Financial Parallelisms

England and the United States.

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Financial Parallelisms
England and the United States

Chapter I
Introductory

Dr Buckle tells us, in the excellent work he has given to the world, that all national development is controlled by certain external and internal forces which ~~are~~ may be examined at any time by the thoughtful. The underlying causative influences may be arranged in such a form as to form scientific and philosophic works of great importance.

The underlying influences which lead to the remarkable financial parallelism between the two great English speaking nations can be traced with great ease and celerity for since the dawn of English and Anglo-American power the two gigantic national powers have had their eyes centered on one illuminary; the same goal is now plainly in view. A strong national structure at all times ready to protect its citizens in the one mighty ambition which seems to permeate the very fabric of Anglo American greatness namely the great passion to accumulate vast quantities of material wealth.

Nor do we deem that the pursuit of wealth is dishonorable in every respect. It is needless to state that any great civilization must have for its foundation vast quantities of wealth; but we are about to launch into a comparison of two great nations who were forced to learn by the painful hand of experience the perishable nature of that which man calls wealth and the vast importance and unspeakable superiority of hearts of gold over dollars of gold

Subsequent events of a historical nature will prove that during the first part of the nineteenth century a new factor made its appearance in the English world and fifty years later the same force began to exercise controal in American affairs. Here-to-for the all absorbing question of settlement and colonyation had occupied the mind of the great civilization of Europe and America Now the accumulation, and development of the newly discovered stores of wealth become a passion, and Capital sprang into existence; a young giant eager for the race.

Chapter II

England and the United States.

Silently like a thief in the night the power of vested interests had been creeping stealthily into the place occupied at first by a landed and titled aristocracy and all that was necessary for its complet triumph was a great national convulsion which would give capital the opportunity to demonstrate the complete helplessness of democratic institutions without its constant aid and support.

In England this convulsion was was ushered in by the fearful excesses of the French Revolution. In 1792 all Europe was startled beyond measure by the complete over throw of Louis XVI and the tragic death of this ill faited monarch. An alliance of European powers with England at it head immediatly declared war against the French Republic As many of the allies were already impoverished by war and famine; and as England proved to be the only nation with great resources among the allied powers she soon became the paymaster of the armies in the field. This great drain upon her resources soon made it necessary to negotiate large loans with the Bank of England. In this way Englands national debt increased with great rapidity

In the period between 1792 and 1797 the national debt nearly doubled and gold and silver completely disappeared leaving the country seemingly on the verge of financial ruin.

The government was forced to make extensive loans to the trading classes, owing to the great stringency in in money matters. A rumor of a French invasion lead to a run on the Bank of England and a suspension of specie payments soon followed. It may be well said that the year of 1797 was the darkest year in Englands history, little or no success in the war with France an empty treasury greatly increased public burdens and a financial panic approaching.

As gold and silver were in constant demand on the continent the business interests of England must rely on a non-convertable paper currency. The Bank of England doubled its circulations during the next thirteen years, and the great demand for gold gradually forced the price from £3. 17s. 6d. in 1792 to £4 10s per ounce of standard quality, in 1804 and in 1814, reached its highest point at £5. 8s. per ounce, Thus we can see that the paper currency had depreciated or the gold had appreciated 40 o/o. Never-the-less, during the eighteen years through which this struggle lasted, the exports of Great Brittain steadily arose in value. In 1792, they amounted to £16,231,672 while in 1810 they reached the magnificent sum of £34,061,901. and in 1815 had increased to £42,875,996. In spite of the fact that we were supporting a great continental army and the debt had increased from £231½ millions to 816 millions and through out England there existed the greatest prosperity the country has ever known. Prices increased, work was plentiful and the whole country seemed to hum with industry. The population increased from 9,400,000 in 1792 to 13,420 000 in

1815. The increase in wealth kept pace with the increase in population

After the defeat of Napoleon gold and silver began to flow toward our shores. The price of gold in currency rapidly fell from £5-8s per ounce to £3 18s.2d. in 1817.

