

LESSON XVI.

CREDIT.

1. ADVANTAGES OF THE CREDIT SYSTEM.—As already stated, the effect of obtaining credit is simply to postpone the payment of debts; and it is to secure this postponement that it is resorted to. Men are naturally hopeful, and have little doubt, therefore, that they shall be able to meet an obligation six months or a year hence, which they know they are not now able to meet; and often this hope is not fallacious. To the young man, just starting in life and wholly dependent upon himself, credit is often a real and a very great advantage. If he has capacity, skill, and energy, he can make a much better use of a portion of the capital lying comparatively useless in the hands of certain living fossils, than they can. In like manner, also, he may be safely intrusted for a season

with the sale of a portion of the merchandise heaped up in warehouses or lying idle on the shelves in stores. In this way a young man often gets such a start as lasts him through his whole life. How many have thus laid the foundation of a future fortune! And, on the other hand, how many have suffered through their whole lives for the want of such aid at first! And so, all along through the whole course of life, there must be points where a little assistance and credit from others will be invaluable. All are liable, through miscalculation, unforeseen events, or untoward circumstances of some sort, to become embarrassed in their business, so that they will lose their all unless a helping hand is lent them by some one. And yet help can be given only through credit. In these and the like cases credit is an undoubted good.

2. DISADVANTAGES OF THE CREDIT SYSTEM.—The credit system, however, is extremely likely to be abused, and, as it actually operates in practice, is attended with many and serious evils. The very hopefulness of men, alluded to in the previous

paragraph, makes it certain that it will be abused. Almost every man thinks, that if he could only get the means he should be sure to make a fortune. Hence all are anxious to obtain credit in some form, and, instead of working up slowly and cautiously, acquiring as they go the skill necessary for success, rush into business which they do not understand, and in very many cases lose the whole of their investment. And so, in general, the custom of giving credit, and the facility of obtaining it, make men reckless in their personal expenses and in their business. Circumstances being made easy with them for the present by borrowed money and borrowed means, they dash away with but little caution or economy, not thinking that all that they have belongs to another, and that pay-day will soon come. And such being the case, those who give credit must charge, on the average, a very large interest or profit in order to secure themselves against loss. This, together with the direct effect of credit in expanding the purchasing medium, referred to in a previous lesson, tends to raise the scale of prices throughout the whole community,

and thus to make products dearer to all consumers. And as to the sound and sober part of the business community, the credit system must be an injury to them, since they never can know who is solvent and who is insolvent, and have to be perpetually on their guard against failures, revulsions in business, etc. It would be impossible, indeed, to do any considerable business wholly without credit, but, considering the constant pressure which must exist for its extension, and its effects in rendering business spasmodic and uncertain, sound business men should endeavor to restrain it within the narrowest possible limits. Credits should be restrained both in amount and in time. Long credits are much more disastrous than short ones, since the circumstances of the debtor are more liable to change for the worse in a long time, than in a short one.

3. CREDIT AT HOME AND ABROAD.—At first view, it would seem to make but little difference, if one is to get trusted, whether he obtains the credit at home or abroad. Indeed, the advantage would

seem to be in favor of the foreign credit, since it would furnish for a time the use of so much capital additional to our own. This would indeed be so, if the credit is not to be had at home. But would it not be better still, that the means of furnishing the credit on as favorable terms should exist among ourselves, and be obtained there, than that it should be obtained abroad? This would be giving employment to our own, instead of foreign capital, and at the same time would put us to less trouble both in obtaining it and in repaying it; especially as, when obtained abroad, it would have to be paid in specie, which would tend to derange the circulation. For these reasons credit will always be obtained at home rather than abroad, when it can be obtained as cheaply. In this point of view, therefore, obtaining credit abroad is a calamity chiefly as it shows a want of means at home; this applies to both goods and money obtained on credit abroad. But under another point of view, the obtaining of public loans of foreign nations is a positive evil, in comparison with obtaining them at home. For, as

all government loans must in the end be paid by taxes, when obtained at home it enables the government to collect taxes on its bonds in the hands of its creditors, as on other property; whereas, no taxes can be collected on bonds which are held abroad. Besides, a nation is more independent and self-sustaining, in proportion as it creates its own products and obtains its own credits at home. It is greatly to our advantage in all respects, that, during our late civil war, we were able to obtain our funds and create the greater part of our war material among ourselves.

4. CREDIT UNDER A DEPRECIATING CURRENCY.—The first effect of a depreciated currency is to supply men with money, and, if it be a legal-tender, to prompt them to pay their debts. For a time, therefore, it tends to diminish credits. But as under such a currency the prices of all articles must rise just in proportion as the value of the currency depreciates—whether the depreciation arises from additional issues, or from the growing distrust of the people—there is a general rush

into speculation, or buying up and holding articles in anticipation of, or so as to create, by producing a scarcity in the market, a higher price. To do this, men must have the use of large sums of money, or its equivalent in credit. Accordingly, credits increase again very rapidly, cunning and adventurous men borrowing all that they can, and investing it in articles that are continually on the rise. For a time all goes on smoothly. Their profits being great, they are able to meet their engagements, and others are encouraged to go into the same business, till honest industry is well-nigh deserted, and a large proportion of the community are engaged in buying and selling one of the other. Such a state of things, however, can not last long. Either more and more money must be issued to meet the continually advancing prices of things, till it finally becomes so worthless as to lose all purchasing power, or else, the currency being gradually drawn in and redeemed, prices go down and the speculators are ruined.

LESSON XVII.

FINANCE.

1. FIRST PRINCIPLES OF FINANCE.—Finance, being the art of providing the means for carrying on a government or any business, has to do chiefly with money. It is on this account that it has generally been considered so inscrutable a subject. To be a financier, has usually been thought to require qualifications quite different from those required in the ordinary business man. Raising money, like "raising the wind," has been supposed to require something of the necromancer's art. In the common estimation, financiering is a species of legerdemain, which but few either do or can understand. In fact, however, there is no more mystery about finance than there is about any other business. Sound financiering, like sound business of all kinds, is only a correct application of the principles of exchange. The exchanges here, to be sure, are

generally on a larger scale, but they are mere exchanges after all.

Now, in making exchanges, men are governed wholly by a sense of interest. From this it follows, that if we wish to obtain money or other articles from men, we must offer them something which they regard as an equivalent. It is of no use to tell them that they *ought* to consider it an equivalent, if they do not actually so consider it. Men will be their own judges in these matters, and sound financiering accepts their judgment as final. Something may be done, it is true, in deceiving men for a time, but they will sooner or later find out the deception, and after that, their suspicions will retard exchanges, more than their former confidence facilitated them. A sound financier, therefore, will deal only with real values, and offer in exchange only real equivalents.

2. OF THE VALUES WHICH GOVERNMENTS HAVE TO OFFER IN EXCHANGE.—Government produces but a single article, and that is protection. But protection is exerted through various instrumentalities,

such as laws, courts of justice, prisons, ships of war, cannon, powder, shot, shells, and other machinery and enginery, all operated by numerous human agents. Protection, then, exerted through these different means, is the one thing which the government has to offer the people in exchange for their money or other valuables. And when the protection is economically and efficiently exerted, it is not only a real value, but the highest of all values, since without it other things would be of little or no value. It is for this, then, that contributions in the form of taxes are demanded in exchange, and cheerfully given by all who have any just sense of the value of the service rendered. But an extravagant or unjust government, not daring to appeal to the people to pay its expenses in the form of taxes, may resort to other means for raising a revenue, such as forced loans, or issuing adulterated coin, or paper money, which it requires the people to take at the same value as though it were genuine money. Or, in time of war—when the government, being the great employer, has to use the money ordinarily used by many

employers—a really just but timid government, instead of calling upon the people for the increased taxes which are necessary to meet the increased expenses, may resort to loans payable at some future time, and issue bonds accordingly bearing a certain rate of interest, and payable in a certain number of years. It now offers these in exchange to the people, in order to raise the money to meet the enlarged expenses; not, indeed, exacting dollar for dollar for their face-value, but only what the people are willing to give. Thus a government may offer in exchange for the necessary means of its subsistence, not directly valuable services, but indirectly, either adulterated or depreciated money, or forced or voluntary loans.

3. OF PAPER MONEY AND VOLUNTARY LOANS AS FINANCIAL MEASURES.—Of these various expedients to avoid taxation, none are sufficiently reputable to require consideration here, except paper money and voluntary loans. And as both these means were resorted to very largely during our civil war lately closed, it is proper that their value as

financial measures should be briefly indicated. To offer “greenbacks” in payment of debts previously contracted, was plainly not offering an equivalent, and hence the passing of the legal-tender act was not only a violation of good faith, but bad financiering. For future contracts it was of no avail, since they would be made in full view of the value of the money they were to be paid for in, and with all the greater distrust of its value, from the bad faith which had been exhibited in using it to pay off debts which had been contracted when paper money was as valuable as gold. The government thus had to pay much higher for every thing which it bought, and at the same time, instead of avoiding taxation, was really collecting a most onerous tax of the people, through the depreciation of the currency in every hand which it passed through. And besides, when the currency is redeemed, this tax, with enough additional to pay the remainder, will have to be collected over again.

As to the bonds, which the government has issued so largely, as the principal of them all, with the exception of those known as 10-40's,

is payable—as far as any thing in the acts issuing them is concerned—in legal-tender notes,* they have suffered from a like depreciation with the currency; so that, while they bear six per cent. interest in gold, their gold value, at the lowest point of depreciation, was but about forty cents on the dollar—making the interest paid by the government, estimated in gold, some fifteen per cent. How much better it would have been to have raised the means necessary to carry on the war by taxation! Then, not only would this great loss from depreciation have been avoided, but hundreds of millions besides would have been saved, by the greater economy in the conduct of the war, which would have been enforced by the people, who were required themselves to practice the greatest economy in order to meet the taxes. And if it be said, that the people could not have met these taxes, it is sufficient to reply, as has already been done

* It is true that these bonds were sold, under the assurance from the Secretary of the Treasury and his agents, that they would be paid in gold; and hence there is a *moral* obligation that they should be so paid; and I have but little doubt that they will be so paid.

once before, that they were just as able to meet them as they were to fight the battles. It would only have been necessary, that the men who stayed at home during the war and made money should have contributed their gains, or a portion of them, to furnish and support those in the field, thus sharing with them the sacrifice.

4. THE NATIONAL BANKING SYSTEM AS A FINANCIAL MEASURE.—Of the National Currency Act, as a mere system of banking, I have already expressed a favorable opinion; but as a financial measure during the war, it is justly open to criticism. As the currency was to be based upon United States bonds, it was advocated chiefly as a means of absorbing these bonds, and thus creating a demand for them. But this, surely, will not be considered much of an advantage, when we reflect that on every hundred-dollar bond purchased by the banks, the government not only pays them six per cent. interest in gold, but surrenders to them the privilege, to which it was entitled itself, of issuing ninety dollars in currency, which tends to depreciate the whole currency of the

country, just as much as the issue of the same amount in "greenbacks" would have done; thus defeating the only object of selling bonds at all, instead of issuing bills; viz., the contraction or drawing in of a like amount of the currency. Hence, had the government, instead of authorizing these banks, issued the same amount of its own currency, in addition to the large amount which it already had out, it would have done no greater injury to the currency of the country, and would have saved itself the interest on the three hundred millions of bonds on which the national currency rests. And then, at some period after the close of the war, when the country was prepared to regulate the currency, the same system of banking might have been established on United States bonds, sold for that purpose; which, with suitable taxation, would soon have absorbed the "greenbacks," and left the field to the national currency. The government itself being at stake, it was clearly entitled, for the time being, to the entire privilege of banking, and should, therefore, at once have taxed the old State banks out of existence, and issued itself all

the money which the country required. This would have been a loan from the people for their benefit, and without interest.

5. THE LESSONS IN FINANCE TAUGHT BY THE WAR.

—It is not to be wondered at that in so great a conflict, and with so little experience in such matters, some mistakes should have been made. We have reason to be grateful that we have come out of it so little harmed financially, and also, in other respects, as we have. It is the part of wisdom, however, to derive all the profit we can from those terrible events. And first, we learn from our experience during these last few years, that sound financiering is no mere system of cunning devices for deceiving the people in money matters. If this would have produced a revenue cheaply and successfully, we certainly should have had it. All forms of indebtedness have been issued by the government, consisting of legal-tender notes, treasury notes, bonds of every form, certificates of indebtedness, etc., exchangeable one for the other, and redeemable one in the other; but after all, they have not

been kept from depreciating. The people have peered through all these devices, quickly discerning that one paper promise is not at all strengthened by another promise, or fifty others, to the same effect, and made by the same party. Hence we learn again, that real values are the only values to be relied upon, whether in great or small operations. At times, perhaps, during the war, there might have been some ground for doubting our success, and hence our ability to make good our promises to pay. But even now, after our success, these promises to pay are still depreciated, simply because no present means of paying them in real values is provided. It is of no use for us to talk of our undoubted ability to pay, as long as we are not ready to do it now. And hence, once more, we see that nothing but large taxes will keep up the credit of a government which is making large expenditures.

We may not like taxes, and may resort to various devices to avoid them, but they must come at last, and all the more oppressively the longer they are deferred. They are the only means a government has of really paying its expenses, and must, at least, be

sufficient to meet the interest and a portion of the principal of its indebtedness, in order to keep its promises to pay from ruinous depreciation.

6. ORDINARY FINANCIERING.—The same principles apply to financiering on a more limited scale, as practiced in ordinary business. An individual, like a government, if he would be able to command money when he wants it, and at reasonable rates, must keep his credit good. And the only way of doing this is to return real equivalents for the sums borrowed, and at the time agreed upon. Such a course, in the long run, will be much more successful than artful management and cunning deception. A good financier always looks ahead. He is to provide means for the business in hand, whatever that may be—and not for the present merely, but for the future. The whole spirit of his calling is prospective, leading him to anticipate the future and provide for it, which, as already stated, can be successfully done, for any length of time, only by perfect fairness and honesty of dealing.