(4) Another and a principal Disadvantage of Credit is seen in its usual action on *prices* through increased Demand, and its consequent tendency to bring about Commercial Crises. Any man's whole purchasing-power is made up of three items: first, the property in his possession; secondly, the values that are owed to him; and thirdly, his credit. He can buy services of the three kinds with these three valuables; and the sum of his power to buy is exactly measured by the aggregate of these three valuables under his control. But while the first two, his property and debts due, are limited and ascertainable, the third (his credit) is indefinite and undeterminable beforehand. Being based upon *confidence*, which is itself sensitive and variable, a man's credit at one time may be vastly greater than at another, compared with his other two means of purchase; and if he have the reputation of doing a safe and regular business, and is favored by circumstances, he will find himself able sometimes to buy on credit to an extent out of all expected proportion to his other capital. When, therefore, credit is offered and received for commodities, it has the same influence upon their prices as when money is offered and received for them. It follows, consequently, that there is likely to be a general rise of prices whenever there is an extension of credit for the purpose of purchasing; indeed, when money only is used to buy with, there can not be a *general* rise of prices, because while more money may be spent on some things, and they rise in price, there would be less money for other things, and *they* would rather fall in price; but when credit is used freely in addition, and increased purchases go on in all departments at once, there is apt to be a rise of prices as to all commodities and a universal spirit of speculation.

At such times, and while prices are still rising, men *seem* to be making great gains; everybody wishes to

extend his operations by means of all his money and all his credit; and forms of indebtedness are multiplied on every hand. By and by it begins to be perceived in certain quarters that the matter has been overdone; speculative purchases cease; banks become particular whose paper they discount; men find it difficult to sell their debts due in order to provide for their debts owed; they fall back on the sale of their commodities, but when holders are anxious to sell, prices always fall; a panic now sets in, more irrational, if possible, than the previous overconfidence; their inflated credits and commodities collapse in the hands of their holders; sales at great sacrifices are inadequate to meet the mass of maturing debts contracted when confidence was high; men fail, and must fail; the banks cannot help them, or think they cannot; and so wide-spread commercial disaster comes in.

Such commercial crises swept over the United States in 1837, 1857, and 1873; and will doubtless recur in the time to come. They always arise from disordered credits, and though not necessarily connected with credit-money, are much more likely to come in connection with that. The more strong and conservative the Banks maintain their ordinary condition, the more powerfully can they operate to prevent or abate a panic. They ought always to be on the shore and never in the stream. From the very nature of banks and of the motives that create and operate them, they are apt to sell for a profit in ordinary times about all of the credit they safely can; unless, then, they foresee a stringency some time ahead, and curtail their loans, and otherwise keep their position strong in reserves and deposits, they will be powerless to help even their most deserving customers when the panic sets in; even then by a special association with other banks in the same city for reciprocal support during a crisis, as was happily

brought about in New York some years ago, something may be done for their common constituency and good customers to help them out of trouble by discounts continued to them; especially as it is not money so much that is needed to allay a panic, nor even credit actually given, as it is a general knowledge that abundant credit can and will be given either by some pre-eminent bank, like the Bank of England in London, or by an association of banks for that special purpose, like the agreement just referred to as entered into temporarily by the banks of New York city. As a panic becomes imminent anywhere, some Bank or banks there ought to be in a position to extend their discounts freely, at a high rate of interest indeed, so as to discriminate between customers urgent for and deserving of discounts, and another class whose need of accommodation is not so sore, and a third class who are sure to fail if the Panic stalks forward.

A permission given of the Government to the Bank of England to overpass under these circumstances the Discount-limits laid down by the Bank Act of 1844, has on three several occasions acted like a charm to still the ragings of a commercial storm. On each of these occasions, 1847, 1857, and 1866, the Bank was forbidden by the Privy Council to discount for less than 10%.

As the inclined plane of rising prices is slowly ascended before a Crisis, so the fall of general prices afterwards seems to be rather gradual also till the lowest point of them is reached, from which another ascent is apt to commence. The following table taken from the *New York Public* of the first week of November, 1881, is instructive on both these points. Taking the prices in 1860 of 43 articles of prime necessity, which constituted then and afterwards about ¾ of the commerce of the country, as the normal standard or 100, the table gives the

comparative gold prices of the same for four years previous to 1873 and for seven years subsequent, as follows: —

1869	116	1875	107
1870	118	1876	100
1871	120	1878	81
1872	122	1879	98
1873	113	1880	103
1874	115	1881	111

(5) A penultimate Disadvantage of Credit may be noted in the facility which it offers for contracting great national Debts. There are certain aspects, under which a Nation may be properly regarded as a moral person, and as such person may pledge the public faith for the present and the future, becoming a debtor to its own people or to foreigners, and thus a public debt may be made a sort of mortgage on the national property and income. Now, it cannot be fairly denied, that incidental advantages may spring up in connection with such a national debt: for example, the bonds, which are its evidences, may open up to the people a convenient form of investment for presently inactive capital, and for trust funds of all kinds; there can be little doubt that certain classes of persons holding these national obligations are won thereby to a stronger patriotism and become better friends to stability in government, although this consideration applies mainly to new governments and to those temporarily endangered; both England and the United States now make a portion of their public debt the basis of a national system of Banking, but it is perhaps questionable whether this can be justly put among the incidental benefits of the Debts; and again "a moderate debt adds to the credit of a Nation, and its ability to raise money in an emergency, for bankers and capitalists are more ready to take such securities as they are in the habit of dealing in" (Sidney Homer).

On the other hand, the burdens of a National Debt are very apparent: for example, the annual *interest* charge to the Union at the close of our late civil war was $150,000,000, which gradually declined by the lowering of the interest-rate and by the paying off of principal to $61,368,912 for the fiscal year ending June 30, 1881; between March, 1869, and August, 1873, the United States paid $378,015,065 on the principal of its public debt; the collection of the Internal Revenue alone of the national government cost for the fiscal year 1867, $7,712,089; and in each of the two years, 1870 and 1881, a little over $101,500,000 was paid out to reduce the principal of the Debt. All those vast sums came out of the industry and income of individuals; and taxation to any degree as all this implies is a mighty disturbance to industry, and gives rise to an army of officials who eat out a considerable percentage of all they collect. Moreover, the various expedients of taxation, which are always practically unequal in their operation, are apt to give rise to irritation and political agitation, and even sometimes to threats of repudiation, especially when the occasion has gone by under which the debt was contracted, and another generation is called upon to pay off a debt it had no agency in creating.

Here the vexed question arises, how far has one generation *the right* to throw upon succeeding ones the burdens of a National Debt? The true answer to this question is, *it has a very limited right indeed.* The opposite doctrine implies tacitly when not openly, that the succeeding generations will have no occasion for extraordinary expenses of their own, and, therefore, may rightfully be made to contribute to the extraordinary expenditures of this generation. But it is pure assumption to take for granted, that the next generations will not have, of some kind or other, as much occasion for an extraordinary effort in the way of

defence or of improvement as the present generation has had. It is a common but harmful illusion to estimate what has now to be done as of much more importance than what will have to be done. Therefore, to throw the present burden forward on another generation of men, who are likely to have to make their own special exertion, just as great and just as imperatively called for, is a procedure unwarranted by past experience. The view that has long prevailed in practice, that a great War-debt, for example, might be easily and justly cast upon posterity, has again and again given rise to needless and expensive wars; *those* have been called upon to pay the piper, who perceived the utter inutility of the expenditure; and thus bitterness has been added to burden.

Besides, the men to fight the battles, and the capital by which to feed, clothe, and furnish them the munitions of war, *must come from that generation;* and there is always great injustice in the manipulations of a great debt ostensibly incurred to obtain this capital, and the debt itself is usually in large part rather a memorial of the war than of the means by which its expenses were actually defrayed.

The generation of American citizens not yet wholly passed off the stage was called on in the Providence of God to suppress a Civil War of enormous proportions, and to eradicate a social institution that was thoroughly bad; the expense of doing this was many fold enhanced by timorous counsels in the field, by class legislation in Congress, and by wretched financiering in the Cabinet; but the Debt, vast as it was, and needlessly incurred as a large portion of it was, has already in good part been paid off and must be entirely paid off by the generation that incurred it. That this great task may be thus completed, will require (1) an economical administration of the national Government; (2) an avoidance of intervention in

the affairs of our Neighbors, and of entangling alliances with Foreigners; (3) a free Commercial System, under which the taxes shall be adjusted only towards the most productive revenue; and (4) a constant and onerous home Taxation.

(6) The final Disadvantage of Credit is this, that it is apt to confuse the minds of men as to its own nature, from its apparent resemblance to something else, which is at bottom wholly unlike it. The people of the United States have suffered greatly from this confusion, and are likely to suffer from it still more in the time to come, both in their property and progress at home and in their good name abroad; and it becomes all good citizens, and especially all those called upon to pronounce on the Law of the Land, to know thoroughly the radical difference between a *Credit* and a *Quittance*, and so to escape the contagious confusion that has entered and stirred up the popular, and even the judicial, mind of this country. All through the present chapter has been insisted on and illustrated the point, perhaps to the weariness of the reader, that Credit is always essentially the *Promise* of one person to another, and that whatever is thus *Promised* is necessarily and fundamentally different from the Promise itself. To confound those two things as if they were or could be made one and the same thing, is in thought illogical and in practice execrable.

And yet it must be allowed, that there is somewhat in the nature of Credit, that makes this confusion plausible, or else it never would prevail; and also that there is something more still to make it plausible in the nature of Money, which last point can only be cleared up in the next following chapter under that title.

Mr. E. G. Spaulding of Buffalo, in his copious and excellent History of the Legal Tender Act, "all of which he saw and part of which he was," as the chairman of the sub-

committee of the Ways and Means at the time the Act was passed, demonstrates the extreme reluctance of everybody concerned to give a forced circulation, that is, a compulsory legal-tender quality, to the first batch of Treasury Notes to the amount of $150,000,000 in February, 1862. We have already noted in another place in this chapter, that two successive batches of similar Notes, each to the same amount as the first, were issued within less than a year. These Notes then and since called Greenbacks, bore at the time four essential features: first, they were both in terms and in reality *national Promises* to pay to the bearer gold dollars of the then and present standard of weight and fineness, because there is no other possible meaning to the words "THE UNITED STATES WILL PAY TO THE BEARER FIVE DOLLARS"; second, in addition to their being a forced loan from the people to the amount of notes authorized, they were given a *forced circulation* as money by means of the clause, "*and shall also be lawful money and a legal tender in payment of all debts public and private within the United States except duties on imports and interest on the national bonds*," which clause still recognizes gold dollars as the only universal and standard money; third, the notes were made *fundable* in sums of fifty dollars, "or some multiple of fifty dollars," in six-per-centum gold bearing bonds of the United States, then called 5-20's, again in this clause recognizing the radical difference between the legal-tender paper promises as money and the gold dollars promised in them, in which gold money the interest and principal of the bonded debt must still be paid; and fourth, these notes were publicly known and acknowledged by the Issuer and the receivers to be presently *irredeemable*, since the Government did not have, and did not pretend to have, any coin with which to redeem them, and everybody knew that they were made a legal-tender *because* they were irredeemable.

These prompt recognitions of the impassable gulf between a Promise and what is Promised, were confirmed by all that happened afterwards. The notes, notwithstanding they were legal tender and all bonds of the United States could at first be bought with them at par, almost immediately began to droop as compared with gold. The daily quotations showed a pretty steady decline for two years. On Jan. 15, '64, gold in greenbacks was 100 : 155; April 15, 100 : 178; June 15, 100 : 197; June 29, 100 : 250, that is, 40 cents to the dollar; and July 11, 100 : 285, or 35 cents to the dollar in gold, their lowest point. From this depth they slowly rose with many fluctuations back and forth from many causes for 14 years. Jan. 1, 1879, they became redeemable in gold, and have so continued till the present time.

When the Civil War was all over, and these startling vicissitudes of the paper money were measurably forgotten; though no prominent man, when they were passed, thought the Legal-Tender Acts constitutional; the paper money began to be popular; the distinction between a promise and its fulfilment began to fade out of the minds of the people; there had always been bank bills circulating as money in the country; these had been called "dollars" equally with the coin; and in December, 1869, a test case, Hepburn *versus* Griswold, was decided by the Supreme Court on the question, whether Congress had the constitutional authority to make anything but gold and silver lawful money in satisfaction of *contracts entered into before the first legal-tender Act was passed.* The question, Can Congress make such notes a legal tender for contracts made *after* the passage of the Act? was not involved in this case; but it was very clear from the Opinion of the court delivered by Chief Justice Chase, that the majority of the justices regarded the Act as being

unconstitutional in its application to contracts made *after* as well as *before* the Act was passed. Upon the special question before the Court, the justices were divided in opinion; five, including the Chief Justice, agreed that the Act was invalid so far as it made the notes a legal tender on *contracts executed prior to its enactment;* and the three other judges were of the opinion that it was valid. Of course, the Decision of the Court was rendered by a majority of two, that the Act was unconstitutional. Chase, Nelson, Grier, Clifford, and Field constituted the majority; Miller, Swayne, and Davis, the minority.

Salmon P. Chase was one of the greatest men of the great period of the Civil War. He was Secretary of the Treasury at the time the greenbacks were issued, and they were issued at his instance and advice, but he was opposed to the clause that made the notes a legal tender. He never expressed the opinion that the Legal-Tender Acts were constitutional, nor did he expect that the notes, of which these authorized the issue, would ever become a permanent national money. This is evident from the fact that the notes were made *fundable* at his instance, not so much with the view of keeping up the value of the notes by giving them a present market in bonds, as with the view that they would help the sale of the bonds and would be absorbed by them as soon as the price of the bonds was above par in greenbacks. Afterwards Mr. Chase thought that this *fundability* of the notes into bonds would so far take up the notes as to stand in the way of the negotiation of further necessary loans to the Government, and at his instance this provision of the law was repealed. Consequently, there was nothing inconsistent between his position as Secretary and his later position as Chief Justice. He was undoubtedly right in both of these positions. The making the greenbacks legal tender did not probably

add one particle to their purchasing-power, but rather the reverse, because that feature implied a doubt on the part of Congress itself as to the validity and currency of such national promises-to-pay. That he was also right in his judicial opinion and decision, however subsequently overruled in his own Court, may be safely left to the inevitable future appeal to common sense and to the common principles of constitutional interpretation.

This judgment in Hepburn *versus* Griswold was favorably received by the country at large, as being just in the line of the great decisions of Chief Justice Marshall, and as being exactly in accordance with Amendment X of the Constitution, namely, "THE POWERS NOT DELEGATED TO THE UNITED STATES BY THE CONSTITUTION, NOR PROHIBITED BY IT TO THE STATES, ARE RESERVED TO THE STATES RESPECTIVELY, OR TO THE PEOPLE." The State of Massachusetts particularly, which has always maintained and still maintains a strong doctrine of State Rights as over against, though in harmony with, the Rights of the United States under the Constitution, applauded this judgment as sound in law and politics, and as righteous altogether. But the then administration of General Grant, inexperienced alike in law and politics, and linked in entangling alliances with the great corporations of the country, received the Decision with marked dissatisfaction; and it was especially offensive to the huge railroad companies, whose bonds had been executed prior to Feb. 25, 1862, inasmuch as it made the principal and interest of these bonds payable in coin, which they had hoped to pay off in the depreciated greenbacks, made legal tender for all debts.

The Administration lost no time in trying to bring about by fair means or foul, a reversal of this unwelcome decision. E. R. Hoar of Massachusetts, at that time attor-

ney-general in Grant's Cabinet, was the principal agent in accomplishing this end by means so discreditable that he lost in consequence his popularity in Massachusetts and all chance of further political preferment. The means chosen and put into effect was the appointment by the President of two new judges, Strong and Bradley, the first to take the place of Grier, resigned, and the second appointed under a law increasing the number of judges to nine, whose opinions on the point at issue were known beforehand, and who were selected to serve on that very account. "*It was no secret, indeed it was a matter of public notoriety, that these justices were appointed in order that the decision of* 1869 *might be reversed. Their opinions in regard to the constitutionality of the Legal-Tender Acts had been clearly and publicly expressed. It was therefore pretty well known what the decision would be when the question was again presented.*" (Hugh McCulloch.)

The second Legal-Tender case, accordingly, that of Knox *versus* Lee, decided in December, 1870, reversed the judgment of a year before, *no new points therefor being raised either by the new judges or by counsel in the new trial*, the Chief Justice and his three former associates still adhering to their original opinions. It was then five judges to four, the special question being, Is it constitutional to make promises-to-pay a legal tender on contracts executed before the promises were issued? The judicial answer was in this case, Yes; provided Congress regarded such action as a necessary means of preserving the Government in time of War, or any other period of extraordinary emergency. That is to say, *bona fide* creditors were constitutionally bound to receive depreciated notes as legal tender in satisfaction of contracts entered into when no notes were in existence; to receive on contracts specifically calling for "*dollars*" the depreciated notes of the Gov-

ernment merely promising to pay "*dollars*," but on which the "*dollars*" could not be obtained! What is that, but the monstrous incongruity that *a promise* is the same thing legally as its *fulfilment?* What is that but judicial blindness as to the *nature* of Credit? What is it but the old confusion between *names* and *things?* What is it, finally, but the dazed and hazy vision, pardonable perhaps in the popular mind but half-opened to radical distinctions, but unpardonable in learned men professing to lay down the law in a civilized country?

It is scarcely needful to add, that the Supreme Court of the United States suffered in the judgment of good citizens by that transaction; that the best legal and financial opinion of the country yielded little respect to a decision *thus secured;* and that intelligent people do not believe that constitutional law *can* sanction what contravenes at once common sense and common morality.

Judge Field (and his memory the country will not willingly let die), one of the majority in the first decision, and writing the opinion of the dissenting minority in the second, used this strong but just language, "*It follows, then, logically, from the doctrine advanced by the majority of the Court as to the power of Congress over the subject of legal tender, that Congress may borrow gold coin upon a pledge to repay gold at the maturity of its obligations, and yet in direct disregard of its pledge, in open violation of faith, may compel the lender to take, in place of the gold stipulated, its own promises; and that legislation of this character would not be in violation of the Constitution, but in harmony with its letter and spirit. What is this but declaring that repudiation by the Government of the United States of its solemn obligations would be Constitutional?*"

CHAPTER V.

MONEY.

THE subject of Money presents few difficulties, or rather none of any depth, to one who has thoroughly mastered the subject of Value. To all others the difficulties are insuperable. Essay after essay and volume after volume has been written in this country upon Money, by men who would have become good economists and good monetaries, if they had only begun their inquiries at the right place and followed them in the right direction. As we saw in the last chapter that it is impossible for anybody to understand the subject of Credit without first comprehending the matter of Value, so we shall see in this chapter that in the order of Nature Value precedes Money, and that the latter can only be learned in the light of the former. The logical reason for this in general is, that Money itself is always a Valuable, and comes to its function as money only through a comparison of itself with other Valuables.

The thin difficulties that confront the student of Money, who has reached the topic along the proper highway cast up for economical inquiries, arise apparently from two sources; and we will begin our present discussion by first looking at these in their order.

In the first place, Money is the only Valuable that may belong to two out of the three possible categories into which Valuables may be scientifically thrown. All Valu-