In 1816, three years before the law was enacted for the resumption of specie payments and five years before any notes were redeemed in gold or silver, just as gold and silver were timidly venturing from their hiding places Silver was demonatized and the single gold standard was addopted. In view of the fact that the business interests of England had greatly increased and for this reason if no other the any disturbancy should have been avoided; and owing to the fact that a great number of unemployed soldiers had been thrown upon the labor market an ever increasing supply of money was necessary. Doubtless there had been an inflation of the volume of money and some wild speculation but such disorders should be checked with the utmost care. The money supply should be checked and unless the speculation is of the wildest nature no money should be withdrawn from circulation. Gold and silver had circulated side by side for many centuries so the striking down of one of the means of redemption caused a furor which lead immediately to contraction of loans in the country banks, and this led to a still greater destruction of credit throughout the country. A loss of confidence, the shutting down of factories and mills, and result was great distress among those who were thrown out of employment. Riots and bloodshed were common, the breaking of machinery by the ignorant classes, and the destruction of property were daily occurances. In the midst of this intense distress the financiers thought it necessary to contract the currency preparatory to the the resumption of specie payment. Never in her history did England pass through such a period of industrial depression. Famishing workmen wandered thru the country in mobs. The poor laws were subjected to a terrible strain, and, 1819 is noted because of three events which seem to be closely allied in every respect, namely, the passage of a bill in Parliament bringing about a return to specie redemption, the Manchester Massacre and the passage of the, noted "six laws". The contraction of currency, and the refusal of Parliament to enact, very much needed reforms, lead to great agitation among the laboring classes. The rumors that workingmen were constantly drilling after their day's labor, led to careful preparation on the part of the authorities to prevent any out-break. At Manchester, a great assembly of laboring men were charged by cavalry, and many of their numbers either wounded or killed. Parliament met and six laws were passed very much abridging the freedom of English citizens were hastily passed.

Now let us turn to the United States. In 1860, we find this great country facing far more serious difficulties than England encountered from 1792 to 1815. In less than a year from that time, nearly one half of our great country was united in open rebellion, and we find that the navy and the army were so distributed throughout the country as to render practically no aid to the government at Washington. Her treasury was empty, the revenue fell off, so that she was forced to rely on her credit for means to carry on the war. Thus we see the two great countries were ~~faced~~ forced by nearly the same difficulties. Both were rich in resources, but the laws relating to private property made it possible for capital to force the government to accept their terms.

Both countries were fortunate in their selection of chief officers of the treasury. Sir William Pitt resembled Mr. Chase in many ways. Both commanded the unbounded respect of the common people, both were to a great extent unsatisfactory to the leaders in the financial world. Both were honest in every respect and their patriotism has never been questioned even by their enemies.

Mr Chase immediately upon receiving his appointment was authorized to make a loan of 10 millions dollars. Treasury notes were to be issued, and sold at par to the one who accept the lowest interest. The first instalment, of 5 million dollars received bid for $1,831000 at 12 o/o or less. Of the remainder bids were received for $465,000 at rates ranging from 15 to 36 percent and succeeded in raising the $5,000,000 at 12 o/o. Boles in his financial history, states that, "when secretary Chase entered the treasury, he must speedily learn two things. First the urgency of being able to borrow money. Second, the difficulty of obtaining it even at a high rate of interest."

As the stream of revenue had fallen very low: Secretary Dix informed the Committee of Ways and Means that sixteen millions would be a liberal estimate for the first half of the year 1861. The equippment of the army soon demanded another loan and the secretary was authorized by Congress to make a loan of $21,000,000 which was floated by an association of New York bankers. Soon after this another large loan was authorized 50 millions of which was to be noninterest bearing treasury notes.

These were the first non interest bearing notes ever authorized by our government. The bankers were very willing to buy interest bearing securities, but when these notes made their appearance a cry of protest went up. On account of their lack of full legal tender power bank refused to receive them on deposit. Railways would not accept them but when full legal tender power had been given them they circulated freely. But this only agrivated the banks: they entered into active protest against the issue of any more paper money, deeming that the government had no right to interfere with their monopoly in this respect. After various meetings of the New York bankers, and conferences with Secretary Chase, the association of bankers held a meeting and voted to suspend specie payments, and the government was forced to follow their example, leave the country with a nonconvertable paper currency just like

England in 1797.

The financial condition of the country was very grave indeed. Time and again, Secretary Chase informed Congress that new issues of paper money of bonds and paper money must be immediately made to save the government from impending ruin. A heavy duty on imports was enacted, and heavy internal revenues on luxuries and necessities were imposed. The national debt increased very rapidly, and reached its highest point in 1865 $2,845,907,626.56 of this gigantic sum $680,000,000 were legal tender notes in circulation. $217,000,000 bearing interest at 6%. $830,000,000 were treasury notes, payable on demand bearing 7 3/10 %. Thus we see there were $1,540,483,701 treasury notes payable on demand with only $25,000,000 of gold in circulation along the Pacific coast

National Indebtedness 1862 — 1865

Date	Demand Notes	Legal tender Notes	National Bank N.	Value of Paper in Specie
1862	53,040000	96,620,000		86.6
1863	3,350,019	297,767,114		76.6
1864	780,999	431,178,670	31,235,276	38.7
1865	472,603	432,687,966	146,137,860	70.4

By the above table it will bee seen that the paper currency trebbled its self in one year (1862—3). The next year, that amount was doubled, and the year after that, two millions were added to the sumtotal, making an increase of $346,067,966. This alone would inflate the currency to some extent and cause prices to rise; a fact very much lamented by our creditor class who were forced to take money of less value in payment of outstanding debts. This lead to constant agitation on the part of the monied classes to get the business of the country back, as they said, on a solid financial basis, claiming that the great prosperity which continued during the war and until checked in 1873 by the first panick, since the year 1857, was due to wild speculation. The heavy taxation incurred by the war. The throwing of a great army of unemployed, and to a great extent impoverished workingmen upon the market. The destruction of the vast confederate circulation of the south and great loss in credit throught the country demanded a steady and buoyant currency. But the turmoil of war had scarcely subsided until preperations were being made to resume specie payment. Several plans were suggested. Mr Sherman, in a speech before the senate spoke of three plans. In the meantime, it became known to the people that the government was contemplating a wholesale destruction of the greenbacks. Meetings were held in every school house, the subject of contraction was discussed on the platform among the people throughout the country; but in spite of the many protests and petitions, Congress immediately, in 1866, impowered the secratary of the Treasury to destroy, in the first six months after the passage of the act, 10 million dollars of treasury notes, and from that time on four millions worth each month. Besides this, the secretary of the treasury was impowered to lock other green back up in the treasury, and leave them there until he saw fit to reissue them. A protest went up through out the country. Financial stringency was felt throughout the land, and when Congress assembled in 1868, this power was taken from the secretary by an overwhelming vote. Thus we may see how the first plan proved a failure. Congress was not only forced to stop the destruction of the Green backs, but the people also demanded that more should be issued. Consequently, 26 million of the 44 million which had been destroyed were reissued. But on January 14, 1875, an act providing for the resumption of specie payments was passed. This provided for the cutting down of the volume of circulating green backs to 300 million dollars. In the meanwhile, the United States again followed the example of England by the demonetization of silver in 1873. It seem that a general movement against silver commenced in 1871, when Germany replaced the silver standard by the gold forcing the French to pay in gold the indemnity of the Franco-Prussian war, and placing a large share of her silver on the market. forced France to follow her example. Thus ~~breaking~~ breaking up the Latin Union. This was followed in 1873 by the demonetization of silver in Belgium also in the United States. This abandonment of silver as a money metal led to a constant fall in the price of silver as measured in gold. Again history repeats its self. On the demonetization of silver in 1873, a vague feeling of insecurity seemed to pervade. Whether the money volume was insufficient to carry on the business of the country was a question. The wealth had increased from 23 billion in 1865 to about 34 billion in 1873, while the currency had decreased from one billion eight hundred million in 1865 to seven hundred and fifty million in 1873 a contraction of over a billion of dollars. We will allow the reader to draw his own conclusions as to the sufficiency of the money volume in 1873. Never the less, there was great stringency in money matters and great turbulance among the laboring classes, very much resembling that experienced in England when silver was demonetized silver in 1816; and, as in the case of the green backs, a general protest from the people caused Congress to hastily undo a part of the work which, if history tells the truth, was entirely unsolicited by the great common people as there had never been a petition or a demand for the demonetization of silver. It seem that the United States, like England, had chosen a very unfortunate time for the destruction of one half of her redemption money. For, as we have stated in 1875, the law for the resumption of specie payments was placed on the the statute books. But with the advice of Mr. Sherman, Congress decided that this law should not go into effect until the gold reserve had reached a hundred million dollars. It reach this point in 1879, when cash payments was resumed officially throughout the United States. But times did not improve. As in England, labor was rapidly organizing to protect themselves from an unseen foe. Strikes and lockouts were of daily occurence. prices fell, and labor become scarce. Distress and suffering spread throughout the land. Wealth kept on increasing, while the per capita circulation decreased from $18 per capita to $16 per capita in 1880. And property values have been on a general decline since 1873. In 1893, another terrible panic struck the country bringing destruction of business interests all over the country. In England, a series of panics very much resembling those in the United States show that there has been a close analogy between England and the United States in financial affairs during the las quater of a century.

General Conclusions—

1. From the financial occurrences in these countries, we plainly see the necessity of an adequate volume of circulating medium.
2. Any contraction of this money volume will, in nearly every case lead to industrial depression, falling prices, and universal distress
3. The value of the money system does

not depend upon the material of which the money is made, although it is well to have it as near the ideal in every respect as possible: yet any material whether it contains intrinsic value or not, if there be sufficient power behind it to insure its redeption in services, wealth or the payment of taxes, or debts, is perfectly suitable, and in many cases far superior to money composed of gold or silver

4. We may also conclude that prices may be controlled by the supply of the money volume and that a "limiteless money is a valueless money". The value of the money be it made of paper gold or silver depends entirely upon the volume.

5. We also see how industry may be stimulated and by the judicious management of the money issue panics and financial depression may be avoided.

— Finis —