I raise the question, are not these imperfections the result of laws made to override the natural laws? Those who have read the debates in the British Houses of Parliament, and of Congress, since the consideration of the famous Bullion Report, in 1810, on the recurrence of each of the great industrial crises, must have arrived at the conclusion I have, that each and all of them have had a common origin. It may be laid down as an immutable law of nature that "like causes produce like effects." Let those who have not the time to wade through immense volumes of Parliamentary and Congressional debates, at least read the writings and speeches of Jefferson and Madison, Hamilton, Calhoun, Webster, and Benton, the master minds of past generations, and especially of the three last, between 1815 and 1838, and they will perceive most clearly that these crises are due to banks of issue and discount. This conclusion will greatly narrow the limits of investigation on the part of your committee.

10. I lay it down as a fundamental principle that a theory or a fact demonstrated by mathematics or by the science of logic is more reliable, more to be depended on, as the basis of legislation, or, if you like, as an accepted doctrine in political science, than the assumptions of empiricism. Empirical reasoning is generally drawn from each man's personal experiences. The statesman or the legislator who frames his laws on the theories of "practical men," is pretty certain to find himself in the position of the old man with his boy and the ass, in the fable—of trying to please everybody. But no better illustration can be given than that presented by the numerous nostrums recommended by a large number of "labor reformers" and others, to your committee, for remedying the present stagnation in business. No two agree; and it is not doing violence to truth to say that four-fifths of these nostrums are the veriest nonsense.

11. Statistical facts are valuable only so far as they serve to establish logical deductions from known causes, or to illustrate fundamental principles. I have felt it necessary to lay down these general propositions, because I wish to bring this question to the test of close logical reasoning. Turning to the great panic of 1837, we find that "on January 1, 1837" (I quote Mr. Spaulding's Centennial address to the Bankers' Association), "the bank circulation of the country, according to the Treasury reports, was $149,000,000. By January 1, 1843, it was reduced to $58,000,000; a ruinous fall of prices was the consequence." Going back, Mr. Spaulding tells us, "in the seven years, from 1830 to 1837, no less than 304 new banks sprang into existence, with a nominal capital of $145,000,000, and $59,000,000 of additional circulation. * * * The loans increased from $200,000,000 to $525,000,000."

12. Then came the great collapse in a time of profound peace. There had been no devastating civil war, no waste of labor or capital applied to destruction instead of production, and not until the lapse of five years did the country show signs of recovery from its agony. In 1843, Charles Dickens, writing from Ohio to his friend John Forster, says, "There is no money, absolutely no money in the country." He found the newspapers filled with advertisements offering goods in exchange in the manner supposed to have been done in the ruder periods of society. Trade was once more conducted by barter. Men gave their labor for boots, shoes, clothing, and food. At the present time men are to be had by tens of thousands, payable in food, clothing, and lodging, because there is no capital, *not money*, for there is plenty of that, to pay them, or, at least, none that is available. Mr. Spaulding observes of the panic of 1857, "This crisis, like the revulsion of 1837, was caused by too great an expansion of credit. Debt in all forms became excessive. The railway system had become largely extended upon borrowed capital. There had been excessive importations of foreign goods. The banks loaned too much of their funds on stocks, bonds, and other securities that could not be readily converted into money to meet checks of depositors."

13. When we read the descriptions of things as they existed just prior to 1837 and 1857, and compare them with that of 1873, it sounds "like an oft-told tale." The national government, after filling all the channels of circulation with an irredeemable paper issue, added during the closing year of the war, *by the creation of the national-bank system, about* $150,000,000 *to the then existing bank and Treasury circulations*, and based the whole bank issue on public securities instead of metal. To cap the climax of folly, after Mr. McCulloch had taken out of circulation $44,000,000 of national notes issued direct to the public, instead of those loaned to the banks, a new issue of $54,000,000 was authorized to be made to and through the banks, in 1871, under the absurd pretext of "equalizing the currency."

14. Thus it will be seen Congress, by a law for which there is no warrant in the Constitution, authorizes the lending of the national credit in the form of "national currency," at 1 per cent. per annum, to banks, which again lend it to the public at

7, 8, 9, or 10 per cent., according to the rate allowed and prevailing in the several States. The issue of paper money on government securities, as in the case of the Bank of England, as to £15,000,000, and of the national banks, or on no securities at all, is a fundamental error in monetary economy. Paper money, scientifically regarded, is simply a substitute for, and a more convenient tool than metallic money, on which it should always rest, and like metallic money, most clearly, should be issued by a department of state, and its volume can only be regulated by supply and demand.

15. When left to the discretion of banks, governed by the strong motive of self-interest and profit, there is ever a tendency to overissues and inflation. Lord Overstone, an able writer and close and accurate observer, says: "It is now discovered there is a liability to overissues of paper money, while that money is convertible at will." Mr. J. R. McCulloch, in his notes to the "Wealth of Nations," says: "The widest experience proves that no man or set of men ever had the power to make inconvertible issues of paper money without abusing it—that is, without issuing it in inordinate quantities. * * * The re-enactment of the restriction on cash payments at the Bank of England, and the rendering it perpetual, would have no perceptible effect on the value of bank notes, provided their quantity were not at the same time increased. *But there cannot be a doubt that under such circumstances it would be increased.*"

16. Daniel Webster, like Lord Overstone, said: "Even convertibility is no guarantee against overissues." He was speaking of banks and the causes of crises when he made this remark. The New York Times, the most inflexible advocate of the present time of banks of issue, in its leader of the 20th September, fully concedes this historical fact.* As I have before observed, the true scientific method of regarding paper money is in the light of a more convenient tool than metallic money, and, *as the public has to pay the full face value for the notes they require, its issue should be removed wholly from being the subject matter of profit to private or public issuers.* Except as to the issue of the Bank of England of, at present, £15,000,000 sterling on securities, the issue of the bank is a state issue, and the notes are all bought and paid for by the public or bankers for use in their business at and for their face value in gold coin or bullion. The issue on securities is a violation of the highest fundamental principle of monetary science, which demands a paper currency founded on the metal most stable in its market value in comparison with other suitable metals.

17. This principle may be thus postulated: "That which is made by law the measure of all other values, including that of labor, should be of the highest known stability in its own market value, among the metals suitable for coinage."

18. The issue of notes on securities may be regarded as a plan whereby a small class of capitalists are enabled to own or possess themselves of a profitable investment, and at the same time to have 90 per cent. of its face value in money. I hold that Congress has no power under the Constitution to grant such a privilege to a small class of favored investors in government bonds to the exclusion of all other members of the community. The plan of lending the public credit to national banks in the form of "national currency," for which the government acts as trustee—no odds how good the security given may be—is a violation of that great principle of human equality set forth in the Declaration of Independence, which should stand like a second Magna Charta, a bulwark against injustice and oppression, "All men are born free and equal." If there is any sense, any truth in this proposition, Congress continually violates it by making laws in favor of classes—laws which make the laboring majority "the hewers of wood and drawers of water" to a favored few. These are high moral and political considerations, coming within the scope of your inquiries, gentlemen of the committee on labor, and their bearing and relevancy to the present and future of our industries cannot be overlooked. I therefore quote as appropriate the postulate formulated by Daniel Webster, as indicative of a sound method of providing a paper currency, now an indispensable necessity to the industrial world.

19. "It is," said the illustrious Massachusetts statesman, "the constitutional duty of government to see that a proper currency, suitable to the circumstances of the times, and to the wants of trade and business, as well as to the payment of the debts due to the government, be maintained and preserved; a currency of general credit, and capable of aiding the operations of government, so far as those operations may be conducted by means of the circulating medium; and that these are duties, therefore, devolving on Congress, in relation to currency, beyond the mere regulation of the gold and silver coins."

* The Times remarks as follows: "One fact which goes further than any other in explaining the present situation is that there has never been any long time within the last half century when the whole country had a sound currency, that is, a currency of coin, or of paper convertible and habitually converted into coin. For the last seventeen years there has been no such currency whatever. Preceding the outbreak of the war by only between three and four years came the 'crash' of 1857, which was accompanied by a suspension of specie payments, and which had been caused by an enormous inflation of credit, including that most insiduous and dangerous form of credit, bank-notes. And before this period, back to the recovery of the country from the war of 1812, there was scarcely a year when banking was not, on the whole, irregular, when a large quantity of notes were not in circulation without the specie to back them, or when the country was favored with a thoroughly sound and prudent management of its money affairs."

20. I have shown what constitutes "a proper currency," namely, a currency issued by a national department, to all comers, for gold. I have shown that bankers cannot on any pretext be allowed to trade and speculate on such issues at the expense of the whole people, besides, and to the injury of non-issuing banks, which conduct a large amount of the legitimate business of the country.

21. Before proceeding to point out other causes of inflation, arising from bad banking, I respectfully suggest, as the next step towards the prevention of the ascertained causes of crises, that your committee consider the plan I have briefly outlined, of constituting a national issue department, independent of Treasury and political party influences. We have already an excellent working-model in the national issue office and Comptroller's Department, which have always been honestly and ably managed. But such a department should not be under the influence and control of the Minister of Finance, and should be restricted to the issue and sale of notes for gold, after the manner of the Bank of Amsterdam.

There is a substantial distinction between currency and finance. The one is a *tool* of industry, the other a *process* or *method* of conducting the business affairs of nations, states, corporations, and individuals. The temptation to use the *issue* of paper money to create resources must sooner or later be wholly removed from the thoughts and purposes of those who manage the business affairs of nations and banks. If, after ample experience, the managers of the issue department find themselves possessed of a larger supply of metal than is needful to insure the convertibility of the national notes, beyond peradventure, they should have power to invest such surplus in public securities bearing interest, and to reissue the same, or new ones in their place, for temporary purposes in case of any unforeseen emergency demanding the purchase of gold to maintain specie payments. To put such a system into operation would require time and the best practical and theoretical knowledge of the country and the trained skill of those already in the employ of the Treasury issue department. The currency question has, next to slavery, been the most agitated and discussed of any of the great national issues, and is now by far the most prominent before the people. Hence, regarding it as I do as one of the leading elements involved in industrial crises, I hope I shall be excused for the prominence I am giving it in this communication. The time is, I trust and believe, at hand when it will be divested of all fundamental errors and the passion that enters into public discussion whenever it is mentioned. The moment the nation cuts loose from all connection with banks of issue, as such, the inflation dogmas will yield to common sense. The opinion gains ground that the issue must be made by the nation and for the nation's benefit, and not for the special profit of a mere handful of bankers.

22. I have here to remark on an important example to show how much a well-regulated note issue has to do in averting inflations leading to crises. France has been especially free from these "financial cyclones" for half a century, under the issue of notes by the Bank of France. During the great panic of 1857, when the Bank of England nominally suspended under an authorization of the government, and made a wreck of a vast number of business houses by running up the rate, there was scarcely a ripple produced on French financial waters. There was no run on French bankers, and the general industries remained undisturbed. That and other examples show the difference between a single issuer, and two thousand competing national banks, in 1873.

23. It has been testified before your committee, truly, that crises are developed under circumstances showing that other causes than inconvertible paper currency have produced them. I now propose to point out what are these causes. Mr. Spaulding, in one of the quotations I have made from his Centennial address, states the fact that, "In seven years from January 1, 1830, to January 1, 1837, the loans [of the banks] increased from \$200,000,000 to \$525,000,000." When we come to analyze the operations of a bank of discount, we reach a great fundamental truth, of supreme importance in monetary economy, namely, that by far the larger proportion of bank discounts rests on goods in course of production and distribution. I have put this important truth in the form of a postulate, as follows:

24. "Commodities, in course of production and transmission from producers to consumers, or ultimate purchasers, represented by bills of exchange, bills of lading, warehousemen's receipts, bank credits, checks, and other devices invented by bankers and merchants to facilitate the transference of debts and credits, constitute the bulk of floating capital dealt in in the loan, improperly called the 'money' market." *

* As this postulate embraces a most important fundamental truth, I take the liberty of quoting an extract from a letter I received in the winter of 1875–'76 on the method I have adopted for stating in a concise and striking manner leading principles of monetary economy, from the pen of an able writer on economic science, Prof. Bonamy Price, of Oxford. The professor says: "So many thanks for your letter in the American Times. It is exceedingly good, and I rejoice over it much, especially the postulates and principles. The '(35th in my forthcoming work)' is capital. I had the thought, but not definitely and vividly expressed. The meaning jumps on the reader and masters him, and it is most true."

25. I will give another postulated truth, which, together with the foregoing, will cover the whole business capital dealt in by a banker, beyond his own trading margin: "Floating capital, or 'trading power' other than that specified in the last postulate, consists of money, the savings of industry, and the surplus income of capital, not yet invested in more permanent things, or in lands, houses, factories, steam and other vessels, or in the shares of steamships and railways and all manner of continuing undertakings, which perpetuate themselves, when prudently managed, or in things not destroyed in use."

26. It must, in order to reach a clear comprehension of the power of banks for inflating the industrial pursuits of the people, be borne in mind that a large part of the latter description of capital is held on deposit by bankers and is loaned, along with the "proceeds" of bills representing goods. It must also be kept in view that the proceeds of discounted bills are entered in bankers' ledgers as "deposits," and are not distinguishable in the published accounts from other, or what are called "cash deposits." I suggest that such a distinction should be required by law. It is true an estimate can be made by comparing the "discounts" and "deposits," but what I suggest is, that the facts shall be made apparent on the face of the statements, so that we can detect where and when business inflation begins, and how it fluctuates. I have now demonstrated that inflation is caused by excessive issues of paper money and excessive discounts. Q. E. D.

27. It will be seen how the magic power of the banker turns goods into "trading power," or floating capital, from the moment the raw material is ready for the market until it passes through the hands of the various dealers and manufacturers, and finally reaches those of the numerous distributing agents or retail dealers. Each, in turn, gives a bill to his predecessor in ownership, in the chain of transfers; and each, in turn, takes such bill to his bank, to be turned into trading power, to which category belongs money, but which forms only an insignificant three or four per cent. of the vast pool of trading power or floating capital. It therefore happens that the same bale of goods is represented several times in the loan market before it reaches the final distributer—the retail merchant.

28. Again, it very commonly happens, when inflation has set in, that the same bale of goods or cargo passes through several hands in a few days or weeks, while in transit or in warehouse, each seller realizing a profit on a rising market; and, in regular and not purely speculative transactions, each buyer giving his bill in payment, to be passed through the "discount mill" and turned into trading power. Thus the sum total of trading power becomes enormously expanded. The market value of the same products is represented several times in the loan market, and as about 95 per cent. of the "operators" in these industrial pursuits "trade" on margins of only about 10 per cent., it is perfectly obvious how a panic, stopping the sale of goods and the "discount mills" all over the country, wipe out, as with a sponge, all the weaker operators "for a rise," and numerous others who have been imprudent in the matter of giving credit.

This is a true and in no degree exaggerated description of what happened between the years 1830 and 1837, when the loans of discount banks, which were mostly banks of issue, rose from $200,000,000 to $525,000,000, to say nothing of the increase of paper money, which went out through the discounts. It is what happened during the seven years immediately preceding each of the panics of 1857 and 1873; and these panics, and the succeeding crises, and all others like them, are perfectly natural consequences, resulting from excessive bank speculation; and we are just now commencing another era of similar inflation, to be followed, sooner or later, by another panic, and another long and agonizing period of stagnation. Congress, in its ignorance—I am afraid to say "wisdom," for that would be what Mark Twain calls "sarkasm"—has passed an act to provide for the "resumption of specie payments, and for the establishment of free banking," the effect of which, if it remains unrepealed, must be to work enormous evils in our industrial system; to some of which I must now direct your attention.

30. This law authorizes the use of the whole of the outstanding national securities, bearing interest, and amounting to over one thousand eight hundred million dollars, as the basis of issues of paper money to banking associations. This is called "free banking," as if the issue of notes formed any part of the legitimate business of banking—which it most certainly does not. No educated economist will claim that the issue of paper money is a legitimate part of a banker's business. In England about 80 per cent. of all banking, and in France all but that conducted by the Bank of France, is conducted by banks that issue no notes at all; and even in this country, according to Mr. Spaulding, the non-issuing banks outnumber those issuing paper money more than two to one. See Centennial address, last page. This so-called "resumption act," over which there is such a fuss and such a partisan fight just now, is simply a premium offered by the government for the expansion of bank capital, and bank-notes—of which there is already a large excess beyond legitimate business demands.

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In this city and in other Northern and Eastern cities we see the price of capital ranging from one and a half to two or three per cent. per annum, which is the one unwholesome symptom of deranged industries, standing most prominently forward in the category. Who can doubt that this is not largely due to the excess of banking capital, drawn from other industries by government bonuses paid in "national currency," and to discounts or loans made on stock-exchange securities instead of on bills founded on goods?

31. The principle of free banking, like the principle of free trades, is logically correct; but the principle of a free, and all but unlimited, issue of paper money on securities is fundamentally wrong. If such issues are restricted to one class, then the Government violates the clear intent of the Constitution. It is the most obnoxious of all class subsidies. It is the payment of a large bounty on banking capital, and, though a few banks have returned a part of the bounty and withdrawn their securities, for want of employment for their share of the "national currency," it is only a question of time—a few months, or a year or two—when new demands will again arise, which will render specie payments impossible, and will lead to a vast and wide-spread speculation, founded on a new era of bank inflation. One of the evils, and it is no mean one, from which the country now suffers is the withdrawal of business capital from thousands of small and great industries and occupations for the establishment of national banks. The idea of turning one dollar into a dollar ninety, by a stroke of the pen, is very fascinating.

32. The very statement of the facts, and the logical conclusions I have made in this communication, should sufficiently explain the causes of the crisis from which we are just emerging, as well as suggest the remedy for the evils that will surely result from future similar crises. I wish, however, to trespass still further on your time and patience, by offering a few brief general observations explanatory of the operations of the natural laws of industry. The effect of the expansion of bank credits, in the manner I have pointed out, is to stimulate to overproduction of goods, which presently leads to a glut in the markets and a fall of prices. There then happens the reverse of what took place when values and prices were going up. Then the wages of labor rose, and the competition among buyers was brisker than among sellers, and everybody fancied they were growing rich, and an era of reckless extravagance set in. Ignorant folly strutted forth in all its short-lived grandeur and laborers squandered their abundant earnings. Now, however, after the panic has come, and the sources of capital, largely fictitious, drawn from bills discounted, are dried up, there are more sellers than buyers of goods and houses, and the painful process of a reduction of the luxury of living and in the wages of labor simultaneously begins. Cheap goods necessitate cheap labor, and thousands of laborers are turned adrift, and an army of so-called "tramps" is the result. Men, as a rule, prefer work to begging, or stealing, or, as it is now called, "tramping." But there are certain skilled workmen who can only be retained by the employers of labor on reduced wages, and who come before your committee to tell their wrongs. They demand that Congress shall do something—they don't very clearly know what—to relieve them of the evils they complain of. But I need not comment on their theories. As a rule, they are not philosophers or economists. What they fail to see is that, when the products of labor become cheap, their reduced price enables the laborer to sell his labor cheaper, because he is a consumer as well as a producer. In a word, cheap goods make cheap labor, and cheap labor reacts on the market value of goods until bottom is touched, until equilibrium is established by supply and demand. These are natural compensations which the legislature cannot effect.

33. Now, what Congress *can* do is to set to work, faithfully, earnestly, patiently, and honestly, to undo all legislation, repeal all statutes it has passed from the beginning, which assume to control or which infringe the natural laws, which are as certainly the laws of God as any we know of. This work must, of course, be slow. Congress, acting on the erroneous theory that it can make better laws than the great natural Lawgiver, has piled up a vast mass of statutory laws, specially intended to change the natural order of things in the industrial world. If there ever existed a time when "all men were born free and equal," it must have antedated the existence of Congress, for nearly all its efforts seem to have been directed to have men born unequal. The evils of class legislation are very old, and cannot be eradicated by the stroke of a pen without causing great suffering. They cling to society like barnacles to the ship's bottom, but cannot, like barnacles, be suddenly removed without injury to the social ship. The country has prospered in spite of bad, and not because of good, industrial legislation.

34. The theory that the legislature should frame and enact laws to direct all industrial pursuits in particular channels is not only fundamentally wrong, but has been the greatest hinderance to the development of national wealth. The true theory of all industries is the utmost freedom of individual action to act and to do, to buy and sell, to select and follow, on the part of every citizen, as to him or her seemeth best; any pur-

e it, just as each and all may be inclined, without infringing each other's rights. These propositions may be postulated as follows: "All obstructions placed on individual rights, in respect to what people shall do or produce with their capital and labor, or where they shall buy or sell, are direct infringements of the natural rights of man and the laws of nature; and are injurious to society just to the extent to which such interferences can be made effectual."

35. The last great error committed by Congress, inspired by a wide-spread popular delusion, and calculated to injure industrial pursuits, was the passage of the so-called law for the "remonetization of silver." This law is a palpable infringement of the laws of trade. It is an attempt to regulate the market value between gold and silver—two commodities—one of which is known to be very much more stable in its market value than the other. Its effect, if it remains unrepealed, will be perfectly obvious. The silver dollar, which has been overvalued, and made legal tender when a certain amount shall be coined and circulated, will certainly drive the gold coin purchased for two hundred millions of interest-bearing bonds out of circulation, if the people will consent to accept such an inconvenient and fluctuating standard of value. There was no excuse for passing this law, for everybody notoriously prefers, for convenience, the "greenback" dollar, and the capital invested in such "clipt coins" must shrink to the market value of silver bullion, and chiefly will the loss fall on the working class, who always suffer most by a fluctuating currency, and who are expected to buy these dollars in exchange for their labor at the gold price. It is, therefore, to be hoped that your committee will recommend the immediate repeal of the silver act.

36. There is a monstrous delusion prevailing throughout the country at the present time, and outcropping strongly in Congress, on the subject of paper money, to which, I presume, your committee will direct its attention. It is dogmatically asserted that "there is not enough paper money to do the business of the country;" and many men of influence go so far as to propose to pay off the whole interest-bearing debt by the issue of paper money by the government. This idea, no doubt, originated out of the opposite, equally erroneous, theory—now the law of the land—which proposes to use the whole national debt as a basis for issuing national currency to national banks. If those who cling to these delusions will exercise only a moderate amount of reasoning power, they cannot fail to see the serious errors they are teaching the people, who cannot, as a rule, acquire a correct scientific knowledge of monetary economy. I have shown that the trading capital used in our industries consists of about four or five per cent. only of money, 15 per cent. of capital saved from the profits of labor and excess of income over outgo existing in the form of bankers' deposits, and some 80 per cent. of trading power advanced by bankers on securities given for goods in course of production and distribution to consumers, all of which descriptions of trading capital are made available by the omnipotent power of the check. Money being a wholly unproductive form of investment, while other descriptions, as a rule, yield a profit, no good business man will keep his capital invested in it an hour beyond the time when he can find what he thinks will yield a return. It thus happens that no more money can be kept in circulation than what is needed for daily uses. Money, in fact, is hardly used at all in the large industries of the country. Its uses are, nevertheless, numerous, and it is indispensable within the limits of those uses. One of these is the service it performs as a measure of the market value of all things having market value.

37. It will have been seen from what I have stated that after a period of inflation, resulting from excessive bank credits (discounts), accompanied by a rise in the prices of labor and its productions, there comes a period of contraction, resulting from the annihilation of numerous trading margins of capital and a large diminution in the number and amount of bills, attended by low prices and a scarcity of trading capital. It, therefore, logically follows that it is not more money, but more credit capital, or bills, that is needed. It is also clear that in times of crises less, and not more, money is demanded, or can be held in active circulation, than in times of expansion. If there is free coinage of all metal offered to the government, and the government has a monopoly of the paper issue as it has of the coin issue and as the Bank of France has, those who have bullion for sale, as a rule, will prefer to accept paper in payment, as they do in France and England. Hence, under such a system, there will always be exactly as much money, paper and metallic, in circulation *as the people, who always pay full price for it, demand.* Here we have a self-acting process, or a process kept in motion by the great natural law of supply and demand. If there is too little money at any time, its market value will rise above the market value of bullion and the bullion will come to the mint; if too much, coinage will stop. This reasoning, which seems to me as demonstrable as geometry, will show how very unsafe it is to delegate to an infinity of banking associations the prerogative of the state to issue paper money, convertible or inconvertible.

38. Much of the delusion prevailing among the people no doubt arises from the not discriminating between money as money and other kinds of capital. Writers on economic science, such as the late Mr. Bagehot, author of "Lombard Street," political

speakers, and merchants and bankers, continually confound the two terms. They speak of the "money market" when they mean the "loan market." They talk of "cheap" and "dear money" instead of cheap and dear capital, and so the uneducated public come to demand "more money," when there is already an excess locked up in the vaults of the banks, which the people refuse to buy.

39. As the British monetary system has many admirers, I wish to point out some very serious defects in its workings, to which are due the extreme sensitiveness of British financial business. This sensitiveness arises from the policy of the Bank of England, in using its large capital and influence to control the trade in bullion and rule the rate of discount. Instead of quietly *following* or keeping *in* the market, it directs its efforts to operate against the natural law of supply and demand. It will readily be seen that, if its trading reserve consisted of coin or legal-tender notes issued by the state, convertible into gold on demand, and the bank ceased to be a dealer in bullion, except to make loans on it, as on other commodities, this sensitiveness which it imparts to all industries would cease, because the managers would no longer have a motive to act on the price of capital. They would have no more interest in the fluctuations of the bullion market than in those of the corn, cotton, or cheese markets, or other commodities on which they make advances. It is no uncommon thing to see the Bank of England rate from a half to two per cent. above the market rate. The effect on the general industries is very injurious. So far as the bank can affect or counteract the law of supply and demand by its mere fiat, it is the same as a tax set on labor and its products, which tax is raised or lowered by the arbitrary will of a despot, and it is claimed by high authorities that the bank exercises this power in order to profit by its effects. Whenever there is a considerable rise in the bank rate, securities in which the bank is a large dealer fall, and the managers become heavy purchasers. The rate is then run down extremely low and up go prices, and the bank "unloads." I hope your committee will not think I am confounding the practices of Wall and Broad Streets of a few years ago with those of Threadneedle Street of to-day, when I am only relating what Oxford economists and others of high repute in financial and economic circles have publicly stated.

40. My communication has grown so long that I fear I am overrunning the space your committee will have to give to such papers. I must, however, direct your attention to the serious evils arising from "protecting" some branches of industry at the expense of others, aside from the bonus offered for attracting an undue amount of capital to the business of banking, where the practice is most sensibly and injuriously felt. If protection has any effect at all, it must be to attract capital and labor away from *unprotected* to *protected* industries. So far, then, as this result is accomplished, the unprotected industries are depleted of their main elements of success and are allowed to languish. When the inevitable day of over-production arrives in these protected branches, there is a destruction of the capital which protection has drawn from its natural channels, and the laborer is sent abroad as "a tramp," or to seek other kinds of occupation. Thus the efforts of Congress to override the natural laws of industry lead directly to crises and the general derangement of the social and industrial systems. To be consistent, Congress should either protect every industry equally or leave them all alike free, to be regulated by the natural laws.

41. But it may be argued that "free-trade" England has its panics and its crises, as well as "protected" America. Quite true she has, and for the same reasons. America, her natural customer, whose breadstuffs and cotton she requires, refuses to exchange with her a large part of the products of her labor and capital. England has also, as I have shown, an artificially and badly regulated monetary and financial system, of which the Bank of England is the center or focus, a bank that persists in treating its own share of the note issue, founded on securities instead of cash, as good cash reserve, and has a traditional board of managers, who, because they can take these notes to the issue department and buy gold with them, fail to perceive the difference between cash and credit. This is the natural consequence of banks investing all their paid-up capital in national securities, and relying on borrowed capital for a trading margin. I wish your committee to make a note of this important fact, for it cuts the ground from under two thousand national banks, as well as of the Bank of England. If the plan is good in banking, why not extend it to all industries—the manufacturers of engines, cars, and rails, for instance?

42. I have omitted to meet a plausible, but most unfounded pretext, set up by some bank doctrinaires, in favor of banks of issue, until now. It is that a paper currency, issued by the state, "is not a proper commercial currency," because, forsooth, "it does not grow out of industry and production." See Mr. Spaulding's Centennial Address, page 57. The Times, of this city, lately asserted, that, as paper money naturally grows out of commercial transactions, only banks can keep the supply exactly equal to the demand. The utter absurdity of such assertion—reasoning it cannot be called—appears from the self-evident proposition that paper money, convertible into metal, which is the only sound paper currency, rests on the metal, and, as those who use it

in commercial or other business, pay the same price for it as they pay for metallic money, it follows as a logical demonstration that a State issue is just as much a commercial currency as metal itself. Banks are not the deputies, by divine right, to regulate supply and demand. The wants of the people, who prefer good paper money to coin, and especially to the short-weighted silver dollar, determine the supply of the more convenient tool, and not banks at all. The quantity and amount of trading power, resulting from bills, are more within the control of banks than money which they receive on deposit and keep on hand to accommodate customers. Bills of exchange certainly do "grow out of industry and production," but money, metallic or paper, never.

43. I earnestly hope your committee will see the impropriety of Congress attempting to regulate the hours or the wages or price of the products of labor, all of which belong to the same category. Finally, as far as the present depression in business is concerned, Congress should not, in my judgment, attempt to interfere with the action of the natural laws, which are rapidly setting the industrial machinery in motion again. What Congress can properly and usefully do is to set to work, as I have before suggested, and free all industries as fast as a due regard for vested legal abuses will permit, without a too violent shock to society; and first, and most important of all, abolish all banks of issue. A long and careful analysis of the operations of such banks, commencing with the establishment of the Bank of England in 1694, has led me to the irresistible conclusion that nearly all the evils arising from banks in modern times, and they have been enormous, have resulted from banks of issue; and that nearly all the advantages, and they have been immense, have been due to banks of deposit and discount. I therefore say abolish banks of issue, as such, *in toto*, and amend the national banking laws so as to compel all joint-stock banks to organize under them and report to a department the condition of their affairs. When something of this kind is done, and the National Government ceases to override the natural laws of society, one great step will have been taken towards averting those destructive industrial cyclones, which are the efforts of natural causes to cure artificially-produced evils.

44. I had intended to have closed with the last paragraph, but, since it was written, I notice great stress is laid by many "stump" orators and some more thoughtful reasoners on the effect of the "destruction of property produced by a million of men during the four years of the civil war." It is strenuously argued by many that the panic of September, 1873, eight years and a half after the war, and following seven or eight years of great prosperity, was largely due to such destruction of property. The same class also lay great, if not equal stress on the inflation of the paper currency. Now, a moment's reflection will show the absurdity of the position taken by such reasoners. They argue, quite correctly, that bank and currency inflation led to over-production and a general fall in the prices of labor and goods. These gentlemen are called on to explain how the *scarcity* of labor and goods during the war, caused by the destructive occupations of a million of men, could have influence in bringing about a crisis at a time when the markets were glutted with labor and production, stimulated by inflation. The two propositions seem to me to be wholly irreconcilable, even on the theory of the Satyr, who blew hot and cold at the same time.

45. I will explain it for them. The destruction of goods and waste of labor are represented by the national debt, and, to a large extent, have yet to be paid for or made good to society. We simply borrowed the capital which has enabled us to bridge over the chasm of wasted labor and destruction of goods and other property, and the interest falls lightly on the national industries. As a matter of fact, proved by the census of 1870, the withdrawal of a million of men for four years from productive industry and their employment in destruction of property was set off by the stimulus of high prices (caused by the inflation of capital and values) on the productive energies of those who remained. About 95 per cent. of all the products of labor are destined to destruction by consumption within the year in which they are produced and taken to market. Besides, those who lay so much stress on the destruction of the war are called on to prove that the surplus profit of labor and capital was less during than prior to and since the war. This will be a hard thing for any statistician to do.

NOVEMBER 16, 1878.

Since the foregoing communication was written the results of the elections in twenty-nine States enable us to perceive most clearly that the country will not tolerate an inconvertible, inflated, and fluctuating legal-tender paper currency. No leading man possessed of common sense, will any longer follow the *ignis fatuus* of "fiat money." That question may be taken as settled, and as being no longer a disturbing element in national politics. The only one in respect to currency, is the substitution of national for bank notes and the constitution of a "Money Department of State," wholly independent of the Treasury and unconnected with banks. Until this is done the currency question will continue to be a leading subject of agitation and contention. If it should die out for a time, the next crisis—which is as certain to come in a few years as the rising and setting of the sun, and which will be produced, like all past crises, by bank issues of paper and inflation in bank capital and discounts—will cause a renewal of the agitation and another long period of financial embarrassment. Now is the time to cut the connection between the nation and the banks and to establish an issue of paper money to be sold dollar for dollar for gold. There may be a few idiots who will cry out against specie payments, but they cannot command "a corporal's guard" of voters.

I have the honor to be, gentlemen, your very obedient servant,

H. BOWLBY WILLSON.

The CONGRESSIONAL LABOR COMMITTEE